ODYSSEY RE HOLDINGS CORP

10–K

Annual report pursuant to section 13 and 15(d)
Filed on 2/25/2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10–K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2009

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _________ to _________

Commission File Number: 1–16535

Odyssey Re Holdings Corp.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**52–2301683**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*
Odyssey Re Holdings Corp. **300 First Stamford Place** **Stamford, Connecticut**	**06902**
(Address of Principal Executive Offices)	*(Zip Code)*

Registrant's telephone number, including area code: (203) 977–8000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
8.125% Series A Preferred Stock	New York Stock Exchange
Floating Rate Series B Preferred Stock	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well–known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S–T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S–K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10–K or any amendment to this Form 10–K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non–accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b–2 of the Exchange Act. (Check one):

Large accelerated filer ☑	Accelerated filer ☐	Non–accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b–2 of the Act). Yes ☐ No ☑

The aggregate market value of the shares of all classes of voting shares of the registrant held by non–affiliates of the registrant on June 30, 2009 was $825.3 million, computed upon the basis of the closing sale price of the Common Stock on that date. For purposes of this computation, shares held by directors (and shares held by entities in which they serve as officers) and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 25, 2010, there were 56,604,650 outstanding shares of Common Stock, par value $0.01 per share, of the registrant, all of which were held by Fairfax Financial Holdings Limited and its affiliates.

ODYSSEY RE HOLDINGS CORP.
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References in this Annual Report on Form 10–K to “OdysseyRe,” the “Company,” “we,” “us” and “our” refer to Odyssey Re Holdings Corp. and, unless the context otherwise requires or otherwise as expressly stated, its subsidiaries, including Odyssey America, Clearwater, Newline, Hudson, Hudson Specialty and Clearwater Select (as defined herein).

SAFE HARBOR DISCLOSURE

In connection with, and because we desire to take advantage of, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward–looking statements contained in this Annual Report on Form 10–K. This Annual Report on Form 10–K contains forward–looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

We have included in this Annual Report on Form 10–K filing, and from time to time our management may make, written or oral statements that may include forward–looking statements that reflect our current views with respect to future events and financial performance. These forward–looking statements relate to, among other things, our plans and objectives for future operations. These forward–looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other factors include, but are not limited to:

- a reduction in net income if our loss reserves are insufficient;
- the occurrence of catastrophic events with a frequency or severity exceeding our estimates;
- the lowering or loss of one or more of our financial or claims–paying ratings, including those of our subsidiaries;
- an inability to realize our investment objectives;
- a decrease in the level of demand for our reinsurance or insurance business, or increased competition in the industry;
- emerging claim and coverage issues, which could expand our obligations beyond the amount we intend to underwrite;
- ongoing legislative and regulatory developments that may disrupt our business or mandate changes in industry practices in a fashion that increases our costs or requires us to alter aspects of the way we conduct our business;
- changes in economic conditions, including interest rate, currency, equity and credit conditions that could affect our investment portfolio;
- a change in the requirements of one or more of our current or potential customers relating to counterparty financial strength, claims–paying ratings, or collateral requirements;
- actions of our competitors, including industry consolidation, and increased competition from alternative sources of risk management products, such as the capital markets;
- our 100% shareholder’s ability to determine the outcome of our corporate actions that require board or shareholder approval;
- our ability to raise additional capital if it is required;
- the availability of dividends from our reinsurance and insurance company subsidiaries;
- the loss of services of any of our key employees;
- our use of reinsurance brokers in contract negotiations and as cash settlement agents;
- the failure of our reinsurers to honor their obligations to us;
- the growth of our specialty insurance business and the development of our infrastructure to support this growth;

- operational and financial risks relating to our utilization of program managers, third−party administrators, and other vendors to support our specialty insurance operations;
- the passage of federal or state legislation subjecting our business to additional supervision or regulation, including additional tax regulation, in the United States or other jurisdictions in which we operate;
- our reliance on computer and data processing systems; and
- acts of war, terrorism or political unrest.

The words “believe,” “anticipate,” “estimate,” “project,” “expect,” “intend,” “will likely result,” “will seek to” or “will continue” and similar expressions or their negative or variations identify forward−looking statements. We caution readers not to place undue reliance on these forward−looking statements, which speak only as of the date on which they are made. We have described some important factors that could cause our actual results to differ materially from those expressed in any forward−looking statement we make, including factors discussed below in Item 1A — “Risk Factors.” Except as otherwise required by federal securities laws, we undertake no obligation to publicly update or revise any forward−looking statements, whether as a result of new information, future events or otherwise.

Part I

Item 1. ***Business***

The Company

OdysseyRe is a leading underwriter of reinsurance, providing a full range of property and casualty products on a worldwide basis. We offer both treaty and facultative reinsurance to property and casualty insurers and reinsurers. We also write insurance business through our offices throughout the United States and in London. Our global presence is established through 21 offices, with principal locations in the United States, London, Paris, Singapore, Toronto and Mexico City. We had gross premiums written of $2.2 billion in 2009 and our shareholders' equity as of December 31, 2009 was $3.6 billion. For the year ended December 31, 2009, reinsurance represented 64.4% of our gross premiums written, and primary insurance represented the remainder, or 35.6%.

The United States is our largest market, generating 50.5% of our gross premiums written for the year ended December 31, 2009. Our operations are managed through four divisions: Americas, EuroAsia, London Market and U.S. Insurance. The Americas division is comprised of our reinsurance operations in the United States, Canada and Latin America. The Americas division primarily writes treaty property, general casualty, specialty casualty, surety and facultative casualty reinsurance business, primarily through professional reinsurance brokers. The EuroAsia division, headquartered in Paris, writes treaty reinsurance. Our London Market division operates through Newline Syndicate (1218) at Lloyd's and Newline Insurance Company Limited, where the business focus is casualty insurance, and our London branch, which focuses on worldwide property and casualty reinsurance. The U.S. Insurance division writes specialty insurance in the United States, including medical professional liability, professional liability and crop business. Across our operations, 50.8% of our gross premiums written were generated from casualty business, 41.0% from property business and 8.2% from specialty classes, including marine, aviation, surety and credit.

Odyssey Re Holdings Corp. was incorporated on March 21, 2001 in the state of Delaware. In June 2001, we completed our initial public offering. On September 18, 2009, Fairfax Financial Holdings Limited ("Fairfax"), which at the time owned approximately 72.5% of our outstanding common stock, and OdysseyRe announced that they had entered into an agreement and plan of merger (the "Merger Agreement") pursuant to which Fairfax would promptly commence a tender offer to acquire all of the outstanding shares of common stock of OdysseyRe that Fairfax and its subsidiaries did not currently own, for $65.00 in cash per share, representing total cash consideration of approximately $1.1 billion. Pursuant to the Merger Agreement, on September 23, 2009, Fairfax commenced a tender offer for all of the outstanding shares of common stock of OdysseyRe (the "Offer") other than shares owned by Fairfax and its subsidiaries for $65.00 in cash per share. The Board of Directors of OdysseyRe, following the unanimous recommendation of a special committee comprised solely of independent directors, which had been formed to review and consider any Fairfax proposal, recommended that OdysseyRe's minority stockholders tender their shares to the Fairfax offer and vote or consent to approve and adopt the Merger Agreement if it were to be submitted for their approval and adoption.

Pursuant to the Offer, which expired on October 21, 2009 at 12:00 midnight, New York City time, Fairfax acquired a total of approximately 14.3 million shares of common stock of OdysseyRe (the "Tendered Shares"). The Tendered Shares, combined with the shares previously owned by Fairfax and its subsidiaries, represented approximately 97.1% of the 58,451,922 shares of common stock of OdysseyRe then outstanding. Following the purchase of the Tendered Shares, Fairfax caused a short–form merger pursuant to which Fairfax Investments USA Corp., a newly–formed, wholly–owned subsidiary of Fairfax, merged with and into OdysseyRe (the "Merger").

The Merger was effected on October 28, 2009 pursuant to Section 253 of the General Corporation Law of the State of Delaware (the "DGCL") by the execution and filing of a Certificate of Ownership and Merger with the Secretary of State of the State of Delaware. As a result of the Merger, all of the remaining shares of OdysseyRe's common stock held by the remaining minority shareholders of OdysseyRe (the "Remaining Shares") were cancelled and, subject to appraisal rights under Delaware law, converted into the right to receive $65.00 per share in cash, without interest, and subject to any applicable withholding of taxes. As a result of the Merger, Fairfax and its subsidiaries became the owner of 100% of the outstanding shares of our common stock.

We subsequently withdrew our shares of common stock from listing on the New York Stock Exchange and terminated registration of these shares under the Securities Exchange Act of 1934.

The following is a summary of our operating subsidiaries:

- Odyssey America Reinsurance Corporation ("Odyssey America"), a Connecticut property and casualty reinsurance company, is a direct subsidiary of OdysseyRe and is our principal reinsurance subsidiary. Odyssey America underwrites reinsurance on a worldwide basis.

- Newline Holdings U.K. Limited, a direct subsidiary of Odyssey America, is a holding company with several wholly–owned operating subsidiaries, including Newline Underwriting Management Ltd., through which it manages Newline Syndicate (1218) at Lloyd's of London, and Newline Corporate Name Limited ("NCNL"), which provides capital for and receives the distributed earnings of Newline Syndicate (1218), and Newline Insurance Company Limited ("NICL") (collectively, "Newline").

- Clearwater Insurance Company ("Clearwater"), a Delaware company, is a direct subsidiary of Odyssey America. Clearwater holds insurance licenses in 43 states.

- Hudson Insurance Company ("Hudson"), a Delaware company, is a direct subsidiary of Clearwater. Hudson, based in New York City, is the principal platform for our specialty insurance business and holds insurance licenses in 50 states.

- Hudson Specialty Insurance Company ("Hudson Specialty"), a New York company, is a direct subsidiary of Clearwater and is an eligible surplus lines insurer in 49 states.

- Clearwater Select Insurance Company ("Clearwater Select"), a Delaware company, is a direct subsidiary of Clearwater. Clearwater Select is licensed in 40 states.

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Business Objectives

Our objective is to build shareholder value by achieving an average annual growth in shareholders' equity of 15% over the long−term by focusing on underwriting profitability and generating superior investment returns. We intend to continue to achieve our objective through:

- *Adhering to a strict underwriting philosophy.* We emphasize disciplined underwriting over premium growth, concentrating on carefully selecting the risks we reinsure and determining the appropriate price for such risks. We seek to achieve our principal goal of attracting and retaining high quality business by centrally managing our diverse operations.

- *Increasing our position in specialty insurance business.* We intend to continue expanding our specialty insurance business by exploring underserved market segments or classes of business, while maintaining our commitment to underwriting discipline.

- *Pursuing attractive lines of business.* We seek to take advantage of opportunities to write new lines of business or expand existing classes of business, based on market conditions and expected profitability. We expect to expand our position over time in domestic and international markets by delivering high quality service and developing and maintaining knowledge of the markets that we serve.

- *Maintaining our commitment to financial strength and security.* We are committed to maintaining a strong and transparent balance sheet. We will sustain financial flexibility through maintaining prudent operating and financial leverage and investing our portfolio primarily in high quality fixed income securities and value−oriented equity securities.

- *Achieving superior returns on invested assets.* We manage our investments using a total return philosophy, seeking to maximize the economic value of our investments, as opposed to current income. We apply a long−term value−oriented philosophy to optimize the total returns on our invested assets.

Enterprise Risk Management

We seek to apply prudent risk management principles and practices throughout our company. We are engaged in continuous enhancement of our risk management framework through the identification of risks that threaten our ability to achieve certain financial and operational objectives. Our primary risk exposures emanate from underwriting, loss reserving, investing and operations. Our Chief Risk Officer, who reports directly to the Chief Executive Officer, leads a multi−disciplinary team whose tasks are to identify, measure, evaluate and manage risk. To assist with the measurement process, we have established risk tolerances for our business. Comparison of actual risk indications to established levels of tolerance are performed regularly. Results of these comparisons are reviewed with the Chief Executive Officer and others within senior management, and are periodically reported to our Board of Directors.

Overview of Reinsurance

Reinsurance is an arrangement in which the reinsurer agrees to indemnify an insurance or reinsurance company, the ceding company, against all or a portion of the insurance risks underwritten by the ceding company under one or more insurance or reinsurance contracts. Reinsurance can provide a ceding company with several benefits, including a reduction in net liability on individual risks or classes of risks, and catastrophe protection from large or multiple losses. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks. Reinsurance, however, does not discharge the ceding company from its liability to policyholders. Rather, reinsurance serves to indemnify a ceding company for losses payable by the ceding company to its policyholders or cedants.

There are two basic types of reinsurance arrangements: treaty and facultative reinsurance. With treaty reinsurance, the ceding company is obligated to cede and the reinsurer is obligated to assume a specified portion of a type or category of risks insured by the ceding company. Treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties and are largely dependent on the individual underwriting decisions made by the ceding company. Accordingly, reinsurers will carefully evaluate the ceding company's

risk management and underwriting practices in deciding whether to provide treaty reinsurance and in appropriately pricing the treaty.

With facultative reinsurance, the ceding company cedes and the reinsurer assumes all or part of the risk under a single insurance or reinsurance contract. Facultative reinsurance is negotiated separately for each contract that is reinsured and normally is purchased by ceding companies for individual risks not covered by their reinsurance treaties, for amounts in excess of the dollar limits of their reinsurance treaties or for unusual risks.

Both treaty and facultative reinsurance can be written on either a proportional, also known as pro rata, basis or on an excess of loss basis. Under proportional reinsurance, the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion. Under excess of loss reinsurance, the reinsurer indemnifies the ceding company against all or a specified portion of losses and expenses in excess of a specified dollar amount, known as the ceding company's retention or the reinsurer's attachment point.

Excess of loss reinsurance is often written in layers. A reinsurer accepts the risk just above the ceding company's retention up to a specified amount, at which point that reinsurer or another reinsurer accepts the excess liability up to an additional specified amount, or such liability reverts to the ceding company. The reinsurer taking on the risk just above the ceding company's retention layer is said to write working layer or low layer excess of loss reinsurance. A loss that reaches just beyond the ceding company's retention will create a loss for the lower layer reinsurer, but not for the reinsurers on the higher layers. Loss activity in lower layer reinsurance tends to be more predictable than in higher layers.

Premiums payable by the ceding company to a reinsurer for excess of loss reinsurance are not directly proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportional risk. In contrast, premiums that the ceding company pays to the reinsurer for proportional reinsurance are proportional to the premiums that the ceding company receives, consistent with the proportional sharing of risk. In addition, in proportional reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company's cost of acquiring the business being reinsured (commissions, premium taxes, assessments and administrative expenses) and also may include a profit factor for producing the business.

Reinsurance may be written for insurance or reinsurance contracts covering casualty risks or property risks. In general, casualty insurance protects against financial loss arising out of an insured's obligation for loss or damage to a third party's property or person. Property insurance protects an insured against a financial loss arising out of the loss of property or its use caused by an insured peril or event. Property catastrophe coverage is generally "all risk" in nature and is written on an excess of loss basis, with exposure to losses from earthquake, hurricanes and other natural or man made catastrophes such as storms, floods, fire or tornados. There tends to be a greater delay in the reporting and settlement of casualty reinsurance claims as compared to property claims due to the nature of the underlying coverage and the greater potential for litigation involving casualty risks.

Reinsurers may purchase reinsurance to cover their own risk exposure. Reinsurance of a reinsurer's business is called a retrocession. Reinsurance companies cede risks under retrocessional agreements to other reinsurers, known as retrocessionaires, for reasons similar to those that influence insurers to purchase reinsurance: to reduce net liability on individual risks or classes of risks, to protect against catastrophic losses, to stabilize financial ratios and to obtain additional underwriting capacity.

Reinsurance can be written through professional reinsurance brokers or directly with ceding companies.

Lines of Business

Our reinsurance operations primarily consist of the following lines of business:

- *Casualty.* Our casualty business includes a broad range of specialty casualty products, including professional liability, directors' and officers' liability, workers' compensation and accident and health, as well as general casualty products, including general liability, and automobile liability and personal accident coverages written on both a treaty proportional and excess of loss basis as well as on a facultative basis.

- *Property.* Our property business includes reinsurance coverage to insurers for property damage or business interruption losses covered in industrial and commercial property and homeowners' policies. This business is written on a treaty proportional and excess of loss basis. Outside the U.S., we also write property reinsurance on a facultative basis. Our most significant exposure is typically to losses from windstorms and earthquakes, although we are also exposed to losses from events as diverse as freezes, riots, floods, industrial explosions, fires, hail and a number of other loss events. Our property reinsurance treaties generally exclude certain risks such as losses resulting from acts of war, nuclear, biological and chemical contamination, radiation and environmental pollution.

- *Marine and Aerospace.* We provide reinsurance protection for marine hull, cargo, transit and offshore oil and gas operations on a proportional and non–proportional basis. We also provide specialized reinsurance protection in airline, general aviation and space insurance business, primarily on a non–proportional basis.

- *Surety and Credit.* Credit reinsurance, written primarily on a proportional basis, provides coverage to commercial credit insurers, while our surety lines relate primarily to bonds and other forms of security written by specialized surety insurers.

Our insurance operations primarily consist of the following lines of business:

- *Medical Professional Liability.* Our medical professional liability business primarily provides coverage for group and individual physicians and small and medium–sized hospital accounts.

- *Professional Liability.* Our professional liability business primarily consists of coverages for architects and engineers, directors' and officers' liability, fiduciary, media professional and environmental consultants.

- *Commercial Automobile and Personal Automobile.* Our specialty commercial automobile book of business consists primarily of off–duty liability for truckers as well as liability coverages for transporters and West Coast regional waste haulers. Our private passenger automobile book of business is focused in California.

- *Specialty Liability.* Our specialty liability business primarily focuses on casualty risks in the excess and surplus markets. Our target classes include mercantile, manufacturing and building/premises, with particular emphasis on commercial and consumer products, miscellaneous general liability and other niche markets. We also provide occupational benefit and liability coverages targeted to federally recognized tribes.

- *Property and Package.* Our property and package business is primarily focused on agriculture, offshore energy, and risks of restaurant franchisees, written throughout the United States.

The following table sets forth our gross premiums written, by line of business, for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	$	%	$	%	$	%
	(In millions)					
Property excess of loss	$ 414.9	18.8%	$ 393.8	17.2%	$ 351.4	15.4%
Property proportional	282.2	12.9	335.7	14.6	319.7	14.0
Property facultative	21.8	1.0	18.2	0.8	21.8	0.9
Property reinsurance	718.9	32.7	747.7	32.6	692.9	30.3
Casualty excess of loss	276.3	12.6	231.0	10.1	255.0	11.2
Casualty proportional	166.0	7.6	236.9	10.3	290.0	12.7
Casualty facultative	57.1	2.6	72.0	3.1	82.0	3.6
Casualty reinsurance	499.4	22.8	539.9	23.5	627.0	27.5
Marine and aerospace	104.1	4.7	123.9	5.4	128.7	5.6
Surety and credit	92.1	4.2	90.7	4.0	97.3	4.3
Total reinsurance	1,414.5	64.4	1,502.2	65.5	1,545.9	67.7
Property and package	135.0	6.1	111.5	4.9	68.5	3.0
Professional liability	119.9	5.5	130.9	5.7	139.3	6.1
Specialty liability	114.0	5.2	90.9	3.9	90.3	4.0
Medical professional liability	96.9	4.4	113.9	4.9	130.2	5.7
Commercial automobile	65.6	3.0	68.2	3.0	52.4	2.3
Personal automobile	15.6	0.7	24.3	1.1	51.6	2.3
U.S. Insurance	547.0	24.9	539.7	23.5	532.3	23.4
Liability lines	227.9	10.4	248.2	10.8	201.5	8.8
Other lines	5.6	0.3	4.4	0.2	3.0	0.1
Total insurance	780.5	35.6	792.3	34.5	736.8	32.3
Total gross premiums written	$ 2,195.0	100.0%	$ 2,294.5	100.0%	$ 2,282.7	100.0%

For the year ended December 31, 2009, total reinsurance gross premiums written were $1,414.5 million, or 64.4% of our gross premiums written, and the remaining $780.5 million, or 35.6%, was insurance business. Our insurance premiums include our U.S. Insurance division and business written by Newline, which is part of our London Market division. Treaty reinsurance represents 60.8% of our total gross premiums written and 94.4% of our total reinsurance gross premiums written. Facultative reinsurance is 3.6% of our gross premiums written and 5.6% of our total reinsurance business. During 2009, 41.6% of our total reinsurance gross premiums written was proportional and 58.4% was excess of loss.

We write property catastrophe excess of loss reinsurance, covering loss or damage from unpredictable events such as hurricanes, windstorms, hailstorms, freezes or floods, which provides aggregate exposure limits and requires cedants to incur losses in specified amounts before our obligation to pay is triggered. For the year ended December 31, 2009, $305.3 million, or 13.9%, of our gross premiums written were derived from property catastrophe excess of loss reinsurance. We also write property business, which has exposure to catastrophes, on a proportional basis, in all divisions.

Treaty casualty business accounted for $442.4 million, or 20.2%, of gross premiums written for the year ended December 31, 2009, of which 37.5% was written on a proportional basis and 62.5% was written on an excess of loss basis. Our treaty casualty portfolio principally consists of specialty casualty products, including professional liability, directors' and officers' liability, workers' compensation and accident and health, as well as general casualty products, including general liability and automobile liability. Treaty property business represented $697.1 million, or 31.8%, of gross premiums written for the year ended December 31, 2009,

primarily consisting of commercial property and homeowners' coverage, of which 40.5% was written on a proportional basis and 59.5% was written on an excess of loss basis. Marine and aerospace business accounted for $104.1 million, or 4.7%, of gross premiums written for the year ended December 31, 2009, of which 30.7% was written on an excess of loss basis and 69.3% on a proportional basis. Surety and credit lines accounted for 4.2% of gross premiums written in 2009.

Facultative reinsurance accounted for $78.9 million, or 3.6%, of gross premiums written for the year ended December 31, 2009, all of which was derived from the Americas division. With respect to facultative business in the United States, we write only casualty lines of business, including general liability, umbrella liability, directors' and officers' liability, professional liability and commercial automobile lines; with respect to facultative business in Latin America, we write primarily property lines of business.

We operate in the London insurance market through Newline, which focuses on casualty insurance, including at Lloyd's through our wholly−owned syndicate, Newline Syndicate (1218). Our Lloyd's membership provides strong brand recognition, extensive broker and distribution channels, and worldwide licensing, and augments our ability to write insurance business on an excess and surplus lines basis in the United States.

We provide insurance products through our U.S. Insurance division. This business is comprised of specialty insurance business underwritten on both an admitted (licensed to write insurance in a particular state) and non−admitted (approved, but not licensed, to write insurance in a particular state) basis. Business is generated through national and regional agencies and brokers, as well as through program administrators. Each program administrator has strictly defined limitations on lines of business, premium capacity and policy limits. Many program administrators have limited geographic scope and all are limited regarding the type of business they may accept on our behalf.

In general, we target specific classes of business depending on the market conditions prevailing at any given point in time. We actively seek to grow our participation in classes experiencing improvements, and reduce or eliminate participation in those classes suffering from intense competition or poor fundamentals. Consequently, the classes of business for which we provide reinsurance are diverse in nature and the product mix within the reinsurance and insurance portfolios may change over time. From time to time, we may consider opportunistic expansion or entry into new classes of business or ventures, either through organic growth or the acquisition of other companies or books of business.

Divisions

Our business is organized across four operating divisions: the Americas, EuroAsia, London Market, and U.S. Insurance divisions. The table below illustrates gross premiums written, by division, for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
Division	**$**	**%**	**$**	**%**	**$**	**%**
	(In millions)					
Americas	$ 745.9	34.0%	$ 776.4	33.8%	$ 834.9	36.6%
EuroAsia	559.2	25.5	596.7	26.0	565.6	24.8
London Market	342.9	15.6	381.7	16.7	349.9	15.3
U.S. Insurance	547.0	24.9	539.7	23.5	532.3	23.3
Total gross premiums written	$ 2,195.0	100.0%	$ 2,294.5	100.0%	$ 2,282.7	100.0%

Our commitment to disciplined underwriting is evidenced by (i) the decline in gross premiums written from 2007 (5.9%) in the Americas and London Market divisions following significant market softening over the past three years, and (ii) modest but carefully cultivated growth in gross premiums written in the U.S. Insurance division, in targeted markets ripe for expansion.

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Americas Division

The Americas is our largest division, accounting for $745.9 million, or 34.0%, of our gross premiums written for the year ended December 31, 2009. The Americas division is organized into three major units: the United States, Latin America and Canada. The Americas division writes treaty casualty and property reinsurance and facultative casualty reinsurance in the United States and Canada. In Latin America, we write treaty and facultative property reinsurance along with other predominantly short–tail lines. The Americas division operates through five offices: Stamford, New York City, Mexico City, Miami and Toronto, and as of December 31, 2009 had 301 employees. The Americas division's principal client base includes small to medium–sized regional and specialty ceding companies, as well as various specialized departments of major insurance companies. The Americas division operates primarily as a broker market reinsurer. The top five brokers, Guy Carpenter & Co. Inc., Aon Benfield, Willis Re Group Holdings, Ltd., Towers Perrin Reinsurance and Risk Solutions Corporation generated 79.5% of the division's gross premiums written. The Americas division primarily underwrites business in U.S. dollars or Canadian dollars.

The following table displays gross premiums written by each of the units within the Americas division for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	$	%	$	%	$	%
	(In millions)					
United States	$ 561.7	75.3%	$ 578.0	74.5%	$ 650.2	77.9%
Latin America	146.2	19.6	158.1	20.3	141.4	16.9
Canada	38.0	5.1	40.3	5.2	43.3	5.2
Total gross premiums written	$ 745.9	100.0%	$ 776.4	100.0%	$ 834.9	100.0%

The following table displays gross premiums written for the Americas division, by type of business, for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	$	%	$	%	$	%
	(In millions)					
Property excess of loss	$ 157.7	21.2%	$ 144.3	18.6%	$ 125.1	15.0%
Property proportional	97.9	13.1	132.4	17.0	123.3	14.8
Property facultative	21.8	2.9	17.9	2.3	19.5	2.3
Property reinsurance	277.4	37.2	294.6	37.9	267.9	32.1
Casualty excess of loss	203.4	27.2	150.5	19.4	181.5	21.7
Casualty proportional	134.4	18.0	186.6	24.0	232.5	27.9
Casualty facultative	57.1	7.7	72.0	9.3	82.0	9.8
Casualty reinsurance	394.9	52.9	409.1	52.7	496.0	59.4
Marine, aviation and space	23.9	3.2	27.6	3.6	25.4	3.0
Surety and credit	49.7	6.7	45.1	5.8	45.6	5.5
Total gross premiums written	$ 745.9	100.0%	$ 776.4	100.0%	$ 834.9	100.0%

The unit in the United States provides treaty reinsurance of virtually all classes of non−life insurance. In addition to the specialty casualty and general casualty reinsurance lines, the unit also writes commercial and personal property as well as marine, aviation and space, accident and health, and surety lines. Facultative casualty reinsurance is also written in the United States unit, mainly for general liability, umbrella liability, directors' and officers' liability, professional liability and commercial automobile. The United States unit operates out of offices in Stamford and New York City. The following table displays gross premiums written, by business segment, for the United States for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	$	%	$	%	$	%
	(In millions)					
Specialty casualty	$ 232.2	41.3%	$ 221.6	38.3%	$ 295.4	45.4%
Property	163.0	29.0	172.4	29.8	148.1	22.8
Facultative	57.1	10.2	72.0	12.4	82.0	12.6
General casualty	53.7	9.6	64.9	11.2	74.6	11.5
Surety	34.2	6.1	32.4	5.6	36.4	5.6
Marine	18.4	3.3	18.8	3.2	18.3	2.8
Other	3.1	0.5	(3.1)	(0.5)	(4.2)	(0.7)
Total gross premiums written	$ 561.7	100.0%	$ 579.0	100.0%	$ 650.6	100.0%

The decline in our facultative business is due to the reclassification of $16.5 million of business previously managed by and included in the results of the Americas division that is now recorded in the results of the U.S. Insurance division. The decline in our property business reflects an increase in competitive market conditions and the non−renewal of certain business that did not meet our underwriting criteria.

The Latin America unit writes primarily treaty and facultative business throughout Latin America and the Caribbean. The business is predominantly property in nature, but also includes automobile, marine and other lines. The Latin America unit has offices in Mexico City and Miami. The Canadian unit, which is based in Toronto, writes primarily property reinsurance and also underwrites casualty, crop and surety business, all on a treaty basis.

EuroAsia Division

The EuroAsia division accounted for $559.2 million, or 25.5%, of our gross premiums written for the year ended December 31, 2009. The division primarily writes property business. The EuroAsia division operates out of four offices, with principal offices in Paris and Singapore and satellite offices in Stockholm and Tokyo, and as of December 31, 2009 had 90 employees. Business is produced primarily (70.3%) through a strong network of global and regional brokers, with the remaining 29.7% of the business written directly with ceding companies. Our top five brokers for the EuroAsia division in 2009, Aon Benfield, Guy Carpenter & Co. Inc., Willis Re Group Holdings, Ltd., Protection Reinsurance Intermediaries, and Haakon Ltd., generated 56.3% of the division's gross premiums written in 2009. The EuroAsia division primarily underwrites business in Euros, U.S. dollars and Japanese yen.

The Paris branch office is the headquarters of the EuroAsia division and the underwriting center responsible for Europe, the Middle East and Africa, with an office in Stockholm, Sweden, covering the Nordic countries and Russia. The Paris branch writes reinsurance on a treaty basis. The primary lines of business offered are property, motor, credit and bond, marine and aerospace, liability and accident and health. The Asia Pacific Rim unit, headquartered in Singapore with an office in Tokyo, writes reinsurance on a treaty basis. The primary lines of business offered in the Asia Pacific Rim unit include property, marine, motor, liability, credit and bond coverage and accident and health.

During 2009, Europe represented 67.3% of gross premiums written for the EuroAsia division, while Asia represented 18.2% and the Middle East, Africa and the Americas comprised the remaining 14.5%.

The following table displays gross premiums written for the EuroAsia division, by type of coverage, for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	$	%	$	%	$	%
	(In millions)					
Property	$ 370.4	66.1%	$ 383.0	64.3%	$ 348.1	61.5%
Motor	71.6	12.8	80.7	13.5	79.6	14.1
Surety and credit	42.4	7.6	45.5	7.6	51.6	9.1
Marine	29.4	5.3	37.6	6.3	36.4	6.4
Liability	23.9	4.3	30.1	5.0	28.0	5.0
Aerospace	14.9	2.7	11.5	1.9	11.8	2.1
Accident and health	6.6	1.2	8.3	1.4	10.1	1.8
Total gross premiums written	$ 559.2	100.0%	$ 596.7	100.0%	$ 565.6	100.0%

The property business, including the property component of motor business, in EuroAsia is 48.7% proportional and 51.3% excess of loss. Per risk coverages account for 50.6% of the property business, while 34.9% relates to catastrophe coverage.

The following table displays gross premiums written for the EuroAsia division, by type of business, for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	$	%	$	%	$	%
	(In millions)					
Property excess of loss	$ 193.4	34.6%	$ 187.5	31.4%	$ 160.0	28.3%
Property proportional	183.4	32.8	201.9	33.8	195.3	34.5
Property facultative	—	—	0.2	0.1	2.2	0.4
Property	376.8	67.4	389.6	65.3	357.5	63.2
Casualty excess of loss	67.6	12.1	75.6	12.7	66.8	11.8
Casualty proportional	28.1	5.0	36.9	6.2	41.5	7.3
Casualty	95.7	17.1	112.5	18.9	108.3	19.1
Marine and aerospace	44.3	7.9	49.1	8.2	48.1	8.5
Surety and credit	42.4	7.6	45.5	7.6	51.7	9.2
Total gross premiums written	$ 559.2	100.0%	$ 596.7	100.0%	$ 565.6	100.0%

The property and casualty components of motor business have been included in the property and casualty amounts in the above table.

London Market Division

The London Market division accounted for $342.9 million, or 15.6%, of our gross written premiums for the year ended December 31, 2009. The London Market division operates through the Newline Syndicate (1218) at Lloyd's, Newline Insurance Company Limited and the London branch of Odyssey America, and as of December 31, 2009 had 98 employees. Newline's business focus is international casualty, motor insurance, medical professional liability and facultative reinsurance, while the London branch writes worldwide treaty reinsurance. Our underwriting platforms are run by an integrated management team with a common business approach. Business is distributed through a diverse group of brokers, with the top five brokers, Aon Benfield, Marsh Inc., Heath Lambert Ltd., Willis Re Group Holdings Ltd., and Jardine Lloyd Thompson, Ltd.,

representing 70.2% of gross premiums written. The London Market division underwrites business in British pounds, U.S. dollars, Euros, Canadian dollars and Australian dollars.

For the year ended December 31, 2009, the London branch had gross premiums written of $109.4 million, or 31.9% of the total London Market division. The London branch writes worldwide treaty reinsurance through three business units: property, marine and aerospace, and international casualty. The property unit (comprising mainly retrocessional and catastrophe excess of loss business) represents 59.1% of the total gross premiums written for the year ended December 31, 2009. Geographically, 42.6%, 29.3% and 20.7% of the branch business is located in the United Kingdom, the United States and Western Europe, respectively.

For the year ended December 31, 2009, Newline had gross premiums written of $233.5 million, or 68.1% of the total London Market division. Newline writes international casualty and motor insurance and facultative reinsurance in seven sectors: professional indemnity, directors' and officers' liability, commercial crime and bankers' blanket bond, motor, satellite, medical professional liability and public and products liability. Newline's target market is generally small to medium−sized accounts, which could be either private or public companies. The United Kingdom, Western Europe and Australia represent 32.5%, 32.5% and 16.2% of Newline's business, respectively.

The following table displays gross premiums written for the London Market division, by type of business, for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	$	%	$	%	$	%
	(In millions)					
Property excess of loss	$ 63.8	18.6%	$ 62.1	16.3%	$ 66.3	19.0%
Property proportional	0.9	0.3	1.4	0.3	1.1	0.3
Property reinsurance	64.7	18.9	63.5	16.6	67.4	19.3
Casualty excess of loss	5.3	1.5	4.9	1.3	6.8	1.9
Casualty proportional	3.5	1.0	13.5	3.5	16.0	4.6
Casualty reinsurance	8.8	2.5	18.4	4.8	22.8	6.5
Marine and aerospace	35.9	10.5	47.2	12.4	55.1	15.7
Total reinsurance	109.4	31.9	129.1	33.8	145.3	41.5
Liability lines	227.9	66.5	248.2	65.0	201.5	57.6
Other	5.6	1.6	4.4	1.2	3.1	0.9
Total insurance	233.5	68.1	252.6	66.2	204.6	58.5
Total gross premiums written	$ 342.9	100.0%	$ 381.7	100.0%	$ 349.9	100.0%

U.S. Insurance Division

Operating under the name "Hudson Insurance Group," a registered trademark of the Company, the U.S. Insurance division provides underwriting capacity on an admitted and non−admitted (surplus lines) basis to specialty insurance markets nationwide. The U.S. Insurance division generated $547.0 million, or 24.9%, of our gross premiums written for the year ended December 31, 2009. The U.S. Insurance division operates principally from offices in New York, Chicago, Napa, California and Overland Park, Kansas, and as of December 31, 2009 had 232 employees.

Our medical professional liability business provides coverages principally to small and medium−sized hospitals, physicians and physician groups, and is primarily focused on 15 states throughout the United States. Medical professional liability coverage is offered exclusively on a claims−made basis (covering all claims reported to the insured during the policy period regardless of when the underlying loss occurred) and is primarily written on a surplus lines (non−admitted) basis to provide rate and form flexibility.

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The Hudson Insurance Group is approved by the Risk Management Agency of the U.S. Department of Agriculture to participate in the federally–sponsored multi–peril crop insurance program made available to farmers throughout the United States. In addition, we also underwrite related insurance products, including crop hail. Crop–related gross premiums written for 2009 were $79.2 million and are included in the property and package line of business.

We underwrite primary and excess directors' and officers' liability insurance, principally for small and mid–cap publicly–traded companies. Coverage is written on both an admitted and a surplus lines basis, with distribution primarily through regional brokers.

Other lines of business written through our in–house specialty lines underwriters in 2009 include offshore marine and energy, environmental, personal umbrella and comprehensive personal liability insurance products.

The U.S. Insurance division also provides primary insurance coverage for a variety of risks, including commercial automobile, specialty liability, private passenger automobile and other niche markets. We manage a limited number of active program administrator relationships, with a majority of this business concentrated in our top five relationships. We look to do business with organizations that have a long and well–documented track record in their area of expertise. Strong monitoring processes are in place and our program administrators are incentivized to produce profitable insurance business rather than to merely generate volume.

The following table displays gross premiums written for the U.S. Insurance division, by type of business, for each of the three years in the period ended December 31, 2009:

	Years Ended December 31,					
	2009		2008		2007	
	$	%	$	%	$	%
	(In millions)					
Property and package	$ 135.0	24.7%	$ 111.5	20.7%	$ 68.5	12.9%
Professional liability	119.9	21.9	130.9	24.3	139.3	26.2
Specialty liability	114.0	20.8	90.9	16.8	90.3	17.0
Medical professional liability	96.9	17.7	113.9	21.1	130.2	24.4
Commercial automobile	65.6	12.0	68.2	12.6	52.4	9.8
Personal automobile	15.6	2.9	24.3	4.5	51.6	9.7
Total gross premiums written	$ 547.0	100.0%	$ 539.7	100.0%	$ 532.3	100.0%

Contributing to the growth in gross premiums written for property and package business was our crop business, and for specialty liability, a reclassification of one program previously recorded in the Americas and now recorded in the U.S. Insurance division. Professional liability decreased primarily due to the cancellation of an environmental program. The decline in medical professional liability reflects the more competitive market conditions as well as certain client groups retaining more exposure or self insuring their own programs. Personal automobile declined primarily due to market conditions.

Retention Levels and Retrocession Arrangements

Under our underwriting guidelines, we impose maximum retentions on a per risk basis. We believe that the levels of gross capacity per property risk that are in place are sufficient to achieve our objectives in our marketplace. The following table illustrates the gross capacity, cession (reinsurance or retrocession) and net retention generally applicable under our underwriting guidelines as of December 31, 2009. Larger limits may occasionally be written subject to the approval of senior management.

	Gross Capacity	Retrocession/ Reinsurance	Net Retention
		(In millions)	
Treaty			
Property	$ 15.0	$ —	$ 15.0
Casualty	7.5	—	7.5
Facultative			
Property	10.0	8.0	2.0
Casualty	5.0	2.0	3.0
Insurance			
Medical professional liability	16.0	15.1	0.9
Other casualty	15.0	10.5	4.5
Property	25.0	15.2	9.8
Newline	22.5	18.7	3.8

We are subject to accumulation risk with respect to catastrophic events involving multiple treaties, facultative certificates and insurance policies. To protect against this risk we buy catastrophe excess of loss reinsurance protection. The retention, the level of capacity purchased, the geographical coverages and the cost vary from year to year. In 2007, we chose not to purchase non–proportional reinsurance for our core U.S. property account other than limited and/or partial covers. In 2008 and 2009, we purchased some non–U.S. catastrophe excess of loss protection as well as some additional specific protections for our facultative property account in Latin America.

When we enter into retrocessional agreements, we cede to reinsurers a portion of our risks and pay premiums based upon the risk and exposure of the policies subject to the reinsurance. Although the reinsurer is liable to us for the reinsurance ceded, we retain the ultimate liability in the event the reinsurer is unable to meet its obligation at some later date. Our objective is to purchase reinsurance from reinsurers rated “A–” or better by Standard & Poor’s Insurance Ratings Services or A.M. Best Company, Inc. (“A.M. Best”). Reinsurers with a lower rating will be considered if reinsurance security is collateralized or with senior management approval.

We purchase reinsurance to increase our aggregate premium capacity, to reduce and spread the risk of loss on insurance and reinsurance underwritten and to limit our exposure with respect to multiple claims arising from a single occurrence. We are subject to accumulation risk with respect to catastrophic events involving multiple treaties, facultative certificates and insurance policies. To protect against this risk, we may purchase catastrophe excess of loss reinsurance protection. The retention, the level of capacity purchased, the geographic scope of the coverage and the cost vary from year to year. Specific reinsurance protections are also placed to protect selected portions of our portfolio.

Our ten largest reinsurers represent 46.0% of our total reinsurance recoverables as of December 31, 2009. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than

$22.7 million of reinsurance recoverables as of December 31, 2009, and with the average balance per reinsurer less than $1.5 million.

The following table shows the total amount which is recoverable from each of our ten largest reinsurers for paid and unpaid losses as of December 31, 2009, the amount of collateral held, and each reinsurer's A.M. Best rating (in millions):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral	A.M. Best Rating
Lloyd's of London	$ 128.7	14.2%	$ —	A
Federal Crop Insurance Corporation	44.0	4.8	—	NR
Underwriters Reinsurance Company (Barbados)	37.3	4.1	37.3	NR
Everest Re (Bermuda) Ltd.	36.8	4.0	—	A+
D.E. Shaw Re Bermuda Ltd.	35.0	3.8	35.0	NR
Max Bermuda Ltd.	32.9	3.6	17.2	A–
Swiss Reinsurance America Corporation	32.0	3.5	—	A
Arch Reinsurance Company	25.4	2.8	15.2	A
Brit Insurance Ltd.	24.4	2.7	—	A
Swiss Reinsurance Europe S.A.	22.9	2.5	—	A
Sub–total	419.4	46.0	104.7	
All Other	492.6	54.0	115.5	
Total	$ 912.0	100.0%	$ 220.2	

For additional information on our retrocession agreements, please refer to Notes 11 and 12 to the consolidated financial statements included in this Annual Report on Form 10–K.

Claims

Reinsurance claims are managed by our professional claims staff, whose responsibilities include the review of initial loss reports from ceding companies, creation of claim files, determination of whether further investigation is required, establishment and adjustment of case reserves, and payment of claims. Our claims staff recognizes that fair interpretation of our reinsurance agreements and timely payment of covered claims is a valuable service to clients and enhances our reputation. In addition to claims assessment, processing and payment, in the ordinary course of business our claims staff conducts comprehensive claims audits of both specific claims and overall claims procedures at the offices of selected ceding companies, which we believe benefits all parties to the reinsurance arrangement. In certain instances, a claims audit may be performed prior to assuming reinsurance business.

A dedicated claims unit manages the claims related to asbestos–related illness and environmental impairment liabilities, due to the significantly greater uncertainty involving these exposures. This unit performs audits of cedants with significant asbestos and environmental exposure to assess our potential liabilities. This unit also monitors developments within the insurance industry that may have a potential impact on our reserves.

For insurance claims relating to some London Market division insurance business and professional liability business written by the U.S. Insurance division, we employ a professional claims staff to confirm coverage, investigate and administer all other aspects of the adjusting process from inception to the final resolution. Other insurance claims are generally handled by third party administrators, typically specialists in a defined business, who have limited authority and are subject to continuous oversight and review by our internal professional claims staff.

Reserves for Unpaid Losses and Loss Adjustment Expenses

We establish reserves to recognize our insurance and reinsurance obligations for unpaid losses and loss adjustment expenses ("LAE"), which are balance sheet liabilities representing estimates of future amounts needed to pay claims and related expenses with respect to insured events that have occurred on or before the

balance sheet date, including events which have not yet been reported to us. Significant periods of time may elapse between the occurrence of an insured loss, the reporting of the loss by the insured to us or to the ceding company, the reporting of the loss by the ceding company to the reinsurer, the ceding company's payment of that loss and subsequent payments to the ceding company by the reinsurer.

We rely on initial and subsequent claim reports received from ceding companies for reinsurance business, and the estimates advised by our claims adjusters for insurance business, to establish our estimate of losses and LAE. The types of information we receive from ceding companies generally vary by the type of contract. Proportional contracts are generally reported on at least a quarterly basis, providing premium and loss activity as estimated by the ceding company. Our experienced accounting staff has the primary responsibility for managing the handling of information received on these types of contracts. Our claims staff may also assist in the analysis, depending on the size or type of individual loss reported on proportional contracts. Reporting for facultative, treaty excess of loss and insurance contracts includes detailed individual claim information, including the description of injury, confirmation of liability by the cedant or claims adjuster, and the cedant's or claims adjuster's current estimate of liability. Our experienced claims staff has the responsibility for managing and analyzing the individual claim information. Based on the claims staff's evaluation of a cedant's reported claim, we may choose to establish additional case reserves over that reported by the ceding company. Due to potential differences in ceding company reserving and reporting practices, our accounting, claims and internal audit departments perform reviews on ceding carriers to ensure that their underwriting and claims procedures meet our standards.

We also establish reserves to provide for incurred but not reported ("IBNR") claims and the estimated expenses of settling claims, including legal and other fees, and the general expenses of administering the claims adjustment process, known as loss adjustment expenses. We periodically revise such reserves to adjust for changes in the expected loss development pattern over time.

We rely on the underwriting and claim information provided by ceding companies for reinsurance business, and the estimates advised by our claims adjusters for insurance business, to compile our analysis of losses and LAE. This data is aggregated by geographic region and type of business to facilitate analysis. We calculate incurred but not reported loss and LAE reserves using generally accepted actuarial reserving techniques to project the ultimate liability for losses and LAE. IBNR includes a provision for losses incurred but not yet reported to us as well as anticipated additional emergence on claims already reported by the ceding companies or claimants. The actuarial techniques for projecting loss and LAE reserves rely on historical paid and case reserve loss emergence patterns and insurance and reinsurance pricing and claim cost trends to establish the claims emergence of future periods with respect to all reported and unreported insured events that have occurred on or before the balance sheet date.

Estimates of reserves for unpaid losses and LAE are contingent upon legislative, regulatory, social, economic and legal events that may or may not occur in the future, thereby affecting assumptions of claim frequency and severity. These events include losses arising from a variety of catastrophic events, such as hurricanes, windstorms and floods. The eventual outcome of these events may be different from the assumptions underlying our reserve estimates. In the event that loss trends diverge from expected trends, we adjust our reserves to reflect the actual emergence that is experienced during the period. On a quarterly basis, we compare actual loss emergence in the quarter and cumulatively since the implementation of the last reserve review to the expectation of reported loss for the period. Variation in actual loss emergence from expectations may result in a change in loss and LAE reserve. Any adjustments will be reflected in the periods in which they become known, potentially resulting in adverse or favorable effects to our financial results. Changes in expected claim payment rates, which represent one component of loss and LAE emergence, may also impact our liquidity and capital resources, as discussed in Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The reserving process is complex and the inherent uncertainties of estimating reserves for unpaid losses and LAE are significant, due primarily to the longer−term nature of most reinsurance business, the diversity of development patterns among different types of reinsurance treaties or facultative contracts, the necessary reliance on the ceding companies for information regarding reported claims and differing reserving practices among ceding companies. As a result, actual losses and LAE may deviate, perhaps substantially, from estimates of reserves reflected in our consolidated financial statements. During the loss settlement period, which can be

many years in duration, additional facts regarding individual claims and trends usually become known. As these become apparent, it usually becomes necessary to refine and adjust the reserves upward or downward, and even then, the ultimate net liability may be less than or greater than the revised estimates.

We have exposure to asbestos, environmental pollution and other latent injury damage claims on contracts written prior to 1986. Included in our reserves are amounts related to asbestos−related illnesses and environmental impairment, which, net of related reinsurance recoverables, totaled $265.5 million and $260.3 million as of December 31, 2009 and 2008, respectively. The majority of our asbestos and environmental related liabilities arise from contracts written by Clearwater before 1986 that were underwritten as standard general liability coverages where the contracts contained terms which, for us and the industry overall, have been interpreted by the courts to provide coverage for asbestos and environmental exposures not contemplated by the original pricing or reserving of the covers. Our estimate of our ultimate liability for these exposures includes case basis reserves and a provision for liabilities incurred but not yet reported. Case basis reserves are a combination of reserves reported to us by ceding companies and additional case reserves determined by our dedicated asbestos and environmental claims unit. We rely on an annual analysis of Company and industry loss emergence trends to estimate the loss and LAE reserve for this exposure, including projections based on historical loss emergence and loss completion factors supplied from other company and industry sources, with monitoring of emerging experience on a quarterly basis.

Estimation of ultimate asbestos and environmental liabilities is unusually complex due to several factors resulting from the long period between exposure and manifestation of these claims. This lag can complicate the identification of the sources of asbestos and environmental exposure, the verification of coverage and the allocation of liability among insurers and reinsurers over multiple years. This lag also exposes the claim settlement process to changes in underlying laws and judicial interpretations. There continues to be substantial uncertainty regarding the ultimate number of insureds with injuries resulting from these exposures.

In addition, other issues have emerged regarding asbestos exposure that have further impacted the ability to estimate ultimate liabilities for this exposure. These issues include an increasingly aggressive plaintiffs' bar, an increased involvement of defendants with peripheral exposure, the use of bankruptcy filings due to asbestos liabilities as an attempt to resolve these liabilities to the disadvantage of insurers, the concentration of litigation in venues favorable to plaintiffs, and the potential of asbestos litigation reform at the state or federal level.

We believe these uncertainties and factors make projections of these exposures, particularly asbestos, subject to less predictability relative to non−asbestos and non−environmental exposures. See Note 10 to the consolidated financial statements for additional historical information on unpaid losses and LAE for these exposures.

In the event that loss trends diverge from expected trends, we may have to adjust our reserves for unpaid losses and LAE accordingly. Any adjustments will be reflected in the periods in which they become known, potentially resulting in adverse or favorable effects to our financial results. Management believes that the recorded estimate represents the best estimate of unpaid losses and LAE based on the information available at December 31, 2009. Due to the uncertainty involving estimates of ultimate loss and LAE, management does not attempt to produce a range around its best estimate of unpaid losses and LAE.

Historical Loss Reserve Trends

We have recognized significant increases to estimates for prior years' recorded loss liabilities. Net income was adversely impacted in the calendar years where reserve estimates relating to prior years were increased. It is not possible to assure that adverse development on prior years' losses will not occur in the future. If adverse development does occur in future years, it may have a material adverse impact on net income.

The "Ten Year Analysis of Consolidated Losses and Loss Adjustment Expense Reserve Development Table" that follows presents the development of balance sheet net loss and LAE reserves for calendar years 1999 through 2009. The upper half of the table shows the cumulative amounts paid, net of reinsurance, during successive years related to the opening reserve. For example, with respect to the reserves for unpaid losses and LAE of $1,831 million as of December 31, 1999, by the end of 2009, $2,361 million had actually been paid in settlement of those reserves. In addition, as reflected in the lower section of the table, the original reserve of $1,831 million was re−estimated to be $3,094 million as of December 31, 2009. This change from the original

estimate would normally result from a combination of a number of factors, including losses being settled for different amounts than originally estimated. The original estimates will also be increased or decreased, as more information becomes known about the individual claims and overall claim frequency and severity patterns. The net deficiency or redundancy depicted in the table, for any particular calendar year, shows the aggregate change in estimates over the period of years subsequent to the calendar year reflected at the top of the respective columns. For example, the cumulative deficiency of $1,263 million, which has been reflected in our consolidated financial statements as of December 31, 2009, related to December 31, 1999 reserves for unpaid losses and LAE of $1,831 million, represents the cumulative amount by which net reserves for 1999 have developed unfavorably from 2000 through 2009.

Each amount other than the original reserves in the table below includes the effects of all changes in amounts for prior periods. For example, if a loss settled in 2002 for $150,000 was first reserved in 1999 at $100,000 and remained unchanged until settlement, the $50,000 deficiency (actual loss minus original estimate) would be included in the cumulative net deficiency in each of the years in the period 1999 through 2001 shown in the following table. Conditions and trends that have affected development of liability in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future development based on this table.

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Ten Year Analysis of Consolidated Losses and Loss Adjustment Expense Reserve Development Table
Presented Net of Reinsurance With Supplemental Gross Data

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
						(In millions)					
Reserves for unpaid losses and LAE	$ 1,831	$ 1,667	$ 1,674	$ 1,864	$ 2,372	$ 3,172	$3,911	$4,403	$4,475	$4,560	$4,666
Paid (cumulative) as of:											
One year later	609	596	616	602	632	914	787	1,111	1,016	1,024	
Two years later	1,042	1,010	985	999	1,213	1,298	1,614	1,808	1,646		
Three years later	1,333	1,276	1,296	1,424	1,456	1,835	2,161	2,273			
Four years later	1,506	1,553	1,602	1,563	1,898	2,220	2,521				
Five years later	1,718	1,802	1,666	1,932	2,206	2,489					
Six years later	1,901	1,827	1,968	2,188	2,426						
Seven years later	1,904	2,061	2,173	2,374							
Eight years later	2,102	2,224	2,327								
Nine years later	2,248	2,352									
Ten years later	2,361										
Liability re–estimated as of:											
One year later	1,846	1,690	1,760	1,993	2,561	3,345	4,051	4,444	4,465	4,549	
Two years later	1,862	1,787	1,935	2,240	2,828	3,537	4,144	4,481	4,498		
Three years later	1,951	2,018	2,194	2,573	3,050	3,736	4,221	4,564			
Four years later	2,144	2,280	2,514	2,828	3,294	3,837	4,320				
Five years later	2,332	2,581	2,726	3,077	3,414	3,950					
Six years later	2,572	2,750	2,973	3,202	3,534						
Seven years later	2,702	2,969	3,078	3,325							
Eight years later	2,893	3,069	3,192								
Nine years later	2,985	3,182									
Ten years later	3,094										
Cumulative redundancy/ (deficiency)	$(1,263)	$(1,515)	$(1,518)	$(1,461)	$(1,162)	$ (778)	$ (409)	$ (161)	$ (23)	$ 11	
Gross liability — end of year	$ 2,570	$ 2,566	$ 2,720	$ 2,872	$ 3,400	$ 4,225	$5,118	$5,142	$5,119	$5,250	$5,507
Reinsurance recoverables	739	899	1,046	1,008	1,028	1,053	1,207	739	644	690	841
Net liability — end of year	1,831	1,667	1,674	1,864	2,372	3,172	3,911	4,403	4,475	4,560	4,666
Gross re–estimated liability at December 31, 2009	4,459	4,691	4,853	4,876	4,888	5,241	5,649	5,357	5,198	5,308	
Re–estimated recoverables at December 31, 2009	1,365	1,509	1,661	1,551	1,354	1,291	1,329	793	700	759	
Net re–estimated liability at December 31, 2009	3,094	3,182	3,192	3,325	3,534	3,950	4,320	4,564	4,498	4,549	
Gross cumulative redundancy/(deficiency)	$(1,889)	$(2,125)	$(2,133)	$(2,004)	$(1,488)	$(1,016)	$ (531)	$ (215)	$ (79)	$ (58)	

The cumulative redundancy in 2008 reserves for unpaid losses and LAE for the year ended December 31, 2009 was $11 million. The cumulative deficiencies in 2007 and 2006 reserves for unpaid losses and LAE as of December 31, 2009 were $23 million and $161 million, respectively. The cumulative deficiencies in 2007 and 2006 reserves for unpaid losses and LAE as of December 31, 2009 principally resulted from increased reserves for U.S. casualty business, including asbestos and environmental pollution liabilities associated with contracts generally written prior to 1986. These contracts contained terms that, for us and the industry overall, have been interpreted by the courts to provide coverage for exposures that were not contemplated by the original pricing or reserving of the covers. In addition, increased loss estimates for U.S. casualty business written in the late 1990s and early 2000s contributed to the cumulative deficiency in 2007 and 2006 reserves for unpaid losses and LAE. The U.S. casualty classes of business include general liability, professional liability and excess workers' compensation. In recent calendar years, we experienced loss emergence, resulting from a combination of higher

claim frequency and severity that was greater than our expectations, which were previously established based on a review of prior years' loss trends for this business written in the late 1990s and early 2000s. General liability and excess workers' compensation classes of business during these years were adversely impacted by the competitive conditions in the industry at that time. These competitive conditions resulted in pricing pressure and relatively broader coverage terms, thereby affecting the ability of standard actuarial techniques to generate reliable estimates of ultimate loss. Professional liability was impacted by the increase in frequency and severity of claims relating to bankruptcies and other financial and management improprieties in the late 1990s and early 2000s.

We believe that the recorded estimate represents the best estimate of unpaid losses and LAE based on the information available at December 31, 2009. In the event that loss trends diverge from expected trends, we may have to adjust our reserves for losses and LAE accordingly. Any adjustments will be reflected in the periods in which they become known, potentially resulting in adverse or favorable effects to our financial results.

The following table is derived from the "Ten Year Analysis of Consolidated Losses and Loss Adjustment Expense Reserve Development Table" above. It summarizes the effect of re−estimating prior year loss reserves, net of reinsurance, on pre−tax income for the latest ten calendar years through December 31, 2009. Each column represents the calendar year development by each accident year. For example, in calendar year 2009, the impact of re−estimates of prior year loss reserves increased pre−tax income by $11.3 million.

	Development in Calendar Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	(In millions)									
Accident Year Contributing to Loss Reserve Development										
1999 and Prior	$(15.9)	$(16.6)	$(88.9)	$(192.5)	$(187.9)	$(240.8)	$(129.9)	$(190.9)	$(92.2)	$(108.5)
2000		(6.5)	(9.0)	(38.0)	(74.6)	(59.3)	(39.8)	(27.5)	(7.3)	(4.3)
2001			12.4	56.0	2.5	(19.0)	(42.4)	(29.4)	(5.6)	(1.6)
2002				46.6	12.2	(13.8)	(42.3)	(1.7)	(20.0)	(8.2)
2003					57.8	66.7	32.4	5.2	5.0	2.2
2004						93.5	29.6	45.2	19.2	7.8
2005							52.5	106.4	23.5	13.3
2006								52.2	40.0	16.4
2007									47.5	49.5
2008										44.7
Total Calendar Year Effect on Pre−tax Income Resulting from Reserve Re−estimation	$(15.9)	$(23.1)	$(85.5)	$(127.9)	$(190.0)	$(172.7)	$(139.9)	$ (40.5)	$ 10.1	$ 11.3

The significant increase in reserves on accident years 1999 and prior for calendar year 2009 related considerably to increased reserves for asbestos liabilities.

The significant increase in reserves on accident years 2000 through 2002 for recent calendar years related principally to casualty reinsurance written in the United States in the late 1990s and early 2000s. These years experienced a proliferation of claims relating to bankruptcies and corporate improprieties. This resulted in an increase in the frequency and severity of claims in professional liability lines. Additionally, general liability and excess workers' compensation classes of business in this period reflected increasing competitive conditions. These factors have impacted our ability to estimate losses and LAE for these exposures in recent calendar years.

Improvements in competitive conditions and the economic environment beginning in 2001 have resulted in a generally downward trend on re−estimated reserves for accident years 2003 through 2008. Initial loss estimates for these more recent accident years did not fully anticipate the improvements in competitive and economic conditions achieved since the early 2000s.

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The following table summarizes our provision for unpaid losses and LAE for each of three years in the period ended December 31, 2009 (in millions):

	2009	2008	2007
Gross unpaid losses and LAE, beginning of year	$ 5,250.5	$ 5,119.1	$ 5,142.1
Less: ceded unpaid losses and LAE, beginning of year	690.2	643.5	739.0
Net unpaid losses and LAE, beginning of year	4,560.3	4,475.6	4,403.1
Add: losses and LAE incurred related to:			
Current year	1,313.3	1,518.8	1,367.9
Prior years	(11.3)	(10.1)	40.5
Total losses and LAE incurred	1,302.0	1,508.7	1,408.4
Less: Paid losses and LAE related to:			
Current year	230.6	264.8	251.4
Prior years	1,024.2	1,016.0	1,111.1
Total paid losses and LAE	1,254.8	1,280.8	1,362.5
Effects of exchange rate changes	58.8	(143.2)	26.6
Net unpaid losses and LAE, end of year	4,666.3	4,560.3	4,475.6
Add: ceded unpaid losses and LAE, end of year	841.5	690.2	643.5
Gross unpaid losses and LAE, end of year	$ 5,507.8	$ 5,250.5	$ 5,119.1

The above amounts reflect tabular reserving for workers' compensation indemnity reserves that are considered fixed and determinable. We discount such reserves using an interest rate of 3.5% and standard mortality assumptions. The amount of loss reserve discount as of December 31, 2009, 2008 and 2007 was $76.2 million, $79.6 million and $89.4 million, respectively.

Gross and net development for asbestos and environmental reserves on business written prior to 1986 for each of the three years in the period ended December 31, 2009 are provided in the following table (in millions):

	2009	2008	2007
Asbestos			
Gross unpaid losses and LAE, beginning of year	$ 360.7	$ 339.3	$ 308.7
Add: Gross losses and LAE incurred	69.4	73.8	86.0
Less: Gross calendar year paid losses and LAE	43.4	52.4	55.4
Gross unpaid losses and LAE, end of year	$ 386.7	$ 360.7	$ 339.3
Net unpaid losses and LAE, beginning of year	$ 230.5	$ 222.4	$ 189.0
Add: Net losses and LAE incurred	40.0	41.0	63.0
Less: Net calendar year paid losses and LAE	28.9	32.9	29.6
Net unpaid losses and LAE, end of year	$ 241.6	$ 230.5	$ 222.4
Environmental			
Gross unpaid losses and LAE, beginning of year	$ 34.2	$ 42.0	$ 35.9
Add: Gross losses and LAE incurred	0.9	2.6	14.2
Less: Gross calendar year paid losses and LAE	8.0	10.4	8.1
Gross unpaid losses and LAE, end of year	$ 27.1	$ 34.2	$ 42.0

	2009	2008	2007
Environmental			
Net unpaid losses and LAE, beginning of year	$ 29.8	$ 34.5	$ 26.7
Add: Net losses and LAE incurred	0.6	4.1	14.5
Less: Net calendar year paid losses and LAE	6.5	8.8	6.7
Net unpaid losses and LAE, end of year	$ 23.9	$ 29.8	$ 34.5

Net losses and LAE incurred for asbestos claims increased $40.0 million, $41.0 million and $63.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Net losses and LAE incurred for environmental claims increased $0.6 million, $4.1 million and $14.5 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Our survival ratio for asbestos and environmental–related liabilities as of December 31, 2009 is seven years. Our underlying survival ratio for asbestos–related liabilities is eight years and for environmental–related liabilities is three years. The asbestos and environmental related liability survival ratio represents the asbestos and environmental reserves, net of reinsurance, on December 31, 2009, divided by the average paid asbestos and environmental claims for the last three years of $37.8 million, which is net of reinsurance. Our survival ratios may fluctuate over time due to the variability of large payments and adjustments to liabilities.

Investments

As of December 31, 2009, we held cash and investments totaling $8.7 billion, with a net unrealized gain of $828.2 million, before taxes. Our overall strategy is to maximize the total return of the investment portfolio, while prudently preserving invested capital and providing sufficient liquidity for the payment of claims, other policy obligations and general expenses.

Our investment guidelines stress prudent investment of capital with an eye on quality while seeking to maximize returns by focusing on market liquidity, diversification of risk and a long–term, value–oriented strategy. We seek to invest in securities that we believe are selling below their intrinsic value, in order to protect capital from loss and generate above–average total returns.

No attempt is made to forecast the economy, the future level of interest rates or the stock market. Equity investments are selected under the belief that the purchase prices are less than the intrinsic values. As a result, downside protection is provided by the margin of safety resulting from the difference between the purchase price and the intrinsic value. Fixed income securities are selected on the basis of yield spreads over Treasury bonds, subject to stringent credit analysis. Securities meeting these criteria may not be readily available, in which case Treasury bonds are emphasized. Notwithstanding the foregoing, our investments are subject to market risks and fluctuations, as well as to risks inherent in particular securities.

As part of our review and monitoring process, we regularly test the impact of a simultaneous substantial reduction in common stock, preferred stock and bond prices on our capital to ensure that capital adequacy will be maintained at all times.

The investment portfolio is structured to provide a sufficient level of liquidity. The following table shows the aggregate amounts of investments in fixed income securities, equity securities, cash and cash equivalents, short–term investments and other invested assets comprising our portfolio of invested assets.

	At December 31,			
	2009		2008	
	$	%	$	%
	(In millions)			
Fixed income securities, available for sale, at fair value	$ 4,374.0	50.1%	$ 3,594.3	45.6%
Fixed income securities, held as trading securities, at fair value	532.7	6.1	338.2	4.3
Redeemable preferred stock, at fair value	0.1	—	0.1	—
Convertible preferred stock, held as trading securities, at fair value	82.5	0.9	—	—
Equity securities, at fair value	2,071.0	23.7	1,555.1	19.7
Equity securities, at equity	158.5	1.8	141.5	1.8
Cash, cash equivalents and short–term investments	1,305.0	15.0	1,958.1	24.8
Other invested assets	146.7	1.7	222.8	2.8
Cash and cash equivalents held as collateral	56.7	0.7	82.4	1.0
Total cash and invested assets	$ 8,727.2	100.0%	$ 7,892.5	100.0%

As of December 31, 2009, 61.9% of our fixed income securities were rated "AAA," as measured by Standard & Poor's, and had an average yield to maturity, based on fair values, of 5.3% before investment expenses. As of December 31, 2009 the duration of our fixed income securities was 10.8 years. Including short–term investments, cash and cash equivalents, the duration was 8.5 years.

Market Sensitive Instruments. Our investment portfolio includes investments that are subject to changes in market values, such as changes in interest rates. The aggregate hypothetical unrealized loss generated from an immediate adverse parallel shift in the treasury yield curve of 100 or 200 basis points would result in a decrease in fair value of $406.6 million and $808.3 million, respectively, on a fixed income portfolio valued at $4.9 billion as of December 31, 2009. The foregoing reflects the use of an immediate time horizon, since this presents the worst–case scenario. Credit spreads are assumed to remain constant in these hypothetical examples.

The following table summarizes the fair value of our investments (other than common stocks at equity and other invested assets) at the dates indicated (in millions):

	At December 31,	
Type of Investment	2009	2008
United States government, government agencies and authorities	$ 141.0	$ 353.7
States, municipalities and political subdivisions	3,087.6	2,278.5
Foreign governments	796.6	840.2
All other corporate	348.8	121.9
Total fixed income securities, available for sale	4,374.0	3,594.3
Fixed income securities, held for trading	532.7	338.2
Redeemable preferred stock, at fair value	0.1	0.1
Convertible preferred stock, held as trading securities	82.5	—
Common stocks, at fair value	2,071.0	1,555.1
Short–term investments, at fair value	125.1	1,202.4
Short–term investments, held as trading securities	238.4	—
Cash and cash equivalents	941.4	755.7
Cash and cash equivalents held as collateral	56.7	82.4
Total	$ 8,421.9	$ 7,528.2

The following table summarizes the fair value by contractual maturities of our fixed income securities at the dates indicated (in millions):

	At December 31,			
	2009		2008	
	Available for Sale	Held for Trading	Available for Sale	Held for Trading
Due in less than one year	$ 24.0	$ 99.2	$ 218.3	$ —
Due after one through five years	501.2	204.9	369.3	164.1
Due after five through ten years	279.6	52.6	465.4	23.0
Due after ten years	3,569.2	176.0	2,541.3	151.1
Total	$ 4,374.0	$ 532.7	$ 3,594.3	$ 338.2

The contractual maturities reflected above may differ from the actual maturities due to the existence of call or put features. As of December 31, 2009 and 2008, approximately 53.0% and 55.8% respectively, of the fixed income securities shown above had a call feature which, at the issuer's option, allowed the issuer to repurchase the securities on one or more dates prior to their maturity. For the years ended December 31, 2009 and 2008, 3.2% and 3.5%, respectively, of the fixed income securities shown above, had put features which, if exercised at our option, would require the issuer to repurchase the investments on one or more dates prior to their maturity. For the investments shown above, if the call feature or put feature is exercised, the actual maturities will be shorter than the contractual maturities shown above. In the case of securities that are subject to early call by the issuer, the actual maturities will be the same as the contractual maturities shown above if the issuer does not exercise its call feature. In the case of securities containing put features, the actual maturities will be the same as the contractual maturities shown above if we elect not to exercise our put option, but to hold the securities to their final maturity dates.

Our risk management objective is to mitigate the adverse change in the fair value of our financial assets that would likely result in the event of significant defaults or other adverse events in the U.S. credit markets. Beginning in 2003, we attempted to meet this objective by purchasing credit default protection ("credit default swaps") referenced to various issuers in the banking, mortgage and insurance sectors of the financial services industry, which are representative of the systemic financial risk, versus hedging specific assets. We chose this approach because it was impossible to predict which of the hedged assets would be adversely affected and to what degree. As a result, we did not specifically align hedged items with hedging instruments.

Under a credit default swap, as the buyer, we agree to pay to a specific counterparty, at specified periods, fixed premium amounts based on an agreed notional principal amount in exchange for protection against default by the issuers of specified referenced debt securities. The credit events, as defined by the respective credit default swap contracts, establishing the rights to recover amounts from the counterparties are comprised of ISDA–standard credit events, which are: bankruptcy, obligation acceleration, obligation default, failure to pay, repudiation/moratorium and restructuring. As of December 31, 2009, all credit default swap contracts held by us have been purchased from and entered into with either Citibank, N.A., Deutsche Bank AG or Barclays Bank PLC as the counterparty, with positions on certain covered risks with more than one of these counterparties.

We obtain market derived fair values for our credit default swaps from third party providers, principally broker–dealers. To validate broker–dealer credit default swap fair value quotations, two reasonability tests are performed. First, we obtain credit default swap bid–spreads from independent broker–dealers (non counterparty broker–dealers). These spreads are entered as inputs into a discounted cash flow model, which calculates a fair value that is compared for reasonability to the counterparty broker–dealer provided fair values. The discounted cash flow model uses the independently obtained credit default swap bid–spreads to calculate the present value of the remaining protection payments using the appropriate currency–denominated swap curve, with consideration given to various other parameters including single name bid–spread in basis points and the remaining term to maturity of the credit default swap contract. Secondly, a comparison is performed against recently transacted credit default swap values as provided by independent broker–dealers, and to prices reflected in recent trades of identical financial instruments where available.

The initial premium paid for each credit default swap contract was recorded as a derivative asset and was subsequently adjusted for changes in the unrealized fair value of the contract at each balance sheet date. As these contracts do not qualify for hedge accounting, changes in the unrealized fair value of the contract were recorded as net realized investment gains (losses) on investments in our consolidated statements of operations and comprehensive income. Sales of credit default swap contracts require us to reverse through net gains (losses) on investments any previously recorded unrealized fair value changes since the inception of the contract, and to record the actual amount of the final cash settlement. Derivative assets were reported gross, on a contract–by–contract basis, and are recorded at fair value in other invested assets in the consolidated balance sheet. The sale, expiration or early settlement of a credit default swap will not result in a cash payment owed by us; rather, such an event can only result in a cash payment by a third party purchaser of the contract, or the counterparty, to us. Accordingly, there is no opportunity for netting of amounts owed in settlement. Cash receipts at the date of sale of the credit default swaps were recorded as cash flows from investing activities arising from net sales of assets and liabilities classified as held for trading.

The total cost of the credit default swaps was $20.6 million and $30.8 million as of December 31, 2009 and 2008, respectively, and the fair value was $10.0 million and $82.8 million, as of December 31, 2009 and 2008, respectively. The notional amount of the credit default swaps was $1.3 billion and $1.8 billion as of December 31, 2009 and 2008, respectively. The credit default swaps had net realized investment losses of $28.7 million and net realized investment gains of $350.7 million for the years ended December 31, 2009, and 2008, respectively. The fair values of credit default swaps may be subject to significant volatility given potential differences in the perceived risk of default of the underlying issuers, movements in credit spreads and the length of time to the contracts' maturities. The fair value of the credit default swaps may vary dramatically either up or down in short periods, and their ultimate value may therefore only be known upon their disposition. Credit default swap transactions generally settle in cash. As we fund all of our obligations relating to these contracts upon initiation of the transaction, there are no requirements in these contracts for us to provide collateral.

Quality of Debt Securities in Portfolio. The following table summarizes the composition of the fair value of our fixed income securities portfolio at the dates indicated by rating as assigned by Standard & Poor's Ratings Services ("Standard & Poor's") or Moody's Investors Service ("Moody's"), using the higher of these ratings for any security where there is a split rating.

	At December 31,	
Rating	**2009**	**2008**
AAA/Aaa	61.9%	81.9%
AA/Aa2	8.0	7.7
A/A2	14.4	2.0
BBB/Baa2	5.2	—
BB/Ba2	2.9	0.4
B/B2	1.8	2.6
CCC/Caa or lower or not rated	5.8	5.4
Total	100.0%	100.0%

As of December 31, 2009, 10.5% of our fixed income securities were rated BB/Ba2 or lower, compared to 8.4% as of December 31, 2008.

Ratings

The Company and its subsidiaries are assigned financial strength (insurance) and credit ratings from internationally recognized rating agencies, which include A.M. Best, Standard & Poor's and Moody's. Financial strength ratings represent the opinions of the rating agencies of the financial strength of a company and its capacity to meet the obligations of insurance and reinsurance contracts. The rating agencies consider many factors in determining the financial strength rating of an insurance or reinsurance company, including the relative level of shareholders' equity or statutory surplus necessary to support the business operations of the company.

These ratings are used by insurers, reinsurers and intermediaries as an important means of assessing the financial strength and quality of reinsurers and insurers. The financial strength ratings of our principal operating subsidiaries are as follows:

	A.M. Best	Standard & Poor's	Moody's
Odyssey America	"A" (Excellent)	"A–" (Strong)	"A3" (Good)
Hudson	"A" (Excellent)	Not Rated	Not Rated
Hudson Specialty	"A" (Excellent)	"A–" (Strong)	Not Rated

Our senior unsecured debt is currently rated "BBB–" by Standard & Poor's, "Baa3" by Moody's and "bbb" by A.M. Best. Our Series A and Series B preferred shares are currently rated "BB" by Standard & Poor's, "Ba2" by Moody's and "bb+" by A.M. Best.

Marketing

We provide property and casualty reinsurance capacity in the United States market primarily through brokers, and in international markets through brokers and directly to insurers and reinsurers. We focus our marketing on potential clients and brokers that have the ability and expertise to provide the detailed and accurate underwriting information we need to properly evaluate each piece of business. Further, we seek relationships with new clients that will further diversify our existing book of business without sacrificing our underwriting discipline.

We believe that the willingness of a primary insurer or reinsurer to use a specific reinsurer is not based solely on pricing. Other factors include the client's perception of the reinsurer's financial security, its claims–paying ability ratings, its ability to design customized products to serve the client's needs, the quality of its overall service, and its commitment to provide the client with reinsurance capacity. We believe we have developed a reputation with our clients for prompt response on underwriting submissions and timely claims payments. Additionally, we believe our level of capital and surplus demonstrates our strong financial position and intent to continue providing reinsurance capacity.

The reinsurance broker market consists of several significant national and international brokers and a number of smaller specialized brokers. Brokers do not have the authority to bind us with respect to reinsurance agreements, nor do we commit in advance to accept any portion of the business that brokers submit. Brokerage fees generally are paid by reinsurers and are included as an underwriting expense in the consolidated financial statements. Our five largest reinsurance brokers accounted for an aggregate of 68.6% of our reinsurance gross premiums written in 2009.

Direct distribution is an important channel for us in the markets served by the Latin America unit of the Americas division and by the EuroAsia division. Direct placement of reinsurance enables us to access clients who prefer to place their reinsurance directly with their reinsurers based upon the reinsurer's in–depth understanding of the ceding company's needs.

Our primary insurance business generated through the U.S. Insurance division is written principally through national and regional agencies and brokers, as well as through general agency relationships. Newline's primary market business is written through agency and direct distribution channels.

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The following table shows our gross premiums written, with distribution sources for our reinsurance business, for the year ended December 31, 2009 (in millions):

	For the Year Ended December 31, 2009	
	$	%
Aon Benfield	$ 438.5	20.0%
Guy Carpenter & Company	309.8	14.1
Willis Re Group Holdings, Ltd.	175.3	8.0
Towers Perrin Reinsurance	26.7	1.2
Protection Reinsurance Intermediaries AG	20.6	0.9
Other brokers	226.3	10.3
Total brokers	1,197.2	54.5
Direct	217.3	9.9
Total reinsurance	1,414.5	64.4
U.S. Insurance	547.0	24.9
Newline	233.5	10.7
Total	$ 2,195.0	100.0%

Competition

The global reinsurance and insurance business is highly competitive and cyclical by product and market, resulting in fluctuations in overall financial results. Competition in the types of reinsurance and insurance business that OdysseyRe underwrites is based on many factors, including supply of capital and underwriting capacity and demand for reinsurance and insurance, the perceived overall financial strength of the reinsurer or insurer, (A.M. Best, Standard & Poor’s and Moody’s ratings) the jurisdictions where the reinsurer or insurer is licensed, accredited or authorized, capacity and coverages offered, premiums charged, specific terms and conditions offered, services offered, speed of claims payment, and reputation and experience in lines of business underwritten. These competitive factors are generally not consistent across lines of business, domestic and international geographical areas and distribution channels.

OdysseyRe’s competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain primary insurance companies, and domestic and European underwriting syndicates. United States insurance companies that are licensed to underwrite insurance are also licensed to underwrite reinsurance, making the commercial access into the reinsurance business relatively uncomplicated. In addition, Bermuda reinsurers that initially specialized in catastrophe reinsurance are now broadening their product offerings, and the potential for securitization of reinsurance insurance risks through capital markets provides additional sources of potential reinsurance and insurance capacity and competition.

Employees

As of December 31, 2009, we had 721 employees. We believe our relationship with our employees is satisfactory.

Regulatory Matters

We are subject to regulation under the insurance statutes, including insurance holding company statutes, of various jurisdictions, including Connecticut, the domiciliary state of Odyssey America; Delaware, the domiciliary state of Clearwater, Hudson and Clearwater Select; New York, the domiciliary state of Hudson Specialty; California, where Hudson is deemed to be “commercially domiciled”; and the United Kingdom, the domiciliary jurisdiction of Newline. Newline Syndicate (1218) is also subject to regulation by the Society and

Council of Lloyd's. In addition, we are subject to regulation by the insurance regulators of other states and foreign jurisdictions in which we or our operating subsidiaries do business.

Regulation of Reinsurers and Insurers

General

The terms and conditions of reinsurance agreements with respect to rates or policy terms generally are not subject to regulation by any governmental authority. This contrasts with primary insurance policies and agreements issued by primary insurers such as Hudson, the rates and policy terms of which are generally regulated closely by state insurance departments. As a practical matter, however, the rates charged by primary insurers influence the rates that can be charged by reinsurers.

Our reinsurance operations are subject primarily to regulation and supervision that relates to licensing requirements of reinsurers, the standards of solvency that reinsurers must meet and maintain, the nature of and limitations on investments, restrictions on the size of risks that may be reinsured, the amount of security deposits necessary to secure the faithful performance of a reinsurer's insurance obligations, methods of accounting, periodic examinations of the financial condition and affairs of reinsurers, the form and content of any financial statements that reinsurers must file with state insurance regulators and the level of minimal reserves necessary to cover unearned premiums, losses and other purposes. In general, these regulations are designed to protect ceding insurers and, ultimately, their policyholders, rather than shareholders. We believe that we and our subsidiaries are in material compliance with all applicable laws and regulations pertaining to our business and operations.

Insurance Holding Company Regulation

State insurance holding company statutes provide a regulatory apparatus which is designed to protect the financial condition of domestic insurers operating within a holding company system. All holding company statutes require disclosure and, in some instances, prior approval, of significant transactions between the domestic insurer and an affiliate. Such transactions typically include service arrangements, sales, purchases, exchanges, loans and extensions of credit, reinsurance agreements, and investments between an insurance company and its affiliates, in some cases involving certain aggregate percentages of a company's admitted assets or policyholders' surplus, or dividends that exceed certain percentages. State regulators also require prior notice or regulatory approval of any acquisition of control of an insurer or its holding company.

Under the Connecticut, Delaware, New York and California Insurance laws and regulations, no person, corporation or other entity may acquire control of us or our operating subsidiaries unless such person, corporation or entity has obtained the prior approval of the applicable state or states for the acquisition. For the purposes of the state insurance holding company laws and regulations, any person acquiring, directly or indirectly, 10% or more of the voting securities of an insurance company is presumed to have acquired "control" of that company. To obtain the approval of any acquisition of control, any prospective acquirer must file an application with the relevant insurance commissioner(s). This application requires the acquirer to disclose its background, financial condition, the financial condition of its affiliates, the source and amount of funds by which it will effect the acquisition, the criteria used in determining the nature and amount of consideration to be paid for the acquisition, proposed changes in the management and operations of the insurance company and any other related matters.

The United Kingdom Financial Services Authority also requires an insurance company or reinsurance company that carries on business through a permanent establishment in the United Kingdom, but which is incorporated outside the United Kingdom, to notify it of any person becoming or ceasing to be a controller or of a controller becoming or ceasing to be a parent undertaking. Any company or individual that holds 10% or more of the shares in the insurance company or reinsurance company or its parent undertaking, or is able to exercise significant influence over the management of the insurance company or reinsurance company or its parent undertaking through such shareholding, or is entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the insurance company or reinsurance company or of its parent undertaking, or is able to exercise significant influence over the management of the insurance company or reinsurance company or its parent undertaking as a result of its voting power is a "controller." As the 100% owner of our common shares, Fairfax and certain of its subsidiaries, and Odyssey Re Holdings Corp. itself, are

each deemed to be a "controller" of Odyssey America, which is authorized to carry on reinsurance business in the United Kingdom through the London branch. Other than our subsidiaries in the London Market division, none of our other insurance or reinsurance subsidiaries is authorized to carry on business in the United Kingdom.

Under the bylaws made by Lloyd's pursuant to the Lloyd's Act of 1982, the prior written approval of the Franchise Board established by the Council of Lloyd's is required of anyone proposing to become a "controller" of any Lloyd's Managing Agent. Any company or individual that holds 10% or more of the shares in the managing agent company or its parent undertaking, or is able to exercise significant influence over the management of the managing agent or its parent undertaking through such shareholding, or is entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Lloyd's Managing Agent or its parent undertaking, or exercise significant influence over its management or that of its parent undertaking as a result of voting power is a "controller." As the 100% owner of our common shares, Fairfax and certain of its subsidiaries, and Odyssey Re Holdings Corp. itself, are each deemed to be a "controller" of the United Kingdom Lloyd's Managing Agent subsidiary, Newline Underwriting Management Limited.

Dividends

Because our operations are conducted at the subsidiary level, we are dependent upon dividends from our subsidiaries to meet our debt and other obligations. The payment of dividends to us by our operating subsidiaries is subject to limitations imposed by law in Connecticut, Delaware, New York, California and the United Kingdom.

Under the Connecticut and Delaware Insurance Codes, before a Connecticut or Delaware domiciled insurer, as the case may be, may pay any dividend it must have given notice within five days following the declaration thereof and 10 days prior to the payment thereof to the Connecticut or Delaware Insurance Commissioners, as the case may be. During this 10–day period, the Connecticut or Delaware Insurance Commissioner, as the case may be, may, by order, limit or disallow the payment of ordinary dividends if he or she finds the insurer to be presently or potentially in financial distress. Under Connecticut and Delaware Insurance Regulations, the Insurance Commissioner may issue an order suspending or limiting the declaration or payment of dividends by an insurer if he or she determines that the continued operation of the insurer may be hazardous to its policyholders. A Connecticut domiciled insurer may only pay dividends out of "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 defined in such insurer's annual statutory financial statement. A Delaware domiciled insurer may only pay cash dividends from the portion of its available and accumulated surplus funds derived from realized net operating profits and realized investment gains. Additionally, a Connecticut or Delaware domiciled insurer may not pay any "extraordinary" dividend or distribution until (i) 30 days after the insurance commissioner has received notice of a declaration of the dividend or distribution and has not within that period disapproved the payment or (ii) the insurance commissioner has approved the payment within the 30–day period. Under the Connecticut insurance laws, an "extraordinary" dividend of a property and casualty insurer is a dividend for which the amount, together with all other dividends and distributions made in the preceding 12 months, exceeds the greater of (i) 10% of the insurer's surplus with respect to policyholders as of the end of the prior calendar year or (ii) the insurer's net income for the prior calendar year (not including pro rata distributions of any class of the insurer's own securities). The Connecticut Insurance Department has stated that the preceding 12–month period ends the month prior to the month in which the insurer seeks to pay the dividend. Under the Delaware and California insurance laws, an "extraordinary" dividend of a property and casualty insurer is a dividend for which the amount, together with all other dividends and distributions made in the preceding 12 months, exceeds the greater of (i) 10% of an insurer's surplus with respect to policyholders, as of the end of the prior calendar year or (ii) the insurer's statutory net income, not including realized investment gains, for the prior calendar year. Under these definitions, the maximum amount that will be available for the payment of dividends by Odyssey America during the year ending December 31, 2010 without requiring prior approval of regulatory authorities is $351.3 million.

New York law provides that an insurer domiciled in New York must obtain the prior approval of the state insurance commissioner for the declaration or payment of any dividend that, together with dividends declared or paid in the preceding 12 months, exceeds the lesser of (i) 10% of policyholders' surplus, as shown by its last statement on file with the New York Insurance Department and (ii) adjusted net investment income (which does

not include realized gains or losses) for the preceding 12−month period. Adjusted net investment income includes a carryforward of undistributed net investment income for two years. Such declaration or payment is further limited by earned surplus, as determined in accordance with statutory accounting practices prescribed or permitted in New York. Under New York law, an insurer domiciled in New York may not pay dividends to shareholders except out of "earned surplus," which in this case is defined as "the portion of the surplus that represents the net earnings, gains or profits, after the deduction of all losses, that have not been distributed to the shareholders as dividends or transferred to stated capital or capital surplus or applied to other purposes permitted by law but does not include unrealized appreciation of assets."

United Kingdom law prohibits any United Kingdom company, including the Newline companies, from declaring dividends to shareholders unless such company has "profits available for distribution," which, in summary, are accumulated realized profits less accumulated realized losses. The determination of whether a company has profits available for distribution must be made by reference to accounts that comply with the requirements of the Companies Act 1985 or, subsequent to April 6, 2008, the Companies Act 2006. While there are no statutory restrictions imposed by the United Kingdom insurance regulatory laws upon an insurer's ability to declare dividends, insurance regulators in the United Kingdom strictly control the maintenance of each insurance company's solvency margin within their jurisdiction and may restrict an insurer from declaring a dividend beyond a level that the regulators determine would adversely affect an insurer's solvency requirements. It is common practice in the United Kingdom to notify regulators in advance of any significant dividend payment.

Credit for Reinsurance and Licensing

A primary insurer ordinarily will enter into a reinsurance agreement only if it can obtain credit for the reinsurance ceded on its statutory financial statements. In general, credit for reinsurance is allowed in the following circumstances: (i) if the reinsurer is licensed in the state in which the primary insurer is domiciled or, in some instances, in certain states in which the primary insurer is licensed; (ii) if the reinsurer is an "accredited" or otherwise approved reinsurer in the state in which the primary insurer is domiciled or, in some instances, in certain states in which the primary insurer is licensed; (iii) in some instances, if the reinsurer (a) is domiciled in a state that is deemed to have substantially similar credit for reinsurance standards as the state in which the primary insurer is domiciled and (b) meets certain financial requirements; or (iv) if none of the above apply, to the extent that the reinsurance obligations of the reinsurer are collateralized appropriately, typically through the posting of a letter of credit for the benefit of the primary insurer or the deposit of assets into a trust fund established for the benefit of the primary insurer. Therefore, as a result of the requirements relating to the provision of credit for reinsurance, we are indirectly subject to certain regulatory requirements imposed by jurisdictions in which ceding companies are licensed.

Investment Limitations

State insurance laws contain rules governing the types and amounts of investments that are permissible for domiciled insurers. These rules are designed to ensure the safety and liquidity of an insurer's investment portfolio. Investments in excess of statutory guidelines do not constitute "admitted assets" (i.e., assets permitted by insurance laws to be included in a domestic insurer's statutory financial statements) unless special approval is obtained from the regulatory authority. Non−admitted assets are not considered for the purposes of various financial ratios and tests, including those governing solvency and the ability to write premiums. An insurer may hold an investment authorized under more than one provision of the insurance laws under the provision of its choice (except as otherwise expressly provided by law).

Liquidation of Insurers

The liquidation of insurance companies, including reinsurers, is generally conducted pursuant to state insurance law. In the event of the liquidation of one of our operating insurance subsidiaries, liquidation proceedings would be conducted by the insurance regulator of the state in which the subsidiary is domiciled, as the domestic receiver of its properties, assets and business. Liquidators located in other states (known as ancillary liquidators) in which we conduct business may have jurisdiction over assets or properties located in such states under certain circumstances. Under Connecticut, Delaware and New York law, all creditors of our operating insurance subsidiaries, including but not limited to reinsureds under their reinsurance agreements,

would be entitled to payment of their allowed claims in full from the assets of the operating subsidiaries before we, as a shareholder of our operating subsidiaries, would be entitled to receive any distribution.

Some states have adopted and others are considering legislative proposals that would authorize the establishment of an interstate compact concerning various aspects of insurer insolvency proceedings, including interstate governance of receiverships and guaranty funds.

Risk−Based Capital Requirements

The National Association of Insurance Commissioners ("NAIC"), an organization of insurance regulators from all 50 states of the U.S., the District of Columbia, and the five U.S. territories, is a forum for the development of uniform insurance policy in the U.S. when uniformity is deemed appropriate. In order to enhance the regulation of insurer solvency, the NAIC has adopted a formula and model law to implement risk−based capital requirements for property and casualty insurance companies. Connecticut, Delaware and New York have each adopted risk−based capital legislation for property and casualty insurance and reinsurance companies that is substantially the same as the NAIC risk−based capital requirement. These risk−based capital requirements are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholder obligations. The risk−based capital model for property and casualty insurance companies measures three major areas of risk facing property and casualty insurers: (i) underwriting, which encompasses the risk of adverse loss development and inadequate pricing; (ii) declines in asset values arising from credit risk; and (iii) declines in asset values arising from investment risks. Insurers having less statutory surplus than required by the risk−based capital calculation will be subject to varying degrees of company or regulatory action, ranging in severity from requiring the insurer to submit a plan for corrective action to actually placing the insurer under regulatory control, depending on the level of capital inadequacy. The surplus levels (as calculated for statutory annual statement purposes) of each of our operating insurance companies are above the risk−based capital thresholds that would require either company or regulatory action.

Guaranty Funds and Shared Markets

Our operating subsidiaries that write primary insurance are required to be members of guaranty associations in each state in which they are admitted to write business. These associations are organized to pay covered claims (as defined and limited by various guaranty association statutes) under insurance policies issued by primary insurance companies that have been judicially declared insolvent. These state guaranty funds make assessments against member insurers to obtain the funds necessary to pay association covered claims. New York has a pre−assessment guaranty fund, which makes assessments prior to the occurrence of an insolvency, in contrast with other states, which make assessments after an insolvency takes place. In addition, primary insurers are required to participate in mandatory property and casualty shared market mechanisms or pooling arrangements that provide various coverages to individuals or other entities that are otherwise unable to purchase such coverage in the commercial insurance marketplace. Our operating subsidiaries' participation in such shared markets or pooling mechanisms is generally proportionate to the amount of direct premiums written in respect of primary insurance for the type of coverage written by the applicable pooling mechanism.

Legislative and Regulatory Proposals

From time to time various regulatory and legislative changes have been proposed in the insurance and reinsurance industry that could have an effect on reinsurers. Among the proposals that in the past have been or are at present being considered is the possible introduction of federal regulation in addition to, or in lieu of, the current system of state regulation of insurers. In addition, there are a variety of proposals being considered by various state legislatures. We are unable to predict whether any of these laws and regulations will be adopted, the form in which any such laws and regulations would be adopted, or the effect, if any, these developments would have on our operations and financial condition.

Government intervention in the insurance and reinsurance markets, both in the U.S. and worldwide, continues to evolve. Federal and state legislators and regulators have considered numerous statutory and regulatory initiatives. While we cannot predict the exact nature, timing, or scope of other such proposals, if adopted they could adversely affect our business by:

- providing government supported insurance and reinsurance capacity in markets and to consumers that we target;
- requiring our participation in new or expanded pools and guaranty associations;
- increased regulation of the terms of insurance and reinsurance policies; or
- disproportionately benefiting the companies of one country or jurisdiction over those of another.

Terrorism Risk Insurance Act of 2002

The Terrorism Risk Insurance Act of 2002 (“TRIA”) established a program under which the U.S. federal government will share with the insurance industry the risk of loss from certain acts of international terrorism. With the enactment on December 22, 2005 of the Terrorism Risk Insurance Extension Act of 2005, TRIA was modified and extended through December 31, 2007. On December 26, 2007, TRIA was further modified and extended through 2014. Notably, “act of terrorism” was redefined to eliminate the distinction between foreign and domestic terrorism. The TRIA program is applicable to most commercial property and casualty lines of business (with the notable exception of reinsurance), and participation by insurers writing such lines is mandatory. Under TRIA, all applicable terrorism exclusions contained in policies in force on November 26, 2002 were voided. For policies in force on or after November 26, 2002, insurers are required to make available coverage for losses arising from acts of terrorism as defined by TRIA on terms and in amounts which may not differ materially from other policy coverages.

Under TRIA, the federal government will reimburse insurers for 85% of covered losses above a defined insurer deductible. The deductible for each participating insurer is based on a percentage of the combined direct earned premiums in the preceding calendar year of the insurer, defined to include its subsidiaries and affiliates. In 2010, the deductible is equal to 20% of the insurer’s combined direct earned premiums for 2009. Further, the 2005 amendments to TRIA established a per event trigger for federal participation in aggregate insured losses of $100 million for losses occurring in 2007 and subsequent years. Under certain circumstances, the federal government may require insurers to levy premium surcharges on policyholders to recoup for the federal government its reimbursements paid.

While the provisions of TRIA and the purchase of certain terrorism reinsurance coverage mitigate the net loss exposure in our insurance operations in the event of a large−scale terrorist attack, our effective deductible is significant. Further, our exposure to losses from terrorist acts is not limited to TRIA events since some state insurance regulators do not permit terrorism exclusions for various coverages or causes of loss.

Primary insurance companies providing commercial property and casualty insurance in the U.S., such as Hudson and Hudson Specialty, are required to participate in the TRIA program. Because TRIA generally does not purport to govern the obligations of reinsurers, Odyssey America does not anticipate any reimbursements of terrorism losses, whether incurred in the United States or elsewhere, from that U.S. Federal program. Accordingly, we continue to carefully monitor our concentrations of terrorism exposure around the world.

Our Website

Our internet address is www.odysseyre.com. The information on our website is not incorporated by reference into this Annual Report on Form 10−K. Our annual reports on Form 10−K, quarterly reports on Form 10−Q, current reports on Form 8−K, and amendments to those reports filed or furnished pursuant to Sections 13(a) or 15(d) of the Exchange Act, are accessible free of charge through our website as soon as reasonably practicable after they have been electronically filed with or furnished to the SEC. Our Code of Business Conduct, Code of Ethics for Senior Financial Officers, Corporate Governance Guidelines and the charters for our Audit and Compensation Committees are also available on our website. In addition, you may obtain, free of charge, copies of any of the above reports or documents upon request to the Secretary of OdysseyRe.

Our annual, quarterly and current reports are accessible to view or copy at the SEC's Public Reference room at 100 F Street, NE, Washington, DC 20549, by calling 1−800−SEC−0330, or on the SEC's website at www.sec.gov.

Item 1A. ***Risk Factors***

Factors that could cause our actual results to differ materially from those described in the forward−looking statements contained in this Annual Report on Form 10−K and other documents we file with the SEC include the risks described below. You should also refer to the other information in this Annual Report on Form 10−K, including the consolidated financial statements and accompanying notes thereto.

Risks Relating to Our Business

Our actual claims may exceed our claim reserves, causing us to incur losses we did not anticipate.

Our success is dependent upon our ability to assess accurately the risks associated with the businesses that we reinsure or insure. If we fail to accurately assess the risks we assume, we may fail to establish appropriate premium rates and our reserves may be inadequate to cover our losses, which could have a material adverse effect on our financial condition or reduce our net income.

As of December 31, 2009, we had net unpaid losses and loss adjustment expenses of $4,666.3 million. We incurred decreases in losses and loss adjustment expenses related to prior years of $11.3 million and $10.1 million for the years ended December 31, 2009 and 2008, respectively. We incurred increases in losses and loss adjustment expenses related to prior years of $40.5 million, $139.9 million and $172.7 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Reinsurance and insurance claim reserves represent estimates, involving actuarial and statistical projections at a given point in time, of our expectations of the ultimate settlement and administration costs of claims incurred. The process of establishing loss reserves is complex and imprecise because it is subject to variables that are influenced by significant judgmental factors. We utilize both proprietary and commercially available actuarial models as well as our historical and industry loss development patterns to assist in the establishment of appropriate claim reserves. In contrast to casualty losses, which frequently can be determined only through lengthy and unpredictable litigation, non−casualty property losses tend to be reported promptly and usually are settled within a shorter period of time. Nevertheless, for both casualty and property losses, actual claims and claim expenses paid may deviate, perhaps substantially, from the reserve estimates reflected in our consolidated financial statements.

In addition, because we, like other reinsurers, do not separately evaluate each of the individual risks assumed under our reinsurance treaties, we are largely dependent on the original underwriting decisions made by ceding companies. We are subject to the risk that the ceding companies may not have adequately evaluated the risks to be reinsured and that the premiums ceded may not adequately compensate us for the risks we assume. If our claim reserves are determined to be inadequate, we will be required to increase claim reserves with a corresponding reduction in our net income in the period in which the deficiency is recognized. It is possible that claims in respect of events that have occurred could exceed our claim reserves and have a material adverse effect on our results of operations in a particular period or our financial condition.

Even though most insurance contracts have policy limits, the nature of property and casualty insurance and reinsurance is that losses can exceed policy limits for a variety of reasons and could significantly exceed the premiums received on the underlying policies.

Unpredictable natural and man−made catastrophic events could cause unanticipated losses and reduce our net income.

Catastrophes can be caused by various events, including natural events such as hurricanes, windstorms, earthquakes, hailstorms, severe winter weather and fires, and unnatural events such as acts of war, terrorist attacks, explosions and riots. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the

event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas. Most of our past catastrophe–related claims have resulted from severe storms. Catastrophes can cause losses in a variety of property and casualty lines for which we provide insurance or reinsurance.

Insurance companies are not permitted to reserve for a catastrophe unless it has occurred. It is therefore possible that a catastrophic event or multiple catastrophic events could have a material adverse effect upon our results of operations and financial condition. It is possible that our models have not adequately captured some catastrophe risks or other risks. We believe it is impossible to completely eliminate our exposure to unforeseen or unpredictable events.

We incurred net losses and loss adjustment expenses related to current year catastrophes of $131.1 million, $264.7 million, $105.9 million, $34.9 million and $537.9 million for the years ended December 31, 2009, 2008, 2007, 2006 and 2005, respectively.

If we are unable to maintain favorable financial strength ratings, certain existing business may be subject to termination, and it may be more difficult for us to write new business.

Rating agencies assess and rate the claims–paying ability of reinsurers and insurers based upon criteria established by the rating agencies. Periodically the rating agencies evaluate us to confirm that we continue to meet the criteria of the ratings previously assigned to us. The claims–paying ability ratings assigned by rating agencies to reinsurance or insurance companies represent independent opinions of financial strength and ability to meet policyholder obligations, and are not directed toward the protection of investors. Ratings by rating agencies are not ratings of securities or recommendations to buy, hold or sell any security. In the event our companies were to be downgraded by any or all of the rating agencies, some of our business would be subject to provisions which could cause, among other things, early termination of contracts, or a requirement to post collateral at the direction of our counterparty. We cannot precisely estimate the amount of premium that would be at risk to such a development, or the amount of additional collateral that might be required to maintain existing business, as these amounts would depend on the particular facts and circumstances at the time, including the degree of the downgrade, the time elapsed on the impacted in–force policies, and the effects of any related catastrophic event on the industry generally. We cannot assure you that our premiums would not decline, or that our profitability would not be affected, perhaps materially, following a ratings downgrade.

The financial strength ratings of each of our principal operating subsidiaries are:

	A.M. Best	Standard & Poor’s	Moody’s
Odyssey America	“A” (Excellent)	“A–” (Strong)	“A3” (Good)
Hudson	“A” (Excellent)	Not Rated	Not Rated
Hudson Specialty	“A” (Excellent)	“A–” (Strong)	Not Rated

The ratings by these agencies of our principal operating subsidiaries may be based on a variety of factors, many of which are outside of our control, including, but not limited to, the financial condition of Fairfax and its other subsidiaries and affiliates, the financial condition or actions of parties from which we have obtained reinsurance, and factors relating to the sectors in which we or they conduct business, and the statutory surplus of our operating subsidiaries, which is adversely affected by underwriting losses and dividends paid by them to us. A downgrade of any of the debt or other ratings of Fairfax, or of any of Fairfax’s other subsidiaries or affiliates, or a deterioration in the financial markets’ view of any of these entities, could have a negative impact on our ratings.

If we are unable to realize our investment objectives, our business, financial condition or results of operations may be adversely affected.

Investment returns are an important part of our overall profitability, and our operating results depend in part on the performance of our investment portfolio. Accordingly, fluctuations in the fixed income or equity markets could impair our profitability, financial condition or cash flows. We derive our investment income from interest and dividends, together with realized investment gains or losses primarily arising from the sale of investments and the mark–to–market adjustments to our derivative and trading securities. The portion derived from realized

investment gains generally fluctuates from year to year. For the years ended December 31, 2009, 2008 and 2007, net realized investment gains accounted for 36.9%, 73.1% and 62.1%, respectively, of our total investment income (including realized investment gains and losses). Realized investment gains are typically a less predictable source of income than interest and dividends, particularly in the short term. From time to time, we invest in derivative securities, which may be subject to significant mark–to–market accounting adjustments from period to period. These securities may subject our statement of operations and balance sheet to significant volatility. In recent years, significant percentages of our net realized gains from investments have been from credit default swaps and total return swaps, which we entered into as an economic hedge against systemic and financial credit risk and a broad market downturn. We significantly reduced our credit default swap portfolio in 2008, and we closed out our entire total return swap portfolio during the fourth quarter of 2008, in each case recognizing significant realized gains. A significant percentage of the proceeds from the sales of these derivative positions has been reinvested in state and municipal tax preferenced bonds, common stocks, and other securities of various U.S. and foreign entities. In late September 2009, we re–initiated U.S. equity index total return swap contracts, which as of December 31, 2009 have a notional value of $818.4 million, to protect against potential future broad market downturns. As a result of these changes, and notwithstanding the re–initiation of a U.S. equity total return swap position in September 2009, our investment portfolio is exposed, to a significantly larger degree than in periods prior to 2008, to declines in the world financial markets, particularly the equity markets, and to increased volatility.

The return on our portfolio and the risks associated with our investments are also affected by our asset mix, which can change materially depending on market conditions. Investments in cash or short–term investments generally produce a lower return than other investments. As of December 31, 2009, 15.0%, or $1.3 billion, of our invested assets was held in cash, cash equivalents and short–term investments, pending our identifying suitable opportunities for reinvestment in line with our long–term value–oriented investment philosophy.

The volatility of our claims submissions may force us to liquidate securities, which may cause us to incur realized investment losses. If we structure our investments improperly relative to our liabilities, we may be forced to liquidate investments prior to maturity at a significant loss to cover such liabilities. Realized investment losses resulting from an other–than–temporary decline in value could significantly decrease our assets, thereby affecting our ability to conduct business.

The ability to achieve our investment objectives is affected by general economic conditions that are beyond our control. General economic conditions can adversely affect the markets for interest–rate–sensitive securities, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the value of fixed income securities. Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. General economic conditions, stock market conditions and many other factors can also adversely affect the equities markets and, consequently, the value of the equity securities we own. In addition, defaults by issuers and counterparties who fail to pay or perform on their obligations could reduce our investment income and realized investment gains, or result in investment losses. We may not be able to realize our investment objectives, which could reduce our net income significantly and adversely affect our business, financial condition or results of operations.

Certain business practices of the insurance industry have become the subject of investigations by government authorities and the subject of class action litigation.

In recent years, the insurance industry has been the subject of a number of investigations, and increasing litigation and regulatory activity by various insurance, governmental and enforcement authorities, concerning certain practices within the industry. In past years we received inquiries and informational requests regarding these matters from insurance departments in certain states in which our insurance subsidiaries operate. We cannot predict at this time the effect that current or future investigations, litigation and regulatory activity will have on the insurance or reinsurance industry or our business. Our involvement in any investigations and related lawsuits would cause us to incur legal costs and, if we were found to have violated any laws, we could be required to pay fines and damages, perhaps in material amounts. In addition, we could be materially adversely affected by the negative publicity for the insurance industry related to these proceedings, and by any new industry–wide regulations or practices that may result from these proceedings. It is possible that these investigations or related regulatory developments will mandate changes in industry practices in a fashion that

increases our costs of doing business or requires us to alter aspects of the manner in which we conduct our business.

We operate in a highly competitive environment which could make it more difficult for us to attract and retain business.

The reinsurance industry is highly competitive. We compete, and will continue to compete, with major United States and non–United States reinsurers and certain underwriting syndicates and insurers, some of which have greater financial, marketing and management resources than we do. In addition, we may not be aware of other companies that may be planning to enter the reinsurance market or existing reinsurers that may be planning to raise additional capital. Competition in the types of reinsurance business that we underwrite is based on many factors, including premiums charged and other terms and conditions offered, services provided, financial ratings assigned by independent rating agencies, speed of claims payment, reputation, perceived financial strength and the experience of the reinsurer in the line of reinsurance to be written. Increased competition could cause us and other reinsurance providers to charge lower premium rates and obtain less favorable policy terms, which could adversely affect our ability to generate revenue and grow our business.

We also are aware that other financial institutions, such as banks, are now able to offer services similar to our own. In addition, in recent years we have seen the creation of alternative products from capital market participants that are intended to compete with reinsurance products. We are unable to predict the extent to which these new, proposed or potential initiatives may affect the demand for our products or the risks that may be available for us to consider underwriting.

Our primary insurance is a business segment that is growing, and the primary insurance business is also highly competitive. Primary insurers compete on the basis of factors including selling effort, product, price, service and financial strength. We seek primary insurance pricing that will result in adequate returns on the capital allocated to our primary insurance business. Our business plans for these business units could be adversely impacted by the loss of primary insurance business to competitors offering competitive insurance products at lower prices. This competition could affect our ability to attract and retain business.

Emerging claim and coverage issues could adversely affect our business.

Unanticipated developments in the law as well as changes in social and environmental conditions could result in unexpected claims for coverage under our insurance and reinsurance contracts. These developments and changes may adversely affect us, perhaps materially. For example, we could be subject to developments that impose additional coverage obligations on us beyond our underwriting intent, or to increases in the number or size of claims to which we are subject. With respect to our casualty businesses, these legal, social and environmental changes may not become apparent until some time after their occurrence. Our exposure to these uncertainties could be exacerbated by the increased willingness of some market participants to dispute insurance and reinsurance contract and policy wordings.

The full effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. As a result, the full extent of our liability under our coverages, and in particular our casualty insurance policies and reinsurance contracts, may not be known for many years after a policy or contract is issued. Our exposure to this uncertainty will grow as our "long–tail" casualty businesses grow, because in these lines of business claims can typically be made for many years, making them more susceptible to these trends than in the property insurance business, which is more typically "short–tail." In addition, we could be adversely affected by the growing trend of plaintiffs targeting participants in the property–liability insurance industry in purported class action litigation relating to claim handling and other practices.

If our current and potential customers change their requirements with respect to financial strength, claims paying ratings or counterparty collateral requirements, our profitability could be adversely affected.

Insureds, insurers and insurance and reinsurance intermediaries use financial ratings as an important means of assessing the financial strength and quality of insurers and reinsurers. In addition, the rating of a company purchasing reinsurance may be affected by the rating of its reinsurer. For these reasons, credit committees of insurance and reinsurance companies regularly review and in some cases revise their requirements with respect to the insurers and reinsurers from whom they purchase insurance and reinsurance.

If our current or potential customers were to raise their minimum required financial strength or claims paying ratings above the ratings held by us or our insurance and reinsurance subsidiaries, or if they were to materially increase their collateral requirements, the demand for our products could be reduced, our premiums could decline, and our profitability could be adversely affected.

Consolidation in the insurance industry could lead to lower margins for us and less demand for our reinsurance products.

Historically, during certain periods of the business cycle, insurance industry participants have consolidated to enhance their market power. These entities may try to use their market power to negotiate price reductions for our products and services. If competitive pressures compel us to reduce our prices, our operating margins would decrease. As the insurance industry consolidates, competition for customers becomes more intense and the importance of acquiring and properly servicing each customer becomes greater. We could incur greater expenses relating to customer acquisition and retention, further reducing our operating margins. In addition, insurance companies that merge may be able to spread their risks across a consolidated, larger capital base so that they require less reinsurance.

A change in demand for reinsurance and insurance could lead to reduced premium rates and less favorable contract terms, which could reduce our net income.

Historically, we have experienced fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic events, levels of capacity, general economic conditions and other factors. Demand for reinsurance is influenced significantly by underwriting results of primary insurers and prevailing general economic conditions. In addition, the larger insurers created by the consolidation discussed above may require less reinsurance. The supply of reinsurance is related to prevailing prices and levels of surplus capacity that, in turn, may fluctuate in response to changes in rates of return being realized in the reinsurance industry. It is possible that premium rates or other terms and conditions of trade could vary in the future, that the present level of demand will not continue or that the present level of supply of reinsurance could increase as a result of capital provided by recent or future market entrants or by existing reinsurers.

Fairfax, which controls our corporate actions, may have interests that are different from the interests of holders of our preferred shares and debt securities.

As of December 31, 2009, Fairfax beneficially owned, itself and through wholly–owned subsidiaries, 100.0% of our outstanding common shares. Consequently, Fairfax can determine the outcome of our corporate actions requiring board approval, such as:

- appointing officers and electing members of our Board of Directors;
- adopting amendments to our charter documents; and
- approving a merger or consolidation, liquidation or sale of all or substantially all of our assets.

In addition, Fairfax has provided us, and continues to provide us, with certain services for which it receives customary compensation. Through various subsidiaries, Fairfax engages in the business of underwriting insurance as well as other financial services; from time to time, we may engage in transactions with those other businesses in the ordinary course of business under market terms and conditions. All of our directors other than Andrew Barnard are directors or officers of Fairfax or certain of its subsidiaries. Conflicts of interest could arise between us and Fairfax or one of its other subsidiaries, and any conflict of interest may be resolved in a manner that does not favor us.

We may require additional capital in the future, which may not be available or may be available only on unfavorable terms.

Our capital requirements depend on many factors, including our ability to write business, and rating agency capital requirements. To the extent that our existing capital is insufficient to meet these requirements, we may need to raise additional funds through financings. Any financing, if available at all, may be on terms that are not favorable to us. If our need for capital arises because of significant losses, the occurrence of these losses may

make it more difficult for us to raise the necessary capital. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition would be adversely affected.

We are a holding company and are dependent on dividends and other payments from our operating subsidiaries, which are subject to dividend restrictions.

We are a holding company, and our principal source of funds is cash dividends and other permitted payments from our operating subsidiaries, principally Odyssey America. If we are unable to receive dividends from our operating subsidiaries, or if they are able to pay only limited amounts, we may be unable to pay dividends on our preferred shares or make payments on our indebtedness. The payment of dividends by our operating subsidiaries is subject to restrictions set forth in the insurance laws and regulations of Connecticut, Delaware, New York and the United Kingdom. See "Regulatory Matters — Regulation of Reinsurers and Insurers — Dividends."

Our business could be adversely affected by the loss of one or more key employees.

We are substantially dependent on a small number of key employees, in particular Andrew Barnard, Brian Young, Michael Wacek and R. Scott Donovan. We believe that the experience and reputations in the reinsurance industry of Messrs. Barnard, Young, Wacek and Donovan are important factors in our ability to attract new business. We have entered into employment agreements with Messrs. Barnard, Young, Wacek and Donovan. Our success has been, and will continue to be, dependent on our ability to retain the services of our existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of Messrs. Barnard, Young, Wacek or Donovan, or any other key employee, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of our business operations. We do not currently maintain key employee insurance with respect to any of our employees.

Our business is primarily dependent upon a limited number of unaffiliated reinsurance brokers and the loss of business provided by them could adversely affect our business.

We market our reinsurance products worldwide primarily through reinsurance brokers, as well as directly to our customers. Five reinsurance brokerage firms accounted for 68.6% of our reinsurance gross premiums written for the year ended December 31, 2009. Loss of all or a substantial portion of the business provided by these brokers could have a material adverse effect on us.

Our reliance on payments through reinsurance brokers exposes us to credit risk.

In accordance with industry practice, we frequently pay amounts owing in respect of claims under our policies to reinsurance brokers, for payment over to the ceding insurers. In the event that a broker fails to make such a payment, depending on the jurisdiction, we might remain liable to the ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the ceding insurer pays premiums for such policies to reinsurance brokers for payment over to us, such premiums will be deemed to have been paid and the ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received such premiums.

Consequently, in connection with the settlement of reinsurance balances, we assume a degree of credit risk associated with brokers around the world.

We may be adversely affected by foreign currency fluctuations.

Our reporting currency is the U.S. dollar. A portion of our insurance and reinsurance business is written in currencies other than the U.S. dollar. Moreover, we maintain a portion of our investments in currencies other than the U.S. dollar. We may, from time to time, experience losses resulting from fluctuations in the values of foreign currencies, which could adversely affect our net income and shareholders' equity. While we do generally seek to hedge certain components of our exposure to foreign currency fluctuations through the use of derivatives, there can be no assurance that we will not be adversely affected by changes in the value of the U.S. dollar relative to other currencies.

We may not be able to alleviate risk successfully through retrocessional arrangements and we are subject to credit risks with respect to our retrocessionaires.

Where deemed appropriate, from time to time we attempt to limit portions of our risk of loss through retrocessional arrangements, reinsurance agreements with other reinsurers referred to as retrocessionaires. The availability and cost of retrocessional protection is subject to market conditions, which are beyond our control. As a result, we may not be able to successfully alleviate risk through retrocessional arrangements. In addition, we are subject to credit risk with respect to our retrocessions because the ceding of risk to retrocessionaires does not relieve us of our liability to the companies we reinsured.

We also purchase reinsurance coverage to insure against a portion of our risk on certain policies we write directly. We expect that limiting our insurance risks through reinsurance will continue to be important to us. Reinsurance does not affect our direct liability to our policyholders on the business we write. A reinsurer's insolvency or inability or unwillingness to make timely payments under the terms of its reinsurance agreements with us could have a material adverse effect on us. In addition, we cannot be assured that reinsurance will remain available to us to the same extent and on the same terms as are currently available.

The growth of our primary insurance business, which is regulated more comprehensively than reinsurance, increases our exposure to adverse political, judicial and legal developments.

Hudson, which is licensed to write insurance in 50 states, the District of Columbia and certain U.S. territories on an admitted basis, is subject to extensive regulation under state statutes that delegate regulatory, supervisory and administrative powers to state insurance commissioners. Such regulation generally is designed to protect policyholders rather than investors, and relates to such matters as: rate setting; limitations on dividends and transactions with affiliates; solvency standards which must be met and maintained; the licensing of insurers and their agents; the examination of the affairs of insurance companies, which includes periodic market conduct examinations by the regulatory authorities; annual and other reports, prepared on a statutory accounting basis; establishment and maintenance of reserves for unearned premiums and losses; and requirements regarding numerous other matters. We could be required to allocate considerable time and resources to comply with these requirements, and could be adversely affected if a regulatory authority believed we had failed to comply with applicable law or regulation. We plan to grow Hudson Insurance Group's business and, accordingly, expect our regulatory burden, particularly with respect to Hudson, to increase.

Our utilization of program managers and other third parties to support our business exposes us to operational and financial risks.

Our primary insurance operations rely on program managers, and other agents and brokers participating in our programs, to produce and service a substantial portion of our business in this segment. In these arrangements, we typically grant the program manager the right to bind us to newly issued insurance policies, subject to underwriting guidelines we provide and other contractual restrictions and obligations. Should our managers issue policies that contravene these guidelines, restrictions or obligations, we could nonetheless be deemed liable for such policies. Although we would intend to resist claims that exceed or expand on our underwriting intention, it is possible that we would not prevail in such an action, or that our program managers would be unable to substantially indemnify us for their contractual breach. We also rely on our managers, or other third parties we retain, to collect premiums and to pay valid claims. This exposes us to their credit and operational risk, without necessarily relieving us of our obligations to potential insureds. We could also be exposed to potential liabilities relating to the claims practices of the third party administrators we have retained to manage claims activity that we expect to arise in our program operations. Although we have implemented monitoring and other oversight protocols, we cannot be assured that these measures will be sufficient to alleviate all of these exposures.

We are also subject to the risk that our successful program managers will not renew their programs with us. Our contracts are generally for defined terms of as little as one year, and either party can cancel the contract in a relatively short period of time. We cannot be assured that we will retain the programs that produce profitable business or that our insureds will renew with us. Failure to retain or replace these producers may impair our ability to execute our growth strategy, and our financial results could be adversely affected.

Our business could be adversely affected as a result of political, regulatory, economic or other influences in the insurance and reinsurance industries.

The insurance industry is highly regulated and is subject to changing political, economic and regulatory influences. These factors affect the practices and operation of insurance and reinsurance organizations. Federal and state legislatures have periodically considered programs to reform or amend the United States insurance system at both the federal and state level. Recently, the insurance and reinsurance regulatory framework has been subject to increased scrutiny in many jurisdictions, including the United States and various states in the United States.

Changes in current insurance regulation may include increased governmental involvement in the insurance industry or may otherwise change the business and economic environment in which insurance industry participants operate. In the United States, for example, the states of Hawaii and Florida have implemented arrangements whereby property insurance in catastrophe prone areas is provided through state–sponsored entities. The California Earthquake Authority, the first privately financed, publicly operated residential earthquake insurance pool, provides earthquake insurance to California homeowners.

Such changes could cause us to make unplanned modifications of products or services, or may result in delays, cancellations or non–renewals of sales of products and services by insurers or reinsurers. Insurance industry participants may respond to changes by reducing their investments or postponing investment decisions, including investments in our products and services. We cannot predict the future impact of changing law or regulation on our operations; any changes could have a material adverse effect on us or the insurance industry in general.

Increasingly, governmental authorities in both the U.S. and worldwide appear to be interested in the potential risks posed by the reinsurance industry as a whole, and to commercial and financial systems in general. While we cannot predict the exact nature, timing or scope of possible governmental initiatives, we believe it is likely there will be increased regulatory intervention in our industry in the future.

For example, we could be adversely affected by governmental or regulatory proposals that:

- provide insurance and reinsurance capacity in markets and to consumers that we target;
- require our participation in industry pools and guaranty associations;
- mandate the terms of insurance and reinsurance policies; or
- disproportionately benefit the companies of one country or jurisdiction over those of another.

Our computer and data processing systems may fail or be perceived to be insecure, which could adversely affect our business and damage our customer relationships.

Our business is highly dependent upon the successful and uninterrupted functioning of our computer and data processing systems. We rely on these systems to perform actuarial and other modeling functions necessary for writing business, as well as to process and make claim payments. We have a highly trained staff that is committed to the continual development and maintenance of these systems. However, the failure of these systems could interrupt our operations or materially impact our ability to rapidly evaluate and commit to new business opportunities. If sustained or repeated, a system failure could result in the loss of existing or potential business relationships, or compromise our ability to pay claims in a timely manner. This could result in a material adverse effect on our business results.

In addition, a security breach of our computer systems could damage our reputation or result in liability. We retain confidential information regarding our business dealings in our computer systems, including, in some cases, confidential personal information regarding our insureds. We may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. Any well–publicized compromise of security could deter people from conducting transactions that involve transmitting confidential information to our systems. Therefore, it is critical that these facilities and infrastructure remain secure and are perceived by the marketplace to be secure. Despite the implementation of security measures, including our implementation of a data security program specific to confidential personal information, this infrastructure may be vulnerable to physical break–ins, computer viruses, programming errors,

attacks by third parties or similar disruptive problems. In addition, we could be subject to liability if hackers were able to penetrate our network security or otherwise misappropriate confidential information.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our corporate offices are located in 101,420 total square feet of leased space in Stamford, Connecticut. Our other locations occupy a total of 137,408 square feet, all of which are leased. The Americas division principally operates out of offices in New York, Stamford, Mexico City, Miami, and Toronto; the EuroAsia division operates out of offices in Paris, Singapore, Stockholm and Tokyo; the London Market division operates out of offices in London; and the U.S. Insurance division operates principally out of offices in New York, Chicago, Napa, California and Overland Park, Kansas.

We lease our corporate offices in Stamford, Connecticut, under a lease expiring in October 2022. Upon signing the lease in September 2004, we received a construction allowance of $3.1 million. We have three renewal options on the current premises that could extend the lease through September 2032, if all renewal options are exercised.

Item 3. ***Legal Proceedings***

On February 8, 2007, we were added as a co−defendant in an amended and consolidated complaint in an existing action against our then−majority (now 100%) shareholder, Fairfax, and certain of Fairfax's officers and directors, who include certain of our current and former directors. The amended and consolidated complaint has been filed in the United States District Court for the Southern District of New York by the lead plaintiffs, who seek to represent a class of all purchasers and acquirers of securities of Fairfax between May 21, 2003 and March 22, 2006, inclusive, and allege, among other things, that the defendants violated U.S. federal securities laws by making material misstatements or failing to disclose certain material information. The amended and consolidated complaint seeks, among other things, certification of the putative class, unspecified compensatory damages, unspecified injunctive relief, reasonable costs and attorneys' fees and other relief. These claims are at a preliminary stage. Pursuant to the scheduling stipulations, the various defendants filed their respective motions to dismiss the amended and consolidated complaint, the lead plaintiffs filed their opposition thereto, and the defendants filed their replies to those oppositions; the motions to dismiss were argued before the Court in December 2007. The Court has not yet issued a ruling on these motions. In November 2009, the Court granted a motion by the lead plaintiffs to withdraw as lead plaintiffs, and allowed other prospective lead plaintiffs 60 days to file motions seeking appointment as replacement lead plaintiff. Two entities filed such motions and subsequently asked the Court to appoint them as co−lead plaintiffs. These motions remain pending. We intend to vigorously defend against the allegations. At this early stage of the proceedings, it is not possible to make any determination regarding the likely outcome of this matter.

In July 2006, Fairfax, our then−majority (now 100%) shareholder, filed a lawsuit in the Superior Court, Morris County, New Jersey, seeking damages from a number of defendants who, the complaint alleges, participated in a stock market manipulation scheme involving Fairfax shares, and the complaint was subsequently amended to add additional allegations and two defendants. In January 2008, two of these defendants filed a counterclaim against Fairfax and a third−party complaint against, among others, OdysseyRe and certain of our directors. Those counterclaims and third−party claims were voluntarily withdrawn in March 2008. In September 2008, the same two defendants filed an amended counterclaim and third−party complaint that again named OdysseyRe and certain directors as defendants. The complaint alleges, among other things, claims of racketeering, intentional infliction of emotional distress, tortious interference with economic advantage and other torts, and seeks unspecified compensatory and punitive damages and other relief. OdysseyRe denies the allegations and intends to vigorously defend against these claims. OdysseyRe has not yet responded to the complaint, and the timing of that response has not been set. At this early stage of the proceedings, it is not possible to make any determination regarding the likely outcome of this matter.

On September 7, 2005, we announced that we had been advised by Fairfax, our then−majority (now 100%) shareholder, that Fairfax had received a subpoena from the SEC requesting documents regarding any nontraditional insurance and reinsurance transactions entered into or offered by Fairfax and any of its affiliates, which included OdysseyRe. On June 25, 2009, we announced that Fairfax had been informed by the New York Regional Office of the SEC that its investigation as to Fairfax had been completed, and that it did not intend to recommend any enforcement action by the SEC.

We and our subsidiaries are involved from time to time in ordinary litigation and arbitration proceedings as part of our business operations; in management's opinion, the outcome of these suits, individually or collectively, is not likely to result in judgments that would be material to our financial condition or results of operations.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of security holders during the fourth quarter of 2009.

PART II

Item 5. ***Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities***

Market Information and Holders of Common Shares

The principal United States market on which our common shares were traded is the NYSE. Following the completion of the Offer by Fairfax and the effective time of the Merger, trading of the common shares of OdysseyRe was suspended on the NYSE on October 29, 2009, and we subsequently withdrew the common shares from listing on the NYSE and terminated registration of the shares under the Securities Exchange Act of 1934.

Quarterly high and low sales prices per share of our common shares, as reported by the NYSE composite for each quarter in the years ended December 31, 2009 and 2008, are as follows:

Quarter Ended	High	Low
December 31, 2009*	$ 65.50	$ 64.71
September 30, 2009	64.85	39.03
June 30, 2009	42.78	37.09
March 31, 2009	54.56	35.75
December 31, 2008	$ 52.20	$ 31.55
September 30, 2008	47.99	35.32
June 30, 2008	38.07	35.10
March 31, 2008	39.52	34.77

* The common shares of OdysseyRe were suspended from trading on the NYSE on October 29, 2009 and were subsequently de−listed.

Fairfax owns 100.0% of our outstanding common shares through its subsidiaries: TIG Insurance Group (44.2%), TIG Insurance Company (8.3%), ORH Holdings Inc. (10.9%), Fairfax Inc. (27.9%) and United States Fire Insurance Company (8.7%).

Dividends

In each of the first three quarters of 2009, we paid a dividend of $0.075 per common share, resulting in an aggregate annual dividend of $0.225 per common share, totaling $13.4 million. The dividends were paid on March 31, 2009, June 30, 2009 and September 30, 2009. No common stock dividend was declared or paid during the fourth quarter of 2009. On March 28, 2008 and June 27, 2008, we paid dividends of $0.0625 per common share, and on September 26, 2008 and December 30, 2008 we paid dividends of $0.075 per common share.

These common share dividends resulted in an aggregate annual dividend of $0.275 per common share in 2008, totaling $17.4 million. Our common shares are no longer publicly traded (see Item 1 “Business — the Company”).

Issuer Purchases of Equity Securities

Our Company’s Board of Directors authorized a share repurchase program whereby we were authorized to repurchase shares of our common stock on the open market from time to time through December 31, 2009, up to an aggregate repurchase price of $600.0 million. Shares repurchased under the program were retired. From inception of the program through October 21, 2009, we purchased and retired 13,906,845 shares of our common stock at a total cost of $518.4 million.

During the year ended December 31, 2009, Odyssey America purchased 704,737 shares of our Series B preferred stock, with a liquidation preference of $17.2 million, for $9.2 million. As a result of the purchase of the Series B preferred shares, we recorded a gain of $8.0 million during the year ended December 31, 2009, which was recorded in retained earnings and included in net income available to common shareholders. During the year ended December 31, 2008, Odyssey America purchased 128,000 shares of our Series B preferred stock, with a liquidation preference of $3.1 million, for $1.7 million. As a result of the purchase of the Series B preferred shares, we recorded a gain of $1.4 million during the year ended December 31, 2008, which was recorded in retained earnings and included in net income available to common shareholders.

Item 6. *Selected Financial Data*

The following selected financial data is derived from our audited consolidated financial statements and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto that are included in this Annual Report on Form 10−K. Financial information in the table reflects the results of operations and financial position of OdysseyRe.

We encourage you to read the consolidated financial statements included in this Annual Report on Form 10–K because they contain our complete consolidated financial statements for the years ended December 31, 2009, 2008 and 2007. The results of operations for the year ended December 31, 2009 are not necessarily indicative of future results.

	Years Ended December 31,				
	2009	2008	2007	2006	2005
	(In thousands, except share and per share data)				
GAAP Consolidated Statements of Operations Data:					
Gross premiums written	$2,195,035	$ 2,294,542	$ 2,282,682	$ 2,335,742	$ 2,626,920
Net premiums written	1,893,813	2,030,821	2,089,443	2,160,935	2,301,669
Net premiums earned	$1,927,412	$ 2,076,364	$ 2,120,537	$ 2,225,826	$ 2,276,820
Net investment income	317,894	255,199	329,422	487,119	220,092
Net realized investment gains	185,951	692,259	539,136	189,129	59,866
Total revenues	2,431,257	3,023,822	2,989,095	2,902,074	2,556,778
Losses and loss adjustment expenses	1,301,996	1,508,725	1,408,364	1,484,197	2,061,611
Acquisition costs	375,259	418,005	437,257	464,148	470,152
Other underwriting expenses	185,688	175,013	178,555	153,476	146,030
Other expense, net	44,416	60,419	14,006	21,120	27,014
Interest expense	31,040	34,180	37,665	37,515	29,991
Loss on early extinguishment of debt	—	—	—	2,403	3,822
Total expenses	1,938,399	2,196,342	2,075,847	2,162,859	2,738,620
Income (loss) before income taxes	492,858	827,480	913,248	739,215	(181,842)
Federal and foreign income tax provision (benefit)	120,544	278,472	317,673	231,309	(66,120)
Net income (loss)	372,314	549,008	595,575	507,906	(115,722)
Preferred dividends	(5,233)	(7,380)	(8,345)	(8,257)	(1,944)
Gain on purchase of Series B preferred shares	7,997	1,456	—	—	—
Net income (loss) available to common shareholders	$ 375,078	$ 543,084	$ 587,230	$ 499,649	$ (117,666)
BASIC					
Weighted average common shares outstanding	N/A	63,384,032	70,443,600	68,975,743	65,058,327
Basic earnings (loss) per common share	N/A	$ 8.46	$ 8.26	$ 7.17	$ (1.79)
DILUTED					
Weighted average common shares outstanding	N/A	63,870,337	71,387,255	72,299,050	65,058,327
Diluted earnings (loss) per common share(1)(2)(3)	N/A	$ 8.43	$ 8.19	$ 6.89	$ (1.79)
Dividends per common share	$ 0.225	$ 0.275	$ 0.250	$ 0.125	$ 0.125
GAAP Underwriting Ratios:					
Losses and loss adjustment expense ratio	67.6%	72.7%	66.4%	66.7%	90.5%
Underwriting expense ratio	29.1	28.5	29.1	27.7	27.1
Combined ratio	96.7%	101.2%	95.5%	94.4%	117.6%

	As of December 31,				
	2009	2008	2007	2006	2005
	(In thousands)				
GAAP Consolidated Balance Sheet Data:					
Total investments and cash	$ 8,727,153	$7,892,538	$7,779,444	$7,066,088	$5,970,319
Total assets	10,785,440	9,726,509	9,501,001	8,953,712	8,646,612
Unpaid losses and loss adjustment expenses	5,507,766	5,250,484	5,119,085	5,142,159	5,117,708
Debt obligations	489,402	489,278	489,154	512,504	469,155
Total shareholders' equity	3,555,234	2,827,735	2,654,700	2,083,579	1,639,455

(1) The Financial Accounting Standards Board ("FASB") issued an accounting standard which requires that the dilutive effect of contingently convertible debt securities, with a market price threshold, should be included in diluted earnings per share. The terms of our formerly outstanding convertible senior debentures, which were issued in June 2002, (see Note 13 to our consolidated financial statements included in this Annual Report on Form 10−K) meet the criteria defined in this accounting standard, and accordingly, the effect of conversion of our convertible senior debentures to common shares has been assumed when calculating our diluted earnings per share for the years ended December 31, 2005 through 2007. The convertible senior debentures were converted into common shares in 2007, and none of the debentures remain issued and outstanding. See Notes 2(l) and 5 to our consolidated financial statements included in this Annual Report on Form 10−K.

(2) Inclusion of restricted common shares, stock options and the effect of the conversion of our convertible senior debentures to common shares would have an anti−dilutive effect on the 2005 diluted loss per common share (i.e., the diluted loss per common share would be less than the basic loss per common share). Accordingly, such common shares were excluded from the calculations of the 2005 diluted loss per common share.

(3) Prior to our 100% ownership by Fairfax (see Note 1 to our consolidated financial statements included in this Annual Report on Form 10−K), we calculated earnings per share using the two−class method. We treated unvested share−based payment awards that had non−forfeitable rights to dividends or dividend equivalents as a separate class of securities in the calculation. Under our former restricted share plan, the grantees had non−forfeitable rights to dividends before the vesting date and, accordingly, the restricted shares were considered participating securities. As noted above, in the fourth quarter of 2009 Fairfax attained 100% ownership of OdysseyRe; accordingly we have not presented earnings per common share for the year ended December 31, 2009.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Overview

Odyssey Re Holdings Corp. (together with its subsidiaries, "OdysseyRe") is a holding company, incorporated in the state of Delaware, which owns all of the common shares of Odyssey America Reinsurance Corporation ("Odyssey America"), its principal operating subsidiary. Odyssey America directly or indirectly owns all of the capital stock of the following companies: Clearwater Insurance Company ("Clearwater"); Clearwater Select Insurance Company; Newline Holdings U.K. Limited, Newline Underwriting Management Ltd., which manages Newline Syndicate (1218), a member of Lloyd's of London, and Newline Insurance Company Limited ("NICL") (collectively "Newline"); Hudson Insurance Company ("Hudson"); Hudson Specialty Insurance Company ("Hudson Specialty"); and Napa River Insurance Services, Inc. As of December 31, 2009, 100% of the common stock of OdysseyRe is owned by Fairfax Financial Holdings Limited ("Fairfax") and its subsidiaries (see Note 1 to the consolidated financial statements included in this Annual Report on Form 10−K).

OdysseyRe is a leading underwriter of reinsurance, providing a full range of property and casualty products on a worldwide basis. We offer a broad range of both treaty and facultative reinsurance to property and casualty insurers and reinsurers. We also write insurance in the United States and through Newline.

Our gross premiums written for the year ended December 31, 2009 were $2,195.0 million, a decrease of $99.5 million, or 4.3%, compared to gross premiums written of $2,294.5 million for the year ended December 31, 2008. Our United States business accounted for 50.5% of our gross premiums written for the year ended December 31, 2009, compared to 48.8% for the year ended December 31, 2008. For the years ended December 31, 2009 and 2008, our net premiums written were $1,893.8 million and $2,030.8 million, respectively. For the years ended December 31, 2009 and 2008, we had net income available to common shareholders of $375.1 million and $543.1 million, respectively. As of December 31, 2009, we had total assets of $10.8 billion and total shareholders' equity of $3.6 billion.

The property and casualty reinsurance and insurance industries use the combined ratio as a measure of underwriting profitability. The combined ratio, computed when using amounts reported in financial statements prepared under United States generally accepted accounting principles ("GAAP"), is the sum of losses and loss adjustment expenses ("LAE") incurred as a percentage of net premiums earned, plus underwriting expenses, which include acquisition costs and other underwriting expenses, as a percentage of net premiums earned. The combined ratio reflects only underwriting results and does not include investment results. Underwriting profitability is subject to significant fluctuations due to catastrophic events, competition, economic and social conditions, foreign currency fluctuations and other factors. Our combined ratio was 96.7% for the year ended December 31, 2009, compared to 101.2% for the year ended December 31, 2008.

We are exposed to losses arising from a variety of catastrophic events, such as hurricanes, windstorms and floods. The loss estimates for these events represent our best estimates based on the most recent information available. We use various approaches in estimating our losses, including a detailed review of exposed contracts and information from ceding companies and claims adjusters. As additional information becomes available, including information from ceding companies and claims adjusters, actual losses may exceed our estimated losses, potentially resulting in adverse effects to our financial results. The extraordinary nature of these losses, including potential legal and regulatory implications, creates substantial uncertainty and complexity in estimating these losses. Considerable time may elapse before the adequacy of our estimates can be determined. For the years ended December 31, 2009, 2008 and 2007, current year catastrophe events were $131.1 million, $264.7 million and $105.9 million, respectively.

We operate our business through four divisions: the Americas, EuroAsia, London Market and U.S. Insurance.

The Americas division is our largest division and writes casualty, surety and property treaty reinsurance, and facultative casualty reinsurance, in the United States and Canada, and primarily treaty and facultative property reinsurance in Latin America.

The EuroAsia division consists of our international reinsurance business, which is geographically dispersed, mainly throughout Europe, and includes business in Asia, the Middle East, Africa and the Americas.

The London Market division is comprised of our Lloyd's of London business, in which we participate through our 100% ownership of Newline Syndicate (1218), our London branch office, and NICL, our London−based insurance company. The London Market division writes insurance and reinsurance business worldwide, principally through brokers.

The U.S. Insurance division writes specialty insurance lines and classes of business, such as medical and other professional liability, non−standard personal and commercial automobile, specialty liability, property and package, and crop business.

Critical Accounting Estimates

The consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10−K have been prepared in accordance with GAAP and include the accounts of Odyssey Re Holdings Corp. and its subsidiaries.

Critical accounting estimates are defined as those that are both important to the portrayal of our financial condition and results of operations and require us to exercise significant judgment. The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of material contingent assets and liabilities, including litigation contingencies. These estimates, by necessity, are based on assumptions about numerous factors.

We review our critical accounting estimates and assumptions on a quarterly basis. These reviews include the estimate of reinsurance premiums and premium related amounts, establishing deferred acquisition costs, an evaluation of the adequacy of reserves for unpaid losses and LAE, review of our reinsurance and retrocession agreements, an analysis of the recoverability of deferred income tax assets and an evaluation of our investment portfolio, including a review for other−than−temporary declines in estimated fair value. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

Premium Estimates

We derive our revenues from two principal sources: (i) premiums from insurance placed and reinsurance assumed, net of premiums ceded (net premiums written) and (ii) income from investments. Net premiums written are earned (net premiums earned) as revenue over the terms of the underlying contracts or certificates in force. The relationship between net premiums written and net premiums earned will, therefore, vary depending on the volume and inception dates of the business assumed and ceded, and the mix of such business between proportional and excess of loss reinsurance.

Consistent with our significant accounting policies, for our reinsurance business we utilize estimates in establishing premiums written, the corresponding acquisition expenses, and unearned premium reserves. These estimates are required to reflect differences in the timing of the receipt of accounts from the ceding company and the actual due dates of the accounts at the close of each accounting period.

The following table displays, by division, the estimates included in our consolidated financial statements as of and for the years ended December 31, 2009, 2008 and 2007 related to gross premiums written, acquisition costs, premiums receivable and unearned premium reserves (in millions):

	As of December 31,			Change For the Year Ended December 31,		
Division	2009	2008	2007	2009	2008	2007
				Gross Premiums Written		
Americas	$ 111.5	$ 162.4	$ 177.5	$ (50.9)	$ (15.1)	$ (41.0)
EuroAsia	135.9	125.7	129.9	10.2	(4.2)	(2.2)
London Market	21.9	22.8	21.8	(0.9)	1.0	(16.7)
Total	$ 269.3	$ 310.9	$ 329.2	$ (41.6)	$ (18.3)	$ (59.9)
				Acquisition Costs		
Americas	$ 26.0	$ 42.5	$ 42.5	$ (16.5)	$ —	$ (6.9)
EuroAsia	35.2	36.9	38.9	(1.7)	(2.0)	(1.7)
London Market	1.9	1.7	2.1	0.2	(0.4)	(0.9)
Total	$ 63.1	$ 81.1	$ 83.5	$ (18.0)	$ (2.4)	$ (9.5)
				Premiums Receivable		
Americas	$ 85.5	$ 119.9	$ 135.0	$ (34.4)	$ (15.1)	$ (34.1)
EuroAsia	100.7	88.8	91.0	11.9	(2.2)	(0.5)
London Market	20.0	21.1	19.7	(1.1)	1.4	(15.8)
Total	$ 206.2	$ 229.8	$ 245.7	$ (23.6)	$ (15.9)	$ (50.4)
				Unearned Premiums Reserves		
Americas	$ 83.6	$ 115.5	$ 122.9	$ (31.9)	$ (7.4)	$ (16.2)
EuroAsia	93.1	102.2	97.2	(9.1)	5.0	(3.6)
London Market	3.3	6.9	10.0	(3.6)	(3.1)	(3.1)
Total	$ 180.0	$ 224.6	$ 230.1	$ (44.6)	$ (5.5)	$ (22.9)

Gross premiums written estimates, acquisition costs, premiums receivable and unearned premium reserves are established on a contract level for significant accounts due but not reported by the ceding company at the end of each accounting period. The estimated ultimate premium for the contract, actual accounts reported by the ceding company, and our own experience on the contract are considered in establishing the estimate at the end of each accounting period. Subsequent adjustments based on actual results are recorded in the period in which they become known. The estimated premiums receivable balances are considered fully collectible. The estimates primarily represent the most current two underwriting years of account for which all corresponding reported accounts have been settled within contract terms. The estimates are considered "critical accounting estimates" because changes in these estimates can materially affect net income.

The difference between estimates and the actual accounts received may be material as a result of different reporting practices by ceding companies across geographic locations. Estimates may be subject to material fluctuations on an individual contract level compared to the actual information received, and any differences are recorded in the respective financial period in which they become known. Since the assumptions used to determine the estimates are reviewed quarterly and compared to the information received during the quarter, the variance in the aggregate estimates compared to the actual information when received is minimized. In addition, during the quarter's review of these contracts, any change in original estimate compared to the new estimate is reflected in the appropriate financial period. In any specific financial period, the original estimated premium for a specific contract may vary from actual premium reported through the life of the contract due to the reporting patterns of the ceding companies and, in some cases, movements in foreign exchange rates over the period.

In any specific financial period, the original estimated premium for a specific contract may vary from actual premium reported through the life of the contract by up to 15% due to the reporting patterns of the ceding

companies and, in some cases, movements in foreign exchange rates over the period. However, historically, the final reported premium compared to the original estimated premium has deviated by insignificant amounts.

Our estimates are based on contract and policy terms. Estimates are based on information typically received in the form of a bordereau, broker notifications and/or discussions with ceding companies. These estimates, by necessity, are based on assumptions regarding numerous factors. These can include premium or loss trends, which can be influenced by local conditions in a particular region, or other economic factors and legal or legislative developments that can develop over time. The risk associated with estimating the performance under our contracts with our ceding companies is the impact of events or trends that could not have been reasonably anticipated at the time the estimates were performed. Our business is diversified across ceding companies and there is no individual ceding company that represents more than 2.2% of our gross premiums written in 2009. As a result, we believe the risks of material changes to these estimates over time are mitigated.

We review information received from ceding companies for reasonableness based on past experience with the particular ceding company or our general experience across the subject class of business. We also query information provided by ceding companies for reasonableness. Reinsurance contracts under which we assume business generally contain specific provisions that allow us to perform audits of the ceding company to ensure compliance with the terms and conditions of the contract, including accurate and timely reporting of information.

We must make judgments about the ultimate premiums written and earned by us. Reported premiums written and earned are based upon reports received from ceding companies, supplemented by our internal estimates of premiums written for which ceding company reports have not been received. We establish our own estimates based on discussions and correspondence with our ceding companies and brokers during the contract negotiation process and over the contract risk period. The determination of premium estimates requires a review of our experience with the ceding companies, familiarity with each market, an analysis and understanding of the characteristics of each line of business, and the ability to project the impact of current economic indicators on the volume of business written and ceded by our cedants. Premium estimates are updated when new information is received. Differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined.

Deferred Acquisition Costs

Acquisition costs consist of commissions and brokerage expenses incurred on insurance and reinsurance business written. These costs are deferred and amortized over the period in which the related premiums are earned, which is generally one year. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums, which considers anticipated losses and LAE and estimated remaining costs of servicing the business, all based on our historical experience. The realizable value of our deferred acquisition costs is determined without consideration of investment income. The estimates are continually reviewed by us and any adjustments are made in the accounting period in which an adjustment is considered necessary.

Reserves for Unpaid Losses and Loss Adjustment Expenses

Our losses and LAE reserves, for both reported and unreported claims obligations, are maintained to cover the estimated ultimate liability for all of our reinsurance and insurance obligations. Losses and LAE reserves are categorized in one of three ways: (i) case reserves, which represent unpaid losses and LAE as reported by cedants and insureds to us, (ii) additional case reserves (“ACRs”), which are reserves we establish in excess of the case reserves reported by the cedant on individual claim events, and (iii) incurred but not reported reserves (“IBNR”), which are reserves for losses and LAE that have been incurred, but have not yet been reported to us, as well as additional amounts relating to losses already reported, that are in excess of case reserves and ACRs. Incurred but not reported reserves are estimates based on all information currently available to us and are reevaluated quarterly utilizing the most recent information supplied from our cedants and claims adjusters.

We rely on initial and subsequent claim reports received from ceding companies for reinsurance business, and the estimates advised by our claims adjusters for insurance business, to establish our estimates of unpaid losses and LAE. The type of information that we receive from ceding companies generally varies by the type of

contract. Proportional, or quota share, reinsurance contracts are typically reported on a quarterly basis, providing premium and loss activity as estimated by the ceding company. Reporting for excess of loss, facultative and insurance contracts includes detailed individual claim information, including a description of the loss, confirmation of liability by the cedant or claims adjuster and the cedant's or claims adjuster's current estimate of the ultimate liability under the claim. Upon receipt of claim notices from cedants and insureds, we review the nature of the claim against the scope of coverage provided under the contract. Questions arise from time to time regarding the interpretation of the characteristics of a particular claim measured against the scope of contract terms and conditions. Reinsurance contracts under which we assume business generally contain specific dispute resolution provisions in the event that there is a coverage dispute with the ceding company. The resolution of any individual dispute may impact estimates of ultimate claims liabilities. Reported claims are in various stages of the settlement process. Each claim is settled individually based on its merits, and certain claims may take several years to ultimately settle, particularly where legal action is involved. Based on an assessment of the circumstances supporting the claim, we may choose to establish additional case reserves over the amount reported by the ceding company. Aggregate case reserves established in addition to reserves reported by ceding companies were $14.5 million and $19.6 million as of December 31, 2009 and 2008, respectively. Due to potential differences in ceding company reserving and reporting practices, we perform periodic audits of our ceding companies to ensure the underwriting and claims procedures of the cedant are consistent with representations made by the cedant during the underwriting process and meet the terms of the reinsurance contract. Our estimates of ultimate loss liabilities make appropriate adjustment for inconsistencies uncovered in this audit process. We also monitor our internal processes to ensure that information received from ceding companies is processed in a timely manner.

The reserve methodologies employed by us are dependent on the nature and quality of the data that we collect from ceding companies for reinsurance business and claims adjusters for insurance business. This data primarily consists of loss amounts reported by ceding companies and claims adjusters, loss payments made by ceding companies and claims adjusters and premiums, written and earned, reported by ceding companies or estimated by us. Underwriting and claim information provided by our ceding companies and claims adjusters is aggregated by the year in which each treaty or policy is written into groups of business by geographic region and type of business to facilitate analysis, generally referred to as "reserve cells." These reserve cells are reviewed annually and change over time as our business mix changes. We supplement this information with claims and underwriting audits of specific contracts and internally developed pricing trends, as well as loss trend data developed from industry sources. This information is used to develop point estimates of carried reserves for each business segment. These individual point estimates, when aggregated, represent the total carried losses and LAE reserves carried in our consolidated financial statements. Due to the uncertainty involving estimates of ultimate loss exposures, we do not attempt to produce a range around our point estimate of loss. The actuarial techniques for projecting losses and LAE reserves by reserve cell rely on historical paid and case reserve loss emergence patterns and insurance and reinsurance pricing trends to establish the claims emergence of future periods with respect to all reported and unreported insured events that have occurred on or before the balance sheet date.

Our estimate of ultimate loss is determined based on a review of the results of several commonly accepted actuarial projection methodologies incorporating the quantitative and qualitative information described above. The specific methodologies we utilize in our loss reserve review process include, but may not be limited to (i) incurred and paid loss development methods, (ii) incurred and paid Bornhuetter Ferguson ("BF") methods and (iii) loss ratio methods. The incurred and paid loss development methods utilize loss development patterns derived from historical loss emergence trends usually based on cedant supplied claim information to determine ultimate loss. These methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. Loss ratio methods multiply expected loss ratios, derived from aggregated analyses of internally developed pricing trends, by earned premium to determine ultimate loss. The incurred and paid BF methods are a blend of the loss development and loss ratio methods. These methods utilize both loss development patterns, as well as expected loss ratios, to determine ultimate loss. When using the BF methods, the initial treaty year ultimate loss is based predominantly on expected loss ratios. As loss experience matures, the estimate of ultimate loss using this methodology is based predominantly on loss development patterns. We generally do not utilize methodologies that are dependent on claim counts reported, claim counts settled or claim counts open. Due to the nature of our business, this information is not routinely provided by ceding companies for every treaty. Consequently, actuarial methods utilizing this information generally cannot be relied upon by us in our loss reserve estimation process. As a result, for much of our business, the separate analysis of frequency

and severity loss activity underlying overall loss emergence trends is not practical. Generally, we rely on BF and loss ratio methods for estimating ultimate loss liabilities for more recent treaty years. These methodologies, at least in part, apply a loss ratio, determined from aggregated analyses of internally developed pricing trends across reserve cells, to premium earned on that business. Adjustments to premium estimates generate appropriate adjustments to ultimate loss estimates in the quarter in which they occur using the BF and loss ratio methods. To estimate losses for more mature treaty years, we generally rely on the incurred loss development methodology, which does not rely on premium estimates. In addition, we may use other methods to estimate liabilities for specific types of claims. For property catastrophe losses, we may utilize vendor catastrophe models to estimate ultimate loss soon after a loss occurs, where loss information is not yet reported to us from cedants. The provision for asbestos loss liabilities is established based on an annual review of internal and external trends in reported loss and claim payments. IBNR is determined by subtracting the total of paid loss and case reserves including ACRs from ultimate loss.

We complete comprehensive loss reserve reviews, which include a reassessment of loss development and expected loss ratio assumptions, on an annual basis. We completed this year's annual review in the fourth quarter of 2009. The results of these reviews are reflected in the period they are completed. Quarterly, we compare actual loss emergence to expectations established by the comprehensive loss reserve review process. In the event that loss trends diverge from expected trends, we may have to adjust our reserves for losses and LAE accordingly. Any adjustments will be reflected in the periods in which they become known, potentially resulting in adverse or favorable effects to our financial results. We believe that the recorded estimate represents the best estimate of unpaid losses and LAE based on the information available at December 31, 2009.

Our most significant assumptions underlying our estimate of losses and LAE reserves are as follows: (i) that historical loss emergence trends are indicative of future loss development trends; (ii) that internally developed pricing trends provide a reasonable basis for determining loss ratio expectations for recent underwriting years; and (iii) that no provision is made for extraordinary future emergence of new classes of loss or types of loss that are not sufficiently represented in our historical database or that are not yet quantifiable if not in our database.

The ultimate settlement values of losses and LAE related to business written in prior periods for the years ended December 31, 2009 and 2008 were, in each year, 0.2% below our estimates of reserves for losses and LAE as previously established at December 31, 2008 and 2007. For the year ended December 31, 2007, the ultimate settlement value of losses and LAE related to business written in prior periods exceeded our estimates of reserves for losses and LAE as previously established at December 31, 2006 by 0.9%. Any future impact to income from changes in losses and LAE estimates may vary considerably from historical experience. Our estimates of ultimate losses and LAE are based upon the information we have available at any given point in time and upon our assumptions derived from that information. Every one percentage point difference in the ultimate settlement value of losses and LAE compared to our estimate of reserves for losses and LAE as of December 31, 2009 will impact pre−tax income by $46.7 million.

If a change were to occur in the frequency and severity of claims underlying our December 31, 2009 unpaid losses and LAE, the approximate change in pre−tax income would be as follows (in millions):

	Decrease in Pre−tax Income
1.0% unfavorable change	$ 46.7
2.5% unfavorable change	116.7
5.0% unfavorable change	233.3

Historically, our actual results have varied considerably in certain instances from our estimates of losses and LAE because historical loss emergence trends have not been indicative of future emergence for certain segments of our business. In this period, we experienced loss emergence, resulting from a combination of claim frequency and severity of losses, greater than expectations that were established based on a review of prior years' loss emergence trends, particularly for business written in the late 1990s and early 2000s. General liability and excess workers' compensation classes of business during these years were adversely impacted by the highly

competitive conditions in the industry at that time. These competitive conditions resulted in price pressure and relatively broader coverage terms, thereby affecting the ability of standard actuarial techniques to generate reliable estimates of ultimate loss. Similarly, directors' and officers' professional liability lines were impacted by the increase in frequency and severity of claims resulting from an increase in shareholder lawsuits against corporations and their officers and directors, corporate bankruptcies and other financial and management improprieties in the late 1990s and early 2000s.

The following table provides detail on net adverse (favorable) loss and LAE development for prior years, by division, for each of the three years in the period ended December 31, 2009 (in millions):

Division	2009	2008	2007
Americas	$ 70.1	$ 66.6	$ 143.1
EuroAsia	(22.8)	(2.4)	(6.9)
London Market	(23.3)	(40.0)	(57.0)
U.S. Insurance	(35.3)	(34.3)	(38.7)
Total loss and LAE development	$ (11.3)	$ (10.1)	$ 40.5

The Americas division reported net increases in prior period loss estimates of $70.1 million, $66.6 million and $143.1 million for the years ended December 31, 2009, 2008 and 2007, respectively. The increase in prior period loss estimates for the years ended December 31, 2009 and 2008 were principally attributable to loss emergence greater than expectations in the period on asbestos. The increase in prior period loss estimates for the year ended December 31, 2007 was principally due to loss emergence greater than expectations in the period on U.S. casualty business, including asbestos, and included $21.2 million related to settlement of litigation during the period.

The EuroAsia division reported net decreases in prior period loss estimates of $22.8 million, $2.4 million and $6.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. The decrease in prior period loss estimates for the year ended December 31, 2009 was principally attributable to loss emergence lower than expectations in the period on property business. The decrease in prior period loss estimates for the year ended December 31, 2008 was principally attributable to loss emergence lower than expectations in the period on credit business, partially offset by loss emergence greater than expectations in the period on miscellaneous property lines of business. The reduction in prior period loss estimates for the year ended December 31, 2007 was principally attributable to favorable loss emergence on credit and miscellaneous property lines of business, partially offset by increased loss estimates on motor and liability exposures in the period.

The London Market division reported net decreases in prior period loss estimates of $23.3 million, $40.0 million and $57.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. The decrease in prior period loss estimates for the year ended December 31, 2009 was principally attributable to loss emergence lower than expectations in the period on liability business. The reduction in prior period loss estimates for the year ended December 31, 2008 was principally attributable to loss emergence lower than expectations in the period on professional liability and miscellaneous property lines of business. The reduction in prior period loss estimates for the year ended December 31, 2007 was principally attributable to favorable loss emergence on liability, property catastrophe and other miscellaneous property lines of business in the period.

The U.S. Insurance division reported net decreases in prior period loss estimates of $35.3 million, $34.3 million and $38.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. The reductions in prior period loss estimates for the years ended December 31, 2009, 2008 and 2007 were principally due to loss emergence lower than expectations on professional liability business in each period.

Estimates of reserves for unpaid losses and LAE are contingent upon legislative, regulatory, social, economic and legal events and trends that may or may not occur or develop in the future, thereby affecting assumptions of claim frequency and severity. Examples of emerging claim and coverage issues and trends in recent years that could affect reserve estimates include developments in tort liability law, legislative attempts at asbestos liability reform, an increase in shareholder derivative suits against corporations and their officers and

directors, and increasing governmental involvement in the insurance and reinsurance industry. The eventual outcome of these events and trends may be different from the assumptions underlying our loss reserve estimates. In the event that loss trends diverge from expected trends during the period, we adjust our reserves to reflect the change in losses indicated by revised expected loss trends. On a quarterly basis, we compare actual emergence of the total value of newly reported losses to the total value of losses expected to be reported during the period and the cumulative value since the date of our last reserve review. Variation in actual loss emergence from expectations may result in a change in our estimate of losses and LAE reserves. Any adjustments will be reflected in the periods in which they become known, potentially resulting in adverse or favorable effects to our financial results. Changes in expected claim payment rates, which represent one component of losses and LAE emergence, may impact our liquidity and capital resources, as discussed below in "Liquidity and Capital Resources."

The following table summarizes, by type of reserve and division, the unpaid losses and LAE reserves as of December 31, 2009 and 2008. Case reserves represent unpaid claim reports provided by cedants and claims adjusters plus additional reserves determined by us. IBNR is the estimate of unreported loss liabilities established by us.

	As of December 31,					
	2009			2008		
	Case Reserves	IBNR	Total Reserves	Case Reserves	IBNR	Total Reserves
	(In millions)					
Americas						
Gross	$ 1,369.2	$ 1,356.6	$ 2,725.8	$ 1,429.5	$ 1,335.9	$ 2,765.4
Ceded	(178.4)	(120.2)	(298.6)	(182.5)	(123.0)	(305.5)
Net	1,190.8	1,236.4	2,427.2	1,247.0	1,212.9	2,459.9
EuroAsia						
Gross	589.8	320.7	910.5	494.3	293.7	788.0
Ceded	(33.0)	(2.6)	(35.6)	(2.6)	(0.4)	(3.0)
Net	556.8	318.1	874.9	491.7	293.3	785.0
London Market						
Gross	387.6	707.2	1,094.8	308.8	610.9	919.7
Ceded	(67.1)	(183.2)	(250.3)	(54.4)	(78.4)	(132.8)
Net	320.5	524.0	844.5	254.4	532.5	786.9
U.S. Insurance						
Gross	255.2	521.5	776.7	200.6	576.8	777.4
Ceded	(81.9)	(175.1)	(257.0)	(55.3)	(193.6)	(248.9)
Net	173.3	346.4	519.7	145.3	383.2	528.5
Total						
Gross	2,601.8	2,906.0	5,507.8	2,433.2	2,817.3	5,250.5
Ceded	(360.4)	(481.1)	(841.5)	(294.8)	(395.4)	(690.2)
Net	$ 2,241.4	$ 2,424.9	$ 4,666.3	$ 2,138.4	$ 2,421.9	$ 4,560.3

The provision for IBNR in unpaid losses and LAE as of December 31, 2009 was $2,424.9 million. For illustration purposes, a change in the expected loss ratio that increases the year ended December 31, 2009 calendar year loss ratio by 2.5 loss ratio points would increase IBNR by $48.2 million. A change in loss

emergence trends that increases unpaid losses and LAE at December 31, 2009 by 2.5% would increase IBNR by $116.7 million.

We have exposure to asbestos, environmental pollution and other latent injury damage claims resulting from contracts written by Clearwater prior to 1986. Exposure arises from reinsurance contracts under which we assumed liabilities from ceding companies, on an indemnity or assumption basis, primarily in connection with general liability insurance policies issued by such ceding companies. Our estimate of the ultimate liability for these exposures includes case basis reserves and a provision for IBNR claims. The provision for asbestos loss liabilities is established based on an annual review of Company and external trends in reported loss and claim payments, with monitoring of emerging experience on a quarterly basis.

Estimation of ultimate asbestos and environmental liabilities is unusually complex due to several factors resulting from the long period between exposure and manifestation of these claims. This lag can complicate the identification of the sources of asbestos and environmental exposure, the verification of coverage and the allocation of liability among insurers and reinsurers over multiple years. This lag also exposes the claim settlement process to changes in underlying laws and judicial interpretations. There continues to be substantial uncertainty regarding the ultimate number of insureds with injuries resulting from these exposures.

In addition, other issues have emerged regarding asbestos exposure that have further impacted the ability to estimate ultimate liabilities for this exposure. These issues include an increasingly aggressive plaintiffs' bar, an increased involvement of defendants with peripheral exposure, the use of bankruptcy filings due to asbestos liabilities as an attempt to resolve these liabilities to the disadvantage of insurers, the concentration of litigation in venues favorable to plaintiffs, and the potential of asbestos litigation reform at the state or federal level.

We believe that these uncertainties and factors make projections of these exposures, particularly asbestos, subject to less predictability relative to non−environmental and non−asbestos exposures. Current estimates, as of December 31, 2009, of our asbestos and environmental losses and LAE reserves, net of reinsurance, are $241.6 million and $23.9 million, respectively. See Note 10 to the consolidated financial statements for additional historical information on losses and LAE reserves for these exposures.

The following table provides the gross and net asbestos and environmental losses and LAE incurred for each of the three years in the period ended December 31, 2009 (in millions):

	2009	2008	2007
Asbestos			
Gross losses and LAE incurred	$ 69.4	$ 73.8	$ 86.0
Net losses and LAE incurred	40.0	41.0	63.0
Environmental			
Gross losses and LAE incurred	$ 0.9	$ 2.6	$ 14.2
Net losses and LAE incurred	0.6	4.1	14.5

The following table provides gross asbestos and environmental outstanding claim information with respect to business written prior to 1986, as of December 31, 2009 and 2008 (in millions):

	As of December 31,							
	2009				2008			
	Count	Aggregate Case Reserves	% of Total Case Reserves	Average Case Reserves	Count	Aggregate Case Reserves	% of Total Case Reserves	Average Case Reserves
Asbestos								
By Claim								
Largest 10 claims	10	$ 21.4	10.1%	$ 2.1	10	$ 23.8	11.6%	$ 2.4
All other claims, with case reserves	1,734	189.9	89.9	0.1	1,662	181.0	88.4	0.1
Total	1,744	$ 211.3	100.0%	$ 0.1	1,672	$ 204.8	100.0%	$ 0.1
By Insured								
Largest 10 insureds	10	$ 80.2	38.0%	$ 8.0	10	$ 75.5	36.9%	$ 7.6
All other insureds	305	131.1	62.0	0.4	291	129.3	63.1	0.4
Total	315	$ 211.3	100.0%	$ 0.7	301	$ 204.8	100.0%	$ 0.7
Environmental								
By Claim								
Largest 10 claims	10	$ 5.4	29.3%	$ 0.5	10	$ 6.4	30.6%	$ 0.6
All other claims, with case reserves	519	13.0	70.7	—	546	14.5	69.4	—
Total	529	$ 18.4	100.0%	$ —	556	$ 20.9	100.0%	$ —
By Insured								
Largest 10 insureds	10	$ 9.4	51.1%	$ 0.9	10	$ 9.6	45.9%	$ 1.0
All other insureds	241	9.0	48.9	—	271	11.3	54.1	—
Total	251	$ 18.4	100.0%	$ 0.1	281	$ 20.9	100.0%	$ 0.1

The number of asbestos claims, with case reserves, as of December 31, 2009 was 1,744, amounting to $211.3 million in gross case losses and LAE reserves. The largest 10 reported claims accounted for 10.1% of the gross case reserves, with an average reserve of $2.1 million. The number of asbestos claims, with case reserves, as of December 31, 2008 was 1,672, amounting to $204.8 million in gross case losses and LAE reserves. The largest 10 reported claims accounted for 11.6% of the gross case reserves, with an average reserve of $2.4 million. Gross case reserves increased in 2009, as newly reported claims and additional reported reserves on existing claims were greater than claim payments in the year. The asbestos open claim count increased by 72, or 4.3%, during calendar year 2009. Based on an aggregation of claims by insured, our 10 largest insured involvements accounted for 38.0% of our gross case reserves as of December 31, 2009, compared to 36.9% as of December 31, 2008. Net losses and LAE incurred for the year ended December 31, 2009 for asbestos claims were increased by $40.0 million, principally attributable to the annual review of this exposure.

The number of environmental claims, with case reserves, as of December 31, 2009 was 529, amounting to $18.4 million in gross case losses and LAE reserves. The largest 10 reported claims accounted for 29.3% of the gross case reserves, with an average case reserve of $0.5 million. The number of environmental claims, with case reserves, as of December 31, 2008 was 556, amounting to $20.9 million in gross case losses and LAE reserves. The largest 10 reported claims accounted for 30.6% of the gross case reserves, with an average case reserve of $0.6 million. Overall gross case reserves decreased in 2009, as newly reported claims and additional reported reserves on existing claims were less than claim payments in the year. The environmental open claim count decreased by 27, or 4.9%, during calendar year 2009. Based on an aggregation of claims by insured, our 10 largest insured involvements accounted for 51.1% of our gross case reserves as of December 31, 2009, compared to 45.9% as of December 31, 2008. Net losses and LAE incurred for the year ended December 31, 2009 for environmental claims were increased by $0.6 million, principally attributable to the annual review of this exposure.

In the event that loss trends diverge from expected trends, we may have to adjust our reserves for asbestos and environmental exposures accordingly. Any adjustments will be reflected in the periods in which they become known, potentially resulting in adverse or favorable effects on our financial results. Due to the uncertainty involving estimates of ultimate asbestos and environmental exposures, management does not attempt to produce a range around its best estimate of loss.

Reinsurance and Retrocessions

We may purchase reinsurance to increase our aggregate premium capacity, to reduce and spread the risk of loss on our insurance and reinsurance business and to limit our exposure to multiple claims arising from a single occurrence. We are subject to accumulation risk with respect to catastrophic events involving multiple contracts. To protect against this risk, we have purchased catastrophe excess of loss reinsurance protection. The retention, the level of capacity purchased, the geographical scope of the coverage and the costs vary from year to year. Specific reinsurance protections are also placed to protect our insurance business outside of the United States.

We seek to limit our net after–tax probable maximum loss for a severe catastrophic event, defined as an occurrence with a return period of 250 years, to no more than 20% of our statutory surplus. Prior to 2009, this limit was 15% of statutory surplus. There can be no assurances that we will not incur losses greater than 20% of our statutory surplus from one or more catastrophic events due to the inherent uncertainties in (i) estimating the frequency and severity of such events, (ii) the margin of error in making such determinations resulting from potential inaccuracies and inadequacies in the data provided by clients and brokers, (iii) the modeling techniques and the application of such techniques and (iv) the values of securities in our investment portfolio, which may lead to volatility in our statutory surplus from period to period.

When we purchase reinsurance protection, we cede to reinsurers a portion of our risks and pay premiums based upon the risk and exposure of the policies subject to the reinsurance. Although the reinsurer is liable to us for the reinsurance ceded, we retain the ultimate liability in the event the reinsurer is unable to meet its obligations at some later date.

Reinsurance recoverables are recorded as assets, based on our evaluation of the retrocessionaires' ability to meet their obligations under the agreements. Premiums written and earned are stated net of reinsurance ceded in the consolidated statements of operations. Direct insurance, reinsurance assumed, reinsurance ceded and net amounts for these items follow (in millions):

	Year Ended December 31,		
	2009	2008	2007
Premiums Written			
Direct	$ 780.5	$ 792.3	$ 736.8
Add: assumed	1,414.5	1,502.2	1,545.9
Less: ceded	301.2	263.7	193.3
Net	$ 1,893.8	$ 2,030.8	$ 2,089.4
Premiums Earned			
Direct	$ 741.1	$ 773.1	$ 738.1
Add: assumed	1,472.1	1,525.5	1,566.4
Less: ceded	285.8	222.2	184.0
Net	$ 1,927.4	$ 2,076.4	$ 2,120.5

The total amount of reinsurance recoverables on paid and unpaid losses as of December 31, 2009 and 2008 was $912.0 million and $773.2 million, respectively. We have established a reserve for potentially uncollectible reinsurance recoverables based upon an evaluation of each retrocessionaire and our assessment as to the collectability of individual balances. The reserve for uncollectible recoverables was $41.9 million and $44.5 million as of December 31, 2009 and 2008, respectively, and has been netted against reinsurance recoverables on

paid losses. We have also established a reserve for potentially uncollectible insurance and assumed reinsurance balances of $5.5 million and $3.0 million as of December 31, 2009 and 2008, respectively, which has been netted against premiums receivable.

In accordance with the terms of certain of our reinsurance agreements, we have recorded interest expense associated with our ceded reinsurance agreements of $3.7 million, $5.3 million and $8.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Deferred Income Taxes

We record deferred income taxes as net assets or liabilities on our consolidated balance sheets to reflect the net tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. As of December 31, 2009 and 2008, a net deferred tax asset of $76.8 million and $290.2 million, respectively, was recorded. In recording this deferred tax asset, we have made estimates and judgments that future taxable income will be sufficient to realize the value of the net deferred tax asset. Accordingly, deferred tax assets have not been reduced by a valuation allowance, as management believes it is more likely than not that the deferred tax assets will be realized.

Investments

We have categorized our financial instruments, based on the priority of the inputs to the valuation technique, into a three−level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). To verify Level 3 pricing, we assess the reasonableness of the fair values by comparison to economic pricing models, by reference to movements in credit spreads, and by comparing the fair values to recent transaction prices for similar assets, where available.

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. We have determined, after carefully considering the impact of recent economic conditions and liquidity in the credit markets on our portfolio, that we should not re−classify any of our investments from Level 1 or Level 2 to Level 3. However, during the third quarter of 2009, we transferred our investment in Advent Capital (Holdings) PLC (“Advent”) from Level 2 to Level 3, following Advent’s delisting from the London Stock Exchange.

We are responsible for determining the fair value of our 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 our investment portfolio, we use quoted prices and other information from independent pricing sources in determining fair values.

On a quarterly basis, we review our investment portfolio for declines in value, and specifically consider 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 that are determined to be temporary are recorded as unrealized depreciation, net of tax, in accumulated other comprehensive income. If we determine that a decline 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 our consolidated statements of operations.

In assessing the value of our debt and equity securities held as investments, and possible impairments of such securities, we review (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 we may consider relevant. Generally, a change in the market or interest rate environment would not, of itself, result in an

impairment of an investment, but rather a temporary decline in value. In addition, we consider our ability and intent to hold the security to recovery when evaluating possible impairments.

Decisions regarding other–than–temporary impairments require an evaluation of facts and circumstances at a specific time. Should the facts and circumstances change such that an other–than–temporary impairment is considered appropriate, we 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 our consolidated statements of operations. Upon the disposition of a security where an other–than–temporary impairment has been taken, we will record a gain or loss based on the adjusted cost or carrying value of the investment.

Risks and uncertainties are inherent in our other–than–temporary decline in value assessment methodology. Risks and uncertainties include, but are not limited to, incorrect or overly optimistic assumptions about financial condition or liquidity, incorrect or overly optimistic assumptions about future prospects, inadequacy of any underlying collateral, unfavorable changes in economic or social conditions and unfavorable changes in interest rates.

Results of Operations

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Underwriting Results

Gross Premiums Written. Gross premiums written for the year ended December 31, 2009 decreased by $99.5 million, or 4.3%, to $2,195.0 million, compared to $2,294.5 million for the year ended December 31, 2008, as reflected in the following table (in millions):

	Year Ended December 31,		Change	
Division	**2009**	**2008**	**$**	**%**
Americas	$ 745.9	$ 776.4	$ (30.5)	(3.9)%
EuroAsia	559.2	596.7	(37.5)	(6.3)
London Market	342.9	381.7	(38.8)	(10.2)
U.S. Insurance	547.0	539.7	7.3	1.4
Total gross premiums written	$ 2,195.0	$ 2,294.5	$ (99.5)	(4.3)%

Total reinsurance gross premiums written for the year ended December 31, 2009 were $1,414.5 million, compared to $1,502.2 million for 2008, a decrease of 5.8%. Total insurance gross premiums written for the year ended December 31, 2009, which include our U.S. Insurance division and the insurance business underwritten by our London Market division, were $780.5 million, compared to $792.3 million for 2008, a decrease of 1.5%. U.S. Insurance division gross premiums written for the year ended December 31, 2009 included $16.5 million of business previously managed by and included in the results of the Americas division. For the year ended December 31, 2009, total reinsurance gross premiums written represented 64.4% (65.5% in 2008) of our business, while insurance represented the remaining 35.6% (34.5% in 2008) of our business.

Americas. Gross premiums written in the Americas division for the year ended December 31, 2009 were $745.9 million, a decrease of $30.5 million, or 3.9%, compared to $776.4 million for the year ended December 31, 2008. These amounts represented 34.0% of our gross premiums written for the year ended December 31, 2009 and 33.8% in 2008. Gross premiums written across each geographic region of the Americas division were as follows (in millions):

	Year Ended December 31,		Change	
	2009	2008	$	%
United States	$ 561.7	$ 578.0	$ (16.3)	(2.8)%
Latin America	146.2	158.1	(11.9)	(7.5)
Canada	38.0	40.3	(2.3)	(5.7)
Total gross premiums written	$ 745.9	$ 776.4	$ (30.5)	(3.9)%

- United States — The decrease in gross premiums written was primarily due to a decrease in facultative business of $14.9 million, to $57.1 million, for the year ended December 31, 2009, as compared to $72.0 million for the year ended December 31, 2008.

- Latin America — The decrease in gross premiums written was primarily due to decreases in treaty pro rata business and excess business of $12.7 million and $3.1 million, respectively, offset by an increase in facultative business of $3.9 million. Of the $11.9 million net decrease, $7.8 million was attributable to movement in foreign exchange rates during 2009 while the remainder related to decreased volume resulting from share reductions and non–renewal of business not meeting our underwriting standards.

- Canada — The decrease in gross premiums written was primarily due to the movement in the Canadian dollar exchange rate between 2009 and 2008.

EuroAsia. Gross premiums written in the EuroAsia division for the year ended December 31, 2009 were $559.2 million, a decrease of $37.5 million, or 6.3%, compared to $596.7 million for the year ended December 31, 2008. These amounts represented 25.5% of our gross premiums written for the year ended December 31, 2009 and 26.0% in the corresponding period of 2008. The decrease in gross premiums written during 2009 compared to 2008 is principally comprised of $50.3 million attributable to the movement in foreign exchange rates, and $5.9 million due to a modification to our estimation method in June 2008, offset by reinstatement premiums of $16.2 million, primarily for Windstorm Klaus and Windstorm Wolfgang. The modification to the estimating process impacted gross and net premiums written but had no effect on earned premium. Excluding the effects of the foreign exchange rate movement and the modification to the estimating process, gross premiums written would have increased by $18.7 million.

London Market. Gross premiums written in the London Market division for the year ended December 31, 2009 were $342.9 million, a decrease of $38.8 million, or 10.2%, compared to $381.7 million for the year ended December 31, 2008. These amounts represented 15.6% of our gross premiums written for the year ended December 31, 2009 and 16.7% in 2008. Gross premiums written across each unit of the London Market division were as follows (in millions):

	Year Ended December 31,		Change	
	2009	2008	$	%
London branch	$ 109.4	$ 129.1	$ (19.7)	(15.3)%
Newline	233.5	252.6	(19.1)	(7.6)
Total gross premiums written	$ 342.9	$ 381.7	$ (38.8)	(10.2)%

The decrease in gross premiums written by the London branch was primarily attributable to marine and aviation business, which decreased by $11.3 million, or 23.9%, and casualty business, which decreased by $9.6 million, or 52.2%, due to the non–renewal of business not meeting our underwriting standards.

The decrease in gross premiums written by Newline was primarily attributable to timing of the placement of a number of medical professional liability contracts with a value of $20.0 million.

U.S. Insurance. Gross premiums written in the U.S. Insurance division for the year ended December 31, 2009 were $547.0 million, an increase of $7.3 million, or 1.4%, compared to $539.7 million for the year ended December 31, 2008. These amounts represented 24.9% of our gross premiums written for the year ended December 31, 2009 and 23.5% in 2008. Gross premiums written by line of business were as follows (in millions):

	Year Ended December 31,		Change	
	2009	**2008**	**$**	**%**
Property and package	$ 135.0	$ 111.5	$ 23.5	21.1%
Professional liability	119.9	130.9	(11.0)	(8.4)
Specialty liability	114.0	90.9	23.1	25.4
Medical professional liability	96.9	113.9	(17.0)	(14.9)
Commercial automobile	65.6	68.2	(2.6)	(3.8)
Personal automobile	15.6	24.3	(8.7)	(35.8)
Total gross premiums written	$ 547.0	$ 539.7	$ 7.3	1.4%

Gross premiums written related to property and package and specialty liability increased for the year ended December 31, 2009 compared to the year ended December 31, 2008 as a result of an increase in crop business and the reclassification of a program to the U.S. Insurance division from the Americas division, where it was previously managed and its results were previously recorded. The increases were offset by a reduction in gross premiums written resulting from a loss of an environmental program in professional liability and competitive market conditions affecting medical professional liability and automobile lines of business.

Ceded Premiums Written. Ceded premiums written for the year ended December 31, 2009 increased by $37.5 million, or 14.2%, to $301.2 million (13.7% of gross premiums written), from $263.7 million (11.5% of gross premiums written) for the year ended December 31, 2008. The increase in ceded premiums written was primarily related to an increase in reinsurance purchased for our professional and medical professional liability business in the U.S. Insurance division.

Net Premiums Written. Net premiums written for the year ended December 31, 2009 decreased by $137.0 million, or 6.7%, to $1,893.8 million, compared to $2,030.8 million for the year ended December 31, 2008. Net premiums written represent gross premiums written less ceded premiums written. Net premiums written decreased over 2008 at a higher rate than gross premiums written, reflecting an increase in ceded premiums written during 2009.

	Year Ended December 31,		Change	
Division	**2009**	**2008**	**$**	**%**
		(In millions)		
Americas	$ 731.2	$ 760.7	$ (29.5)	(3.9)%
EuroAsia	533.0	569.3	(36.3)	(6.4)
London Market	254.5	306.5	(52.0)	(17.0)
U.S. Insurance	375.1	394.3	(19.2)	(4.9)
Total net premiums written	$ 1,893.8	$ 2,030.8	$ (137.0)	(6.7)%

Americas. Net premiums written in the Americas division for the year ended December 31, 2009 were $731.2 million, compared to $760.7 million for the 2008 period, a decrease of 3.9%. These amounts represented 38.6% of our net premiums written for the year ended December 31, 2009 and 37.5% for the year ended December 31, 2008. The net retention ratio, which represents net premiums written as a percentage of gross premiums written, was 98.0% for each of the years ended December 31, 2009 and 2008.

The decrease in net premiums written in the Americas division was consistent with the 3.9% decrease in gross premiums written.

EuroAsia. Net premiums written in the EuroAsia division for the year ended December 31, 2009 were $533.0 million, compared to $569.3 million for 2008, a decrease of 6.4%. These amounts represented 28.2% of our net premiums written for the year ended December 31, 2009 and 28.0% for the year ended December 31, 2008. The net retention ratio was 95.3% for the year ended December 31, 2009, compared to 95.4% for the year ended December 31, 2008.

The decrease in net premiums written was consistent with the decrease in gross premiums written, which was primarily due to movements in foreign exchange rates and a modification to our estimation method during 2008, offset by an increase in reinstatement premiums.

London Market. Net premiums written in the London Market division for the year ended December 31, 2009 were $254.5 million, compared to $306.5 million for 2008, a decrease of 17.0%. These amounts represented 13.4% of our net premiums written for the year ended December 31, 2009 and 15.1% for the year ended December 31, 2008. The net retention ratio was 74.2% for the year ended December 31, 2009, compared to 80.3% for the year ended December 31, 2008.

The decrease in net premiums written consisted of a decrease in gross premiums written of $38.8 million, coupled with an increase in ceded premiums written of $13.2 million due to increased reinsurance purchases and higher reinsurance costs on casualty insurance business.

U.S. Insurance. Net premiums written in the U.S. Insurance division for the year ended December 31, 2009 were $375.1 million, compared to $394.3 million for the year ended December 31, 2008, a decrease of 4.9%. These amounts represented 19.8% of our net premiums written for the year ended December 31, 2009 and 19.4% for the year ended December 31, 2008. The net retention ratio was 68.6% for the year ended December 31, 2009, compared to 73.1% for the year ended December 31, 2008.

The decrease in net premiums written was due to a lower retention rate, primarily due to an increase in quota share reinsurance purchased for our medical professional liability business.

Net Premiums Earned. Net premiums earned for the year ended December 31, 2009 decreased by $149.0 million, or 7.2%, to $1,927.4 million, from $2,076.4 million for the year ended December 31, 2008. Net premiums earned decreased by $5.0 million, or 0.6%, in the Americas division, $23.8 million, or 4.2%, in the EuroAsia division, $63.0 million, or 20.0%, in the London Market division and $57.2 million, or 13.8%, in the U.S. Insurance division.

Losses and Loss Adjustment Expenses. Net losses and LAE incurred decreased $206.7 million, or 13.7%, to $1,302.0 million for the year ended December 31, 2009, from $1,508.7 million for the year ended December 31, 2008, as follows (in millions):

	Year Ended December 31,		Change	
	2009	2008	$	%
Gross losses and LAE incurred	$ 1,603.9	$ 1,736.0	$ (132.1)	(7.6)%
Less: ceded losses and LAE incurred	301.9	227.3	74.6	32.8
Net losses and LAE incurred	$ 1,302.0	$ 1,508.7	$ (206.7)	(13.7)%

The decrease in net losses and LAE incurred was principally related to a decrease in current year property catastrophe losses of $133.6 million, to $131.1 million for the year ended December 31, 2009, from $264.7 million for the year ended December 31, 2008. Losses and LAE for the year ended December 31, 2009 included a decrease in prior period losses of $11.3 million, attributable to reduced loss estimates due to loss emergence lower than expectations in the period on business written in the EuroAsia, London Market and U.S. Insurance divisions. Losses and LAE for the year ended December 31, 2008 included a decrease in prior period losses of $10.1 million.

Ceded losses and LAE incurred increased $74.6 million, or 32.8%, to $301.9 million for the year ended December 31, 2009, from $227.3 million for the year ended December 31, 2008. This increase was principally attributable to increased loss cessions related to business in the London Market division.

The loss and LAE ratio for the years ended December 31, 2009 and 2008 and the percentage point change for each of our divisions and in total are as follows:

Division	Year Ended December 31, 2009	Year Ended December 31, 2008	Percentage Point Change
Americas	70.8%	82.8%	(12.0)
EuroAsia	72.4	70.1	2.3
London Market	56.0	59.9	(3.9)
U.S. Insurance	61.4	66.8	(5.4)
Total loss and LAE ratio	67.6%	72.7%	(5.1)

The following tables reflect total losses and LAE as reported for each division and include the impact of catastrophe losses and prior period reserve development, expressed as a percentage of net premiums earned ("NPE"), for the years ended December 31, 2009 and 2008 (in millions):

Year Ended December 31, 2009

	Americas		EuroAsia		London Market		U.S. Insurance		Total	
	$	% of NPE	$	% of NPE	$	% of NPE	$	% of NPE	$	% of NPE
Total losses and LAE	$548.7	70.8%	$392.7	72.4%	$ 140.8	56.0%	$ 219.8	61.4%	$1,302.0	67.6%
Catastrophe losses:										
2009 events:										
Windstorm Klaus	—	—	53.5	9.8	—	—	—	—	53.5	2.8
Windstorm Wolfgang	—	—	16.2	3.0	—	—	—	—	16.2	0.8
Turkey floods	0.3	—	10.1	1.9	—	—	—	—	10.4	0.5
Central Europe flood	—	—	8.4	1.5	—	—	—	—	8.4	0.4
France hailstorm	—	—	7.9	1.5	—	—	—	—	7.9	0.4
Typhoon Ketsana	—	—	5.5	1.0	—	—	—	—	5.5	0.3
Other 2009 events	21.3	2.7	6.9	1.3	1.0	0.4	—	—	29.2	1.6
Total 2009 events	21.6	2.7	108.5	20.0	1.0	0.4	—	—	131.1	6.8
Prior period events	(0.3)	—	(4.8)	(0.9)	4.0	1.6	0.9	0.3	(0.2)	—
Total catastrophe losses	$ 21.3	2.7%	$103.7	19.1%	$ 5.0	2.0%	$ 0.9	0.3%	$ 130.9	6.8%
Prior period loss development including prior period catastrophe losses	$ 70.1	9.1%	$ (22.8)	(4.2)%	$ (23.3)	(9.3)%	$ (35.3)	(9.9)%	$ (11.3)	(0.6)%

Year Ended December 31, 2008

	Americas		EuroAsia		London Market		U.S. Insurance		Total	
	$	% of NPE	$	% of NPE	$	% of NPE	$	% of NPE	$	% of NPE
Total losses and LAE	$645.5	82.8%	$397.2	70.1%	$188.6	59.9%	$277.4	66.8%	$1,508.7	72.7%
Catastrophe losses:										
2008 events:										
Hurricane Ike	93.9	12.0	0.7	0.1	23.1	7.3	26.1	6.2	143.8	7.0
China winter storm	—	—	45.9	8.2	—	—	—	—	45.9	2.2
Windstorm Emma	—	—	19.1	3.4	—	—	—	—	19.1	0.9
Hurricane Gustav	9.3	1.2	—	—	0.5	0.2	1.5	0.4	11.3	0.5
Australia floods	8.2	1.1	2.9	0.5	—	—	—	—	11.1	0.5
China earthquake	—	—	5.1	0.9	—	—	—	—	5.1	0.2
Other 2008 events	17.9	2.3	7.6	1.3	2.9	0.9	—	—	28.4	1.4
Total 2008 events	129.3	16.6	81.3	14.4	26.5	8.4	27.6	6.6	264.7	12.7
Prior period events:										
Hurricanes Katrina, Rita and Wilma — 2005	(6.8)	(0.9)	—	—	3.6	1.1	—	—	(3.2)	(0.2)
Other prior period events	(5.0)	(0.6)	(2.2)	(0.4)	(6.7)	(2.1)	—	—	(13.9)	(0.6)
Total catastrophe losses	$117.5	15.1%	$ 79.1	14.0%	$ 23.4	7.4%	$ 27.6	6.6%	$ 247.6	11.9%
Prior period loss development including prior period catastrophe losses	$ 66.6	8.5%	$ (2.4)	(0.4)%	$ (40.0)	(12.7)%	$ (34.3)	(8.3)%	$ (10.1)	(0.5)%

Americas Division — Losses and LAE decreased $96.8 million, or 15.0%, to $548.7 million for the year ended December 31, 2009, from $645.5 million for the year ended December 31, 2008. This resulted in a loss and LAE ratio of 70.8% for the year ended December 31, 2009, compared to 82.8% for the year ended December 31, 2008. This decrease in losses and LAE was principally attributable to a decrease in current year property catastrophe losses of $107.7 million, to $21.6 million for the year ended December 31, 2009, from $129.3 million for the year ended December 31, 2008. Losses and LAE for the year ended December 31, 2009 included an increase in prior period losses of $70.1 million, principally due to loss emergence greater than expectations in the period on asbestos. Losses and LAE for the year ended December 31, 2008 included current year property catastrophe losses of $129.3 million, with $93.9 million for Hurricane Ike, $9.3 million for Hurricane Gustav, $8.2 million for the Australia floods, and an increase in prior period losses of $66.6 million, principally attributable to loss emergence greater than expectations in the period on asbestos.

EuroAsia Division — Losses and LAE decreased $4.5 million, or 1.1%, to $392.7 million for the year ended December 31, 2009, from $397.2 million for the year ended December 31, 2008. This resulted in a loss and LAE ratio of 72.4% for the year ended December 31, 2009, compared to 70.1% for the year ended December 31, 2008. This decrease in losses and LAE was principally due to a decrease in loss exposure associated with a decline in net premiums earned of $23.8 million, to $542.7 million for the year ended December 31, 2009, from $566.5 million for the year ended December 31, 2008. Losses and LAE for the year ended December 31, 2009 included current year property catastrophe losses of $108.5 million, with $53.5 million for Windstorm Klaus, $16.2 million for Windstorm Wolfgang, $10.1 million for Turkey floods, $8.4 million for the Central Europe flood, $7.9 million for the France hailstorm, and a decrease in prior period losses of $22.8 million, principally due to loss emergence lower than expectations in the period on property business. Losses and LAE for the year ended December 31, 2008 included current year property catastrophe losses of $81.3 million, with $45.9 million for the China winter storm, $19.1 million for Windstorm Emma, $5.1 million for the China earthquake, and a decrease in prior period losses of $2.4 million, principally attributable to loss emergence lower than expectations in the period on credit business, partially offset by loss emergence greater than expectations in the period on miscellaneous property lines of business.

London Market Division — Losses and LAE decreased $47.8 million, or 25.3%, to $140.8 million for the year ended December 31, 2009, from $188.6 million for the year ended December 31, 2008. This resulted in a

loss and LAE ratio of 56.0% for the year ended December 31, 2009, compared to 59.9% for the year ended December 31, 2008. This decrease in losses and LAE was principally due to a decrease in loss exposure associated with a decline in net premiums earned of $63.0 million, to $251.6 million for the year ended December 31, 2009, from $314.6 million for the year ended December 31, 2008. Losses and LAE for the year ended December 31, 2009 included current year property catastrophe losses of $1.0 million and a decrease in prior period losses of $23.3 million, principally attributable to loss emergence lower than expectations in the period on liability business. Losses and LAE for the year ended December 31, 2008 included current year property catastrophe losses of $26.5 million, with $23.1 million for Hurricane Ike, and reflected a decrease in prior period losses of $40.0 million, principally due to loss emergence lower than expectations in the period on professional liability and miscellaneous property lines of business.

U.S. Insurance Division — Losses and LAE decreased $57.6 million, or 20.8%, to $219.8 million for the year ended December 31, 2009, from $277.4 million for the year ended December 31, 2008. This resulted in a loss and LAE ratio of 61.4% for the year ended December 31, 2009, compared to 66.8% for the year ended December 31, 2008. This decrease in losses and LAE was principally due to a decrease in current year property catastrophe losses and a decline in loss exposure associated with a decline in net premiums earned of $57.2 million, to $358.0 million for the year ended December 31, 2009, from $415.2 million for the year ended December 31, 2008. Losses and LAE for the year ended December 31, 2009 included a decrease in prior period losses of $35.3 million, principally attributable to loss emergence lower than expectations in the period on professional liability business. Losses and LAE for the year ended December 31, 2008 included current year property catastrophe losses of $27.6 million, with $26.1 million for Hurricane Ike and a reduction in prior period losses of $34.3 million, principally due to loss emergence lower than expectations in the period on professional liability business.

Acquisition Costs. Acquisition costs for the year ended December 31, 2009 were $375.3 million, a decrease of $42.7 million or 10.2%, compared to $418.0 million for the year ended December 31, 2008. The resulting acquisition expense ratio, expressed as a percentage of net premiums earned, was 19.5% for the year ended December 31, 2009, compared to 20.1% for the year ended December 31, 2008, a decrease of 0.6 points. The Americas, EuroAsia and U.S. Insurance divisions' acquisition expense ratios decreased by 0.7 points, 0.9 points and 2.0 points, respectively, for the year ended December 31, 2009 compared to the corresponding period in 2008. The London Market division's acquisition expense ratio increased by 0.5 point compared to the corresponding period in 2008. The reduction of 2.0 points in the U.S. Insurance division's net acquisition expense ratio is principally related to writing more direct business from internal sources at lower commission rates, and the additional ceded commission received from reinsurers who participate in our medical professional liability reinsurance program.

Other Underwriting Expenses. Other underwriting expenses for the year ended December 31, 2009 were $185.7 million, compared to $175.0 million for the year ended December 31, 2008. The other underwriting expense ratio, expressed as a percentage of net premiums earned, was 9.6% for the year ended December 31, 2009, compared to 8.4% for the corresponding period in 2008. The increase in the other underwriting expense ratio was principally attributable to a decrease in net premiums earned of $149.0 million, combined with an increase in other underwriting expenses of $10.7 million, primarily relating to businesses acquired during the second half of 2008 by our U.S. Insurance division.

The following table reflects the acquisition and other underwriting expenses, expressed as a percentage of net premiums earned, for the years ended December 31, 2009 and 2008 for each of our divisions:

Division	Year Ended December 31, 2009	Year Ended December 31, 2008	Percentage Point Change
Americas	31.7%	32.5%	(0.8)
EuroAsia	25.0	26.0	(1.0)
London Market	28.4	26.0	2.4
U.S. Insurance	30.1	26.7	3.4
Total acquisition costs and other underwriting expense ratio	29.1%	28.5%	0.6

The GAAP combined ratio is the sum of losses and LAE as a percentage of net premiums earned, plus underwriting expenses, which include acquisition costs and other underwriting expenses, as a percentage of net premiums earned. The combined ratio reflects only underwriting results, and does not include investment results. Underwriting profitability is subject to significant fluctuations due to catastrophic events, competition, economic and social conditions, foreign currency fluctuations and other factors. Our combined ratio was 96.7% for the year ended December 31, 2009, compared to 101.2% for the year ended December 31, 2008. The following table reflects the combined ratio for the years ended December 31, 2009 and 2008 for each of our divisions:

Division	Year Ended December 31, 2009	Year Ended December 31, 2008	Percentage Point Change
Americas	102.5%	115.3%	(12.8)
EuroAsia	97.4	96.1	1.3
London Market	84.4	85.9	(1.5)
U.S. Insurance	91.5	93.5	(2.0)
Total combined ratio	96.7%	101.2%	(4.5)

Investment Results

Net Investment Income. Net investment income for the year ended December 31, 2009 increased by $62.7 million, or 24.6%, to $317.9 million, from $255.2 million for the year ended December 31, 2008. Net investment income was comprised of gross investment income of $346.4 million less investment expenses of $28.5 million for the year ended December 31, 2009, compared to gross investment income of $295.5 million less investment expenses of $40.3 million for the year ended December 31, 2008. The increase in net investment income for the year ended December 31, 2009 was primarily attributable to the following:

- investment income from fixed income securities was $253.1 million for the year ended December 31, 2009, an increase of $56.0 million, or 28.4%, compared to the year ended December 31, 2008;
- an increase of $27.7 million, or 81.2%, in net investment income from equity investments for the year ended December 31, 2009, compared to the year ended December 31, 2008. Net income of common stocks, at equity, increased by $7.0 million, along with an increase in dividends on common stocks of $20.7 million;
- an increase in net investment income from other invested assets of $11.3 million for the year ended December 31, 2009 compared to the year ended December 31, 2008;
- a decrease in investment expenses of $11.8 million for the year ended December 31, 2009, compared to 2008, which was primarily due to the expense related to total return swaps that were closed out during the fourth quarter of 2008; offset by:
- a decrease in net investment income from short–term investments and cash of $44.1 million, or 83.3%, for the year ended December 31, 2009, compared to the year ended December 31, 2008.

Our total effective annualized yield on average invested assets, net of expense but before the impact of interest expense from funds held balances, was 4.0% and 3.3% for the years ended December 31, 2009 and 2008, respectively. The total effective annualized yield on average invested assets is calculated by dividing annual income by the annual average invested assets (computed using average amortized cost for fixed income securities and average carrying value for all other securities).

Interest expense on funds held, which is included in investment expenses, of $3.7 million for the year ended December 31, 2009, represents a decrease of $1.6 million, or 30.2%, from $5.3 million for the year ended December 31, 2008. The decrease was primarily attributable to ceded paid losses reducing the funds held balance.

Net Realized Investment Gains. Net realized investment gains of $186.0 million for the year ended December 31, 2009 decreased by $506.3 million, from net realized investment gains of $692.3 million for the year ended December 31, 2008. The decrease in net realized investment gains was principally due to the following:

- a decrease in net realized investment gains on derivative securities of $1,070.3 million, primarily attributable to a decrease of $567.0 million on total return swaps, a decrease of $379.4 million on credit default swaps, with decreased holdings in the current period, and a decrease of $126.6 million on forward currency contracts;
- a decrease in net mark–to–market realized investment gains of $12.8 million on short positions, which were closed out during the second quarter of 2008; partially offset by:
- an increase in net realized investment gains on fixed income securities of $64.4 million;
- an increase in foreign exchange realized investment gains on short–term investments, cash and cash equivalents of $153.9 million resulting from the weakening of the U.S. dollar compared to foreign currencies;
- increased realized investment gains on other invested assets of $14.0 million;
- increased realized investment gains on preferred stock of $7.9 million; and
- increased net realized investment gains on equity securities of $336.6 million, which include other–than–temporary write–downs of equity securities of $123.4 million during the year ended December 31, 2009, compared to $339.0 million in realized investment losses for the year ended December 31, 2008.

During the year ended December 31, 2009, net realized investment gains were reduced by other–than–temporary impairment losses in the amount of $127.0 million, relating to equity securities of $123.4 million, fixed income securities of $3.4 million and preferred stock of $0.2 million. During the year ended December 31, 2008, net realized investment gains were reduced by other–than–temporary impairment losses in the amount of $358.7 million, relating to fixed income securities of $18.9 million, equity securities of $339.0 million and preferred stock of $0.8 million. Other–than–temporary impairments reflect situations where the fair value was below the cost of the securities, and the ability of the security to recover its value could not be reasonably determined.

Other Results, Principally Holding Company and Income Taxes

Other Expenses, Net. Other expense, net, for the year ended December 31, 2009 was $44.4 million as compared to $60.4 million for the year ended December 31, 2008. The other expense is principally comprised of foreign currency exchange gains and losses and the operating expenses of our holding company, including audit related fees, corporate–related legal fees, consulting fees and compensation expense. The $16.0 million decrease for the year ended December 31, 2009 compared to 2008 was primarily related to $41.6 million of foreign exchange related adjustments, offset by (i) $15.9 million of stock–based compensation and restricted equity value rights and (ii) $5.8 million related to the tender offer by Fairfax.

Interest Expense. We incurred interest expense related to our debt obligations of $31.0 million and $34.2 million for the years ended December 31, 2009 and 2008, respectively. The lower amount of interest expense in 2009 primarily resulted from the decrease in interest rates on our Series A, B and C floating rate Senior Notes.

Federal and Foreign Income Tax Provision. Our federal and foreign income tax provision for the year ended December 31, 2009 decreased by $158.0 million, to $120.5 million, compared to $278.5 million for the year ended December 31, 2008, resulting from a combination of (i) decreased pre–tax income and (ii) a shift in our fixed income portfolio to tax–exempt municipal securities and equity securities eligible for dividends–received deductions. Our effective tax rates were 24.5% and 33.7% for the years ended December 31, 2009 and 2008, respectively.

Preferred Dividends and Purchases. We recorded preferred dividends related to our Series A and Series B non–cumulative perpetual preferred shares of $5.2 million and $7.4 million for the years ended December 31,

2009 and 2008, respectively. During the first quarter of 2009, Odyssey America purchased 704,737 shares of our Series B preferred stock, with a liquidation preference of $17.2 million, for $9.2 million. The purchase of the Series B preferred shares resulted in an increase in net income attributable to common shareholders of $8.0 million for the year ended December 31, 2009, compared to $1.5 million for the year ended December 31, 2008.

Results of Operations

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Underwriting Results

Gross Premiums Written. Gross premiums written for the year ended December 31, 2008 increased by $11.8 million, or 0.5%, to $2,294.5 million, compared to $2,282.7 million for the year ended December 31, 2007, as reflected in the following table (in millions):

	Year Ended December 31,		Change	
Division	**2008**	**2007**	**$**	**%**
Americas	$ 776.4	$ 834.9	$ (58.5)	(7.0)%
EuroAsia	596.7	565.6	31.1	5.5
London Market	381.7	349.9	31.8	9.1
U.S. Insurance	539.7	532.3	7.4	1.4
Total gross premiums written	$ 2,294.5	$ 2,282.7	$ 11.8	0.5%

Total reinsurance gross premiums written for the year ended December 31, 2008 were $1,502.2 million, compared to $1,545.9 million for 2007, a decrease of 2.8%. Total insurance gross premiums written for the year ended December 31, 2008, which include our U.S. Insurance division, our Lloyd's syndicate and NICL, were $792.3 million, compared to $736.8 million for 2007, an increase of 7.5%. For the year ended December 31, 2008, total reinsurance gross premiums written represented 65.5% (67.7% in 2007) of our business, and insurance represented the remaining 34.5% (32.3% in 2007) of our business.

Americas. Gross premiums written in the Americas division for the year ended December 31, 2008 were $776.4 million, a decrease of $58.5 million, or 7.0%, compared to $834.9 million for the year ended December 31, 2007. These amounts represent 33.8% of our gross premiums written for the year ended December 31, 2008 and 36.6% for the year ended December 31, 2007. Gross premiums written across each geographic region of the Americas were as follows (in millions):

	Year Ended December 31,		Change	
	2008	**2007**	**$**	**%**
United States	$ 578.0	$ 650.2	$ (72.2)	(11.1)%
Latin America	158.1	141.4	16.7	11.8
Canada	40.3	43.3	(3.0)	(6.9)
Total gross premiums written	$ 776.4	$ 834.9	$ (58.5)	(7.0)%

- United States —Property business increased by $24.4 million, or 16.4%, to $172.4 million in 2008 from $148.1 million in 2007. Treaty and facultative casualty business decreased by $93.5 million, or 20.7%, to $358.5 million in 2008 from $452.0 million in 2007 due to an increase in competitive market conditions and the non–renewal of certain business that did not meet our underwriting criteria.

- Latin America — The increase in gross premiums written is comprised of treaty pro rata business of $15.4 million and treaty excess business of $2.9 million, offset by a decrease in property facultative business of $1.6 million.

- Canada — The decrease in gross premiums written was primarily due to the movement in the Canadian dollar exchange rate between 2008 and 2007.

EuroAsia. Gross premiums written in the EuroAsia division for the year ended December 31, 2008 were $596.7 million, an increase of $31.1 million, or 5.5%, compared to $565.6 million for the year ended December 31, 2007. These amounts represent 26.0% of our gross premiums written for the year ended December 31, 2008 and 24.8% in 2007. The increase in gross premiums written was comprised of: (i) $42.4 million attributable to the movement in foreign exchange rates during 2008 compared to 2007; and (ii) a modification to the estimating process during 2008, which contributed $6.2 million to the increase over 2007. The modification to the estimating process impacted gross and net premiums written, but had no effect on earned premiums. Excluding the effects of foreign exchange rate movements and the modification to the estimating process, gross premiums would have decreased $17.5 million.

London Market. Gross premiums written in the London Market division for the year ended December 31, 2008 were $381.7 million, an increase of $31.8 million, or 9.1%, compared to $349.9 million for the year ended December 31, 2007. These amounts represent 16.7% of our gross premiums written for the year ended December 31, 2008 and 15.3% in 2007. Gross premiums written across each unit of the London Market division were as follows (in millions):

	Year Ended December 31,		Change	
	2008	2007	$	%
London branch	$ 129.1	$ 145.3	$ (16.2)	(11.1)%
Newline	252.6	204.6	48.0	23.5
Total gross premiums written	$ 381.7	$ 349.9	$ 31.8	9.1%

The decrease in gross premiums written by the London branch was primarily attributable to decreases in marine and aviation business of $7.9 million, casualty business of $4.4 million and property business of $3.9 million.

The increase in gross premiums written by Newline was primarily attributable to medical professional liability and motor business.

U.S. Insurance. Gross premiums written in the U.S. Insurance division for the year ended December 31, 2008 were $539.7 million, an increase of $7.4 million, or 1.4%, compared to $532.3 million for the year ended December 31, 2007. These amounts represent 23.5% of our gross premiums written for the year ended December 31, 2008 and 23.3% for the year ended December 31, 2007. Lines of business that experienced the greatest change in gross premiums written or were significant to the U.S. Insurance division for the year ended December 31, 2008 were as follows (in millions):

	Year Ended December 31,		Change	
	2008	2007	$	%
Professional liability	$ 130.9	$ 139.3	$ (8.4)	(6.0)%
Medical professional liability	113.9	130.2	(16.3)	(12.5)
Property and package	111.5	68.5	43.0	62.8
Specialty liability	90.9	90.3	0.6	0.7
Commercial automobile	68.2	52.4	15.8	30.2
Personal automobile	24.3	51.6	(27.3)	(52.9)
Total gross premiums written	$ 539.7	$ 532.3	$ 7.4	1.4%

Gross premiums written increased for the year ended December 31, 2008 compared to the year ended December 31, 2007 as a result of increases in crop business and offshore energy business, which are included in property and package, and new programs in the logging and transportation industries, which are included in

commercial automobile. This increase in gross premiums written was partially offset by a decrease in our personal automobile business due to market conditions, a decrease in our medical professional liability business due to certain client groups retaining more exposure by self–insuring their own programs, as well as more competitive market conditions in 2008 and a decrease in our professional liability business.

Ceded Premiums Written. Ceded premiums written for the year ended December 31, 2008 increased by $70.4 million, or 36.4%, to $263.7 million (11.5% of gross premiums written), from $193.3 million (8.5% of gross premiums written) for the year ended December 31, 2007. The increase in ceded premiums written was primarily related to (i) an increase in the London Market division of $31.0 million related to cessions associated with a new program incepting in 2008, (ii) the U.S. Insurance division of $37.0 million related to cessions associated with a new program incepting in 2008, and (iii) increased cessions on the crop program due to growth in the business and medical professional liability business due to an increase in quota share reinsurance ceded.

Net Premiums Written. Net premiums written for the year ended December 31, 2008 decreased by $58.6 million, or 2.8%, to $2,030.8 million, from $2,089.4 million for the year ended December 31, 2007. Net premiums written represent gross premiums written less ceded premiums written. Net premiums written decreased over 2007 at a higher rate than gross premiums written, reflecting an increase in ceded premiums written during 2008.

	Year Ended December 31,		Change	
Division	**2008**	**2007**	**$**	**%**
		(In millions)		
Americas	$ 760.7	$ 817.8	$ (57.1)	(7.0)%
EuroAsia	569.3	542.1	27.2	5.0
London Market	306.5	305.6	0.9	0.3
U.S. Insurance	394.3	423.9	(29.6)	(7.0)
Total net premiums written	$ 2,030.8	$ 2,089.4	$ (58.6)	(2.8)%

Americas. Net premiums written in the Americas division for the year ended December 31, 2008 were $760.7 million, compared to $817.8 million for the 2007 period, a decrease of $57.1 million, or 7.0%. These amounts represented 37.5% of our net premiums written for the year ended December 31, 2008 and 39.1% for the year ended December 31, 2007. The net retention ratio, which represents net premiums written as a percent of gross premiums written, was 98.0% for both of the years ended December 31, 2008 and 2007.

The decrease in net premiums written in the Americas division is consistent with the 7.0% decrease in gross premiums written.

EuroAsia. Net premiums written in the EuroAsia division for the year ended December 31, 2008 were $569.3 million, compared to $542.1 million for 2007, an increase of 5.0%. These amounts represented 28.0% of our net premiums written for the year ended December 31, 2008 and 25.9% for the year ended December 31, 2007. The net retention ratio for the year ended December 31, 2008 was 95.4%, compared to 95.8% for the year ended December 31, 2007.

The increase in net premiums written is consistent with the increase in gross premiums written, which was impacted by the foreign exchange rate movement and the modification to the estimating process discussed in the gross premiums written analysis.

London Market. Net premiums written in the London Market division for the year ended December 31, 2008 were $306.5 million, compared to $305.6 million for the year ended December 31, 2007, an increase of 0.3%. These amounts represented 15.1% of our net premiums written for the year ended December 31, 2008 and 14.6% for the year ended December 31, 2007. The net retention ratio was 80.3% for the year ended December 31, 2008, compared to 87.3% for the year ended December 31, 2007.

The increase in net premiums written consisted of an increase in gross premiums written of $31.8 million, offset by an increase in ceded premiums written of $31.0 million. The increase in ceded premiums written was

primarily related to a change in the retention level for excess of loss contracts of Newline Syndicate (1218) and an increase in cessions associated with a new program incepting in 2008.

U.S. Insurance. Net premiums written in the U.S. Insurance division for the year ended December 31, 2008 were $394.3 million, compared to $423.9 million for the year ended December 31, 2007, a decrease of 7.0%. These amounts represented 19.4% of our net premiums written for the year ended December 31, 2008 and 20.3% for the year ended December 31, 2007. The net retention ratio was 73.1% for the year ended December 31, 2008, compared to 79.6% for the year ended December 31, 2007.

The decrease in net premiums written consisted of an increase in gross premiums written of $7.4 million, offset by an increase in ceded premiums written of $37.0 million. The increase in ceded premiums written was attributable to cessions associated with a new program incepting in 2008 and increased cessions on the crop program and medical professional liability business due to an increase in quota share reinsurance ceded.

Net Premiums Earned. Net premiums earned for the year ended December 31, 2008 decreased by $44.1 million, or 2.1%, to $2,076.4 million, from $2,120.5 million for the year ended December 31, 2007. Net premiums earned decreased in the Americas division by $61.8 million, or 7.3%, and in the U.S. Insurance division of $13.5 million, or 3.2%, offset by an increase in the EuroAsia division of $23.4 million, or 4.3% and in the London Market division by $7.8 million, or 2.5%.

Losses and Loss Adjustment Expenses. Net losses and LAE increased $100.3 million, or 7.1%, to $1,508.7 million for the year ended December 31, 2008, from $1,408.4 million for the year ended December 31, 2007, as follows (in millions):

	Year Ended December 31,		Change	
	2008	2007	$	%
Gross losses and LAE incurred	$ 1,736.0	$ 1,514.3	$ 221.7	14.6%
Less: ceded losses and LAE incurred	227.3	105.9	121.4	114.6
Net losses and LAE incurred	$ 1,508.7	$ 1,408.4	$ 100.3	7.1%

The increase in net losses and LAE incurred of $100.3 million was principally related to an increase in current year catastrophe events of $158.8 million, to $264.7 million for the year ended December 31, 2008, from $105.9 million for the year ended December 31, 2007. This increase was partially offset by a decrease in prior period losses of $50.6 million, to a decrease of $10.1 million for the year ended December 31, 2008, from an increase of $40.5 million for the year ended December 31, 2007. Losses and LAE for the year ended December 31, 2008 included $143.8 million attributable to Hurricane Ike, $45.9 million related to the China winter storm, $19.1 million related to Windstorm Emma, $11.3 million related to Hurricane Gustav and a decrease in prior period losses of $10.1 million, principally attributable to decreased loss estimates due to loss emergence lower than expectations in the period in the EuroAsia, London Market and U.S. Insurance divisions, partially offset by increased loss estimates due to loss emergence greater than expectations in the period in the Americas division. Losses and LAE for the year ended December 31, 2007 included $38.5 million for Windstorm Kyrill, $12.3 million for Cyclone Gonu, $10.0 million for the Mexico flood in Tabasco and an increase in prior period losses of $40.5 million, predominantly attributable to increased loss estimates due to loss emergence greater than expectations in the period in the Americas division, partially offset by reduced loss estimates due to loss emergence lower than expectations in the period in the EuroAsia, London Market and U.S. Insurance divisions.

Ceded losses and LAE incurred for the year ended December 31, 2008 increased by $121.4 million, or 114.6%, to $227.3 million, from $105.9 million for the year ended December 31, 2007. This increase was principally related to loss cessions on Hurricane Ike and increased loss cessions related to our crop business.

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The loss and LAE ratio for the years ended December 31, 2008 and 2007 and the percentage point change for each of our divisions and in total are as follows:

Division	Year Ended December 31, 2008	Year Ended December 31, 2007	Percentage Point Change
Americas	82.8%	78.6%	4.2
EuroAsia	70.1	64.2	5.9
London Market	59.9	49.0	10.9
U.S. Insurance	66.8	57.8	9.0
Total loss and LAE ratio	72.7%	66.4%	6.3

The following tables reflect total losses and LAE as reported for each division and include the impact of catastrophe losses and prior period reserve development, expressed as a percentage of net premiums earned ("NPE"), for the years ended December 31, 2008 and 2007 (in millions):

Year Ended December 31, 2008

	Americas		EuroAsia		London Market		U.S. Insurance		Total	
	$	% of NPE	$	% of NPE	$	% of NPE	$	% of NPE	$	% of NPE
Total losses and LAE	$645.5	82.8%	$397.2	70.1%	$188.6	59.9%	$277.4	66.8%	$1,508.7	72.7%
Catastrophe losses:										
2008 events:										
Hurricane Ike	93.9	12.0	0.7	0.1	23.1	7.3	26.1	6.2	143.8	7.0
China winter storm	—	—	45.9	8.2	—	—	—	—	45.9	2.2
Windstorm Emma	—	—	19.1	3.4	—	—	—	—	19.1	0.9
Hurricane Gustav	9.3	1.2	—	—	0.5	0.2	1.5	0.4	11.3	0.5
Australia floods	8.2	1.1	2.9	0.5	—	—	—	—	11.1	0.5
China earthquake	—	—	5.1	0.9	—	—	—	—	5.1	0.2
Other 2008 events	17.9	2.3	7.6	1.3	2.9	0.9	—	—	28.4	1.4
Total 2008 events	129.3	16.6	81.3	14.4	26.5	8.4	27.6	6.6	264.7	12.7
Prior period events:										
Hurricanes Katrina, Rita and Wilma — 2005	(6.8)	(0.9)	—	—	3.6	1.1	—	—	(3.2)	(0.2)
Other prior period events	(5.0)	(0.6)	(2.2)	(0.4)	(6.7)	(2.1)	—	—	(13.9)	(0.6)
Total catastrophe losses	$117.5	15.1%	$ 79.1	14.0%	$ 23.4	7.4%	$ 27.6	6.6%	$ 247.6	11.9%
Prior period loss development including prior period catastrophe losses	$ 66.6	8.5%	$ (2.4)	(0.4)%	$ (40.0)	(12.7)%	$ (34.3)	(8.3)%	$ (10.1)	(0.5)%

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Year Ended December 31, 2007

	Americas		EuroAsia		London Market		U.S. Insurance		Total	
	$	% of NPE	$	% of NPE	$	% of NPE	$	% of NPE	$	% of NPE
Total losses and LAE	$661.5	78.6%	$348.6	64.2%	$150.4	49.0%	$247.9	57.8%	$1,408.4	66.4%
Catastrophe losses:										
2007 events:										
Windstorm Kyrill	—	—	26.8	5.0	11.7	3.8	—	—	38.5	1.8
Cyclone Gonu, Oman	—	—	12.3	2.3	—	—	—	—	12.3	0.6
Mexico flood in Tabasco	10.0	1.2	—	—	—	—	—	—	10.0	0.5
Jakarta floods	—	—	5.6	1.0	—	—	—	—	5.6	0.3
UK floods	—	—	—	—	5.1	1.7	—	—	5.1	0.2
Peru earthquake	5.0	0.6	—	—	—	—	—	—	5.0	0.2
Other 2007 events	17.0	2.0	8.7	1.6	3.7	1.2	—	—	29.4	1.4
Total 2007 events	32.0	3.8	53.4	9.9	20.5	6.7	—	—	105.9	5.0
Prior period events:										
Hurricanes Katrina, Rita and Wilma — 2005	6.6	0.8	—	—	(1.4)	(0.5)	(0.1)	—	5.1	0.2
Other prior period events	5.1	0.6	(3.1)	(0.6)	(6.2)	(2.0)	—	—	(4.2)	(0.2)
Total catastrophe losses	$ 43.7	5.2%	$ 50.3	9.3%	$ 12.9	4.2%	$ (0.1)	—%	$ 106.8	5.0%
Prior period loss development including prior period catastrophe losses	$143.1	17.0%	$ (6.9)	(1.3)%	$ (57.0)	(18.6)%	$ (38.7)	(9.0)%	$ 40.5	1.9%

Americas Division — Losses and LAE decreased $16.0 million, or 2.4%, to $645.5 million for the year ended December 31, 2008, from $661.5 million for the year ended December 31, 2007. This resulted in a loss and LAE ratio of 82.8% for the year ended December 31, 2008, compared to 78.6% for the year ended December 31, 2007. This decrease in losses and LAE was principally due to a decrease in prior period losses of $76.5 million, to $66.6 million for the year ended December 31, 2008, from $143.1 million for the year ended December 31, 2007, and a decrease in loss exposure associated with a decrease in net premiums earned of $61.8 million. These decreases were partially offset by an increase in current year catastrophe events of $97.3 million, to $129.3 million for the year ended December 31, 2008, from $32.0 million for the year ended December 31, 2007. Losses and LAE for the year ended December 31, 2008 included current year property catastrophe losses of $129.3 million, with $93.9 million for Hurricane Ike, $9.3 million for Hurricane Gustav, $8.2 million for Australia floods and an increase in prior period losses of $66.6 million, principally attributable to loss emergence greater than expectations in the period on asbestos. Losses and LAE for the year ended December 31, 2007 included current year property catastrophe losses of $32.0 million, with $10.0 million for the Mexico flood in Tabasco and an increase in prior period losses of $143.1 million, which included $11.7 million for increased loss estimates on prior period catastrophe events, principally attributable to Hurricanes Katrina and Wilma, $77.4 million for increased asbestos and environmental loss estimates, principally attributable to the annual review of these exposures, and $21.2 million related to settlement of litigation in the period, with the remainder principally due to loss emergence greater than expectations in the period on U.S. casualty business.

EuroAsia Division — Losses and LAE increased $48.6 million, or 13.9%, to $397.2 million for the year ended December 31, 2008, from $348.6 million for the year ended December 31, 2007. This resulted in a loss and LAE ratio of 70.1% for the year ended December 31, 2008, compared to 64.2% for the year ended December 31, 2007. This increase in losses and LAE was principally due to an increase in current year catastrophe events of $27.9 million, to $81.3 million for the year ended December 31, 2008, from $53.4 million for the year ended December 31, 2007, and an increase in loss exposure associated with an increase in net premiums earned of $23.4 million. Losses and LAE for the year ended December 31, 2008 included current year property catastrophe losses of $81.3 million, with $45.9 million for the China winter storm, $19.1 million for Windstorm Emma, $5.1 million for the China earthquake and a decrease in prior period losses of $2.4 million, principally attributable to loss emergence lower than expectations in the period on credit business, partially offset by loss emergence greater than expectations in the period on miscellaneous property lines of business.

Losses and LAE for the year ended December 31, 2007 included current year property catastrophe losses of $53.4 million, with $26.8 million for Windstorm Kyrill, $12.3 million for Cyclone Gonu, $5.6 million for the Jakarta floods and a reduction in prior period losses of $6.9 million, principally attributable to favorable loss emergence on credit and miscellaneous property lines of business, partially offset by increased loss estimates on motor and liability exposures.

London Market Division — Losses and LAE increased $38.2 million, or 25.4%, to $188.6 million for the year ended December 31, 2008, from $150.4 million for the year ended December 31, 2007. This resulted in a loss and LAE ratio of 59.9% for the year ended December 31, 2008, compared to 49.0% for the year ended December 31, 2007. This increase in losses and LAE was principally due to an increase in prior period losses of $17.0 million, to a decrease of $40.0 million for the year ended December 31, 2008, from a decrease of $57.0 million for the year ended December 31, 2007, and an increase in current year property catastrophe events. Current year property catastrophe events increased $6.0 million, to $26.5 million for the year ended December 31, 2008, from $20.5 million for the year ended December 31, 2007. Losses and LAE for the year ended December 31, 2008 included current year property catastrophe losses of $26.5 million, with $23.1 million attributable to Hurricane Ike and reflected a decrease in prior period losses of $40.0 million, principally due to loss emergence lower than expectations in the period on professional liability and miscellaneous property lines of business. Losses and LAE for the year ended December 31, 2007 included current year property catastrophe losses of $20.5 million, with $11.7 million for Windstorm Kyrill, $5.1 million for floods in the United Kingdom and reflected a reduction in prior period losses of $57.0 million, principally due to favorable loss emergence on liability, property catastrophe and other miscellaneous property lines of business in the period.

U.S. Insurance Division — Losses and LAE increased $29.5 million, or 11.9%, to $277.4 million for the year ended December 31, 2008, from $247.9 million for the year ended December 31, 2007. This resulted in a loss and LAE ratio of 66.8% for the year ended December 31, 2008, compared to 57.8% for the year ended December 31, 2007. This increase in losses and LAE for the year ended December 31, 2008 was related to current year catastrophe losses of $27.6 million, with $26.1 million attributable to Hurricane Ike. For the years ended December 31, 2008 and 2007, prior period losses decreased by $34.3 million and $38.7 million, respectively, principally due to loss emergence lower than expectations on professional liability business in each period.

Acquisition Costs. Acquisition costs for the year ended December 31, 2008 were $418.0 million, a decrease of $19.3 million or 4.4%, compared to $437.3 million for the year ended December 31, 2007. The resulting acquisition expense ratio, expressed as a percentage of net premiums earned, was 20.1% for the year ended December 31, 2008, compared to 20.6% for the year ended December 31, 2007, a decrease of 0.5 points. The Americas divisions' acquisition ratios increased by 0.2 points, while the EuroAsia, London Market and U.S. Insurance divisions' acquisition ratios decreased by 1.6, 0.1 and 0.5 points, respectively.

Other Underwriting Expenses. Other underwriting expenses for the year ended December 31, 2008 were $175.0 million, compared to $178.6 million for the year ended December 31, 2007. The other underwriting expense ratio, expressed as a percentage of net premiums earned, was 8.4% for both of the years ended December 31, 2008 and December 31, 2007.

The following table reflects the acquisition and other underwriting expenses, expressed as a percentage of net premiums earned, for the years ended December 31, 2008 and 2007, for each of our divisions:

	Year Ended December 31,		Percentage Point
Division	**2008**	**2007**	**Change**
Americas	32.5%	32.1%	0.4
EuroAsia	26.0	27.5	(1.5)
London Market	26.0	26.3	(0.3)
U.S. Insurance	26.7	26.8	(0.1)
Total acquisition costs and other underwriting expense ratio	28.5%	29.1%	(0.6)

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The GAAP combined ratio is the sum of losses and LAE as a percentage of net premiums earned, plus underwriting expenses, which include acquisition costs and other underwriting expenses, as a percentage of net premiums earned. The combined ratio reflects only underwriting results, and does not include investment results. Underwriting profitability is subject to significant fluctuations due to catastrophic events, competition, economic and social conditions, foreign currency fluctuations and other factors. Our combined ratio was 101.2% for the year ended December 31, 2008, compared to 95.5% for the year ended December 31, 2007. The following table reflects the combined ratio for the years ended December 31, 2008 and 2007 for each of our divisions:

Division	Year Ended December 31, 2008	Year Ended December 31, 2007	Percentage Point Change
Americas	115.3%	110.7%	4.6
EuroAsia	96.1	91.7	4.4
London Market	85.9	75.3	10.6
U.S. Insurance	93.5	84.6	8.9
Total combined ratio	101.2%	95.5%	5.7

Investment Results

Net Investment Income. Net investment income for the year ended December 31, 2008 decreased by $74.2 million, or 22.5%, to $255.2 million, from $329.4 million for the year ended December 31, 2007. Net investment income is comprised of gross investment income of $295.5 million less investment expenses of $40.3 million for the year ended December 31, 2008, compared to gross investment income of $368.1 million less investment expenses of $38.7 million for the year ended December 31, 2007. The decrease in net investment income for the year ended December 31, 2008 is primarily attributable to the following:

- investment income from fixed income securities was $197.1 million for the year ended December 31, 2008, a decrease of $8.8 million, or 4.3%, compared to the corresponding period in 2007. An increase in the average amortized cost of our fixed income securities for the year ended December 31, 2008, compared to the corresponding period in 2007, was offset by a decrease in the investment yield, resulting in a decrease in investment income;

- a decrease of $3.3 million, or 8.8%, in net investment income from equity investments for the year ended December 31, 2008, compared to the corresponding period in 2007. Net income of common stocks, at equity, decreased by $12.8 million, partially due to the sale of shares of Hub International Limited (“Hub”) in June 2007, offset by an increase in dividends on common stocks of $9.5 million;

- a decrease in net investment income from short–term investments and cash of $26.9 million, or 33.7%, for the year ended December 31, 2008, compared to the corresponding period in 2007, which is representative of a decrease in short–term interest rates during the period; and

- a decrease in net investment income from other invested assets of $33.5 million, or 74.7%, for the year ended December 31, 2008, compared to the corresponding period in 2007, which primarily reflects a decrease in investment income from hedge funds and private equity funds accounted for under the equity method.

Our total effective annualized yield on average invested assets, net of expense but before the impact of interest expense from funds held balance, was 3.3% and 4.5% for the years ended December 31, 2008 and 2007, respectively.

Interest expense on funds held, which is included in investment expenses, of $5.3 million for the year ended December 31, 2008, represents a decrease of $2.7 million, or 33.8%, from $8.0 million for the year ended December 31, 2007. The decrease was primarily attributable to ceded paid losses reducing the funds held balance.

Net Realized Investment Gains. Net realized investment gains of $692.3 million for the year ended December 31, 2008 increased by $153.2 million, from $539.1 million for the year ended December 31, 2007. The increase in net realized investment gains is principally due to the following:

- an increase in net realized investment gains on derivatives of $668.0 million, primarily attributable to the net change in fair value of our credit default swaps and of our total return swaps on indexes, caused by widening credit spreads and declining equity indexes, respectively; and
- higher net realized investment gains on fixed income securities of $110.1 million; offset by:
- a decrease in foreign exchange realized investment gains on short−term investments of $134.4 million resulting from the strengthening of the U.S. dollar versus foreign currencies;
- a decrease in net mark−to−market realized investment gains of $47.6 million on short positions;
- lower net realized investment gains on equity securities of $435.1 million, which included other−than−temporary write−downs of equity securities of $339.0 million and $42.1 million for the years ended December 31, 2008 and 2007, respectively. The year ended December 31, 2007 included gains of $119.2 million related to the sale of shares of Hub;
- lower net realized investment gains on other securities of $7.4 million; and
- lower net realized investment gain on preferred stock of $0.4 million.

During the year ended December 31, 2008, net realized investment gains were reduced by other−than−temporary impairment losses of $358.7 million, comprised of fixed income securities of $18.9 million, equity securities of $339.0 million and preferred stock of $0.8 million. During the year ended December 31, 2007, net realized investment gains were reduced by other−than−temporary impairment losses in the amount of $59.8 million, comprised of fixed income securities, common and preferred stock. Other−than−temporary impairments reflect situations where the fair value was below the cost of the securities, and the ability of the security to recover its value could not be reasonably assured.

Other Results, Principally Holding Company and Income Taxes

Other Expenses, Net. Other expenses, net, for the year ended December 31, 2008, were $60.4 million, compared to $14.0 million for the year ended December 31, 2007. Other expenses are primarily comprised of operating expenses at our holding company, including audit related fees, corporate−related legal fees, consulting fees, and compensation expense and foreign currency exchange gains and losses. The increase of $46.4 million for the year ended December 31, 2008 compared to 2007 is primarily comprised of $45.8 million related to foreign exchange related adjustments.

Interest Expense. We incurred interest expense, related to our debt obligations, of $34.2 million and $37.7 million for the years ended December 31, 2008 and 2007, respectively. The lower amount of interest expense in 2008 primarily resulted from the decrease in interest rates on our Series A, B, and C floating rate senior notes.

Federal and Foreign Income Tax Provision. Our federal and foreign income tax provision for the year ended December 31, 2008 decreased by $39.2 million, to a provision of $278.5 million, compared to a provision of $317.7 million for the year ended December 31, 2007, resulting from decreased pre−tax income. Our effective tax rates were 33.7% and 34.8% for the years ended December 31, 2008 and 2007, respectively.

Preferred Dividends and Purchases. We recorded preferred dividends related to our Series A and Series B non−cumulative perpetual preferred shares of $7.4 million and $8.3 million in the years ended December 31, 2008 and 2007, respectively. During the year ended December 31, 2008, Odyssey America purchased 128,000 shares of our Series B preferred stock, with a liquidation preference of $3.1 million, for $1.6 million. The purchase of the Series B preferred shares resulted in an increase in net income attributable to common shareholders of $1.5 million for the year ended December 31, 2008.

Liquidity and Capital Resources

Our shareholders' equity increased by $727.5 million, or 25.7%, to $3,555.2 million as of December 31, 2009, from $2,827.7 million as of December 31, 2008, due to net income of $372.3 million, a gain on purchase of our Series B preferred shares of $8.0 million, and an increase in net unrealized appreciation on securities of $463.2 million (a component of accumulated other comprehensive income). Offsetting these increases were the repurchase of $73.8 million of our common shares, the purchase of $17.2 million of our Series B preferred shares, and dividends to our preferred and common shareholders of $18.6 million.

Odyssey Re Holdings Corp. is a holding company that does not have any significant operations or assets other than its ownership of Odyssey America, and its principal sources of funds are cash dividends and other permitted payments from its operating subsidiaries, primarily Odyssey America. If our subsidiaries are unable to make payments to the holding company, or are able to pay only limited amounts, we may be unable to pay dividends on our preferred shares or make payments on our indebtedness. The payment of dividends by our operating subsidiaries is subject to restrictions set forth in the insurance laws and regulations of Connecticut, Delaware, New York and the United Kingdom. Holding company cash, cash equivalents and short−term investments totaled $33.0 million as of December 31, 2009, compared to $23.9 million as of December 31, 2008. During the years ended December 31, 2009 and 2008, the holding company received dividends from Odyssey America of $200.0 million and $410.0 million, respectively.

Odyssey America's liquidity requirements are principally met by cash flows from operating activities, which primarily result from collections of premiums, reinsurance recoverables and investment income, net of paid losses, acquisition costs, income taxes and underwriting and investment expenses. We seek to maintain sufficient liquidity to satisfy the timing of projected claim payments and operating expenses. The estimate, timing and ultimate amount of actual claim payments is inherently uncertain and will vary based on many factors including the frequency and severity of losses across various lines of business. Claim payments can accelerate or increase due to a variety of factors, including losses stemming from catastrophic events, which are typically paid out in a short period of time, legal settlements or emerging claim issues. We estimate claim payments, on obligations existing as of December 31, 2009 and net of associated reinsurance recoveries, of approximately $1.1 billion during 2010. The timing and certainty of associated reinsurance collections that may be due to us can add uncertainty to our liquidity position to the extent amounts are not received on a timely basis. As of December 31, 2009, our operating subsidiaries maintained cash and cash equivalents of $0.9 billion and short−term investments of $363.5 million, which is readily available for expected claim payments. In addition, our liquidity is enhanced through the collection of premiums on new business written through the year. We believe our cash resources, together with readily marketable securities, are sufficient to satisfy expected payment obligations, including any unexpected acceleration or increase in claim payments, or timing differences in collecting reinsurance recoverables.

Although the obligations of our reinsurers to make payments to us are based on specific contract provisions, these amounts only become recoverable when we make a payment of the associated loss amount, which may be several years, or in some cases decades, after the actual loss occurred. Reinsurance recoverables on unpaid losses, which represent 92.3% of our total reinsurance recoverables as of December 31, 2009, will not be due for collection until some time in the future, and over this period of time, economic conditions and the operational performance of a particular reinsurer may negatively impact its ability to meet its future obligations to us. We manage our exposure by entering into reinsurance transactions with companies that have a strong capital position and a favorable long term financial profile.

Our total reinsurance recoverable on paid losses as of December 31, 2009, net of the reserve for uncollectible reinsurance, was $70.5 million. The top ten reinsurers measured on total reinsurance recoverables represented $45.1 million, or 64.0%, of the total paid loss recoverable, of which $2.7 million is collateralized and the remaining $42.4 million is with highly rated companies. The remaining $25.4 million recoverable on paid losses is with numerous companies, and no single company has a balance greater than $4.2 million net of the reserve on uncollectible reinsurance.

Approximately $40.8 million of our total reinsurance paid recoverable is current billings, and $29.7 million is over 120 days past due. The change in the economic conditions of any of our retrocessionaires may impact their ability to meet their obligations and negatively impact our liquidity.

Cash used in operations was $3.1 million for the year ended December 31, 2009, compared to cash provided by operations of $112.1 million for the year ended December 31, 2008. The decrease in cash provided by operations of $115.2 million, or 102.7%, over the corresponding period of 2008, primarily relates to a $179.4 million extension payment made in March of 2009 for the 2008 tax year.

Total investments and cash amounted to $8.7 billion as of December 31, 2009, an increase of $834.6 million compared to December 31, 2008. Our average invested assets were $8.3 billion for the year ended December 31, 2009, compared to $7.8 billion for the year ended December 31, 2008. We anticipate that our cash and cash equivalents will continue to be reinvested on a basis consistent with our long−term, value−oriented investment philosophy. Cash, cash equivalents and short−term investments, excluding cash and cash equivalents held as collateral, represented 15.1% and 25.1% of our total investments and cash, excluding cash and cash equivalents held as collateral, as of December 31, 2009 and 2008, respectively. Total fixed income securities were $4.9 billion as of December 31, 2009, compared to $3.9 billion as of December 31, 2008. As of December 31, 2009, 61.9% of our fixed income portfolio was rated "AAA", with 10.5% of securities rated below investment grade. The duration of our investment portfolio, including short−term investments, cash and cash equivalents, was 8.5 years.

Total investments and cash exclude amounts receivable for securities sold and amounts payable for securities purchased, representing the timing between the trade date and settlement date of securities sold and purchased. As of December 31, 2009 and 2008, we had receivables for securities sold of $77.9 million and $6.3 million, respectively, which are included in other assets, and payables for securities purchased of $45.6 million and $126.6 million, respectively, which are included in other liabilities.

In December 2008, we entered into interest rate swaps, with an aggregate notional value of $140.0 million, to protect against adverse movements in interest rates. Under these swap contracts, we receive a floating interest rate of three−month London Interbank Offer Rate ("LIBOR") and pay a fixed interest rate of 2.49% on the $140.0 million notional value of the contracts, for a five−year period ending in December 2013.

On November 28, 2006, we 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 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. We have the option to redeem the Series C Notes at par, plus accrued and unpaid interest, in whole or in part on any interest payment date on or after December 15, 2011. For the years ended December 31, 2009 and 2008, the average annual interest rate on the Series C Notes was 3.48% and 5.71%, respectively.

On February 22, 2006, we 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 us on any interest payment date on or after March 15, 2011 at their par value, plus accrued and unpaid interest, and the Series B Notes are callable by us on any interest payment date on or after March 15, 2009 at their par value, plus accrued and unpaid interest. For the years ended December 31, 2009 and 2008, the average annual interest rate on each series of notes was 3.18% and 5.41%, respectively.

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

During the fourth quarter of 2003, we issued $225.0 million aggregate principal amount of senior notes due November 1, 2013. The issue was sold at a discount of $0.4 million, which is being amortized over the life of the notes. Interest accrues on the senior notes at a fixed rate of 7.65% per annum, which is due semi−annually on May 1 and November 1.

On July 13, 2007, we entered into a $200.0 million credit facility (the “Credit Agreement”) with Wachovia Bank National Association (“Wachovia”), KeyBank National Association and a syndicate of lenders. The original Credit Agreement provided for a five–year credit facility of $200.0 million, $100.0 million of which was available for direct, unsecured borrowings by us, and all of which was available for the issuance of secured letters of credit to support our insurance and reinsurance business. As of June 17, 2009, the Credit Agreement was amended to explicitly permit us to pledge collateral to secure our obligations under swap agreements, subject to certain financial limitations, in the event that such collateral is required by the counterparty or counterparties. As of February 24, 2010, the Credit Agreement was amended (i) to reduce the size of the facility to $100.0 million, removing the unsecured $100.0 million tranche, (ii) to remove the previous limitation on dividends and other “restricted payments” that we may pay to our shareholders during any fiscal year and (iii) to amend certain of the covenants and default provisions, the minimum ratings requirement, and the pricing of the credit facility.

The amended Credit Agreement contains an option that permits us to request an increase in the aggregate amount of the facility by an amount up to $50.0 million, to a maximum facility size of $150.0 million. Following such a request, each lender has the right, but not the obligation, to commit to all or a portion of the proposed increase. As of December 31, 2009, there was $54.9 million outstanding under the Credit Agreement, all of which was in support of secured letters of credit, which included $21.0 million in letters of credit that were cancelled effective January 15, 2010. (See Note 17 to the consolidated financial statements included in this Annual Report on Form 10–K.)

During March 2009, we filed a shelf registration statement on Form S–3ASR with the SEC, which became effective automatically upon filing. The registration statement provided for the offer and sale by us, from time to time, of debt and equity securities. On February 9, 2010, we filed a post–effective amendment to the Form S–3ASR to remove from registration the securities that remained unsold as of such date.

Our Board of Directors authorized a share repurchase program whereby we were authorized to repurchase shares of our common stock on the open market from time to time through December 31, 2009, up to an aggregate repurchase price of $600.0 million. Shares repurchased under the program were retired. From the inception of the program through October 21, 2009, we repurchased and retired 13,906,845 shares of our common stock at a total cost of $518.4 million.

We participate in Lloyd’s through our 100% ownership of Newline Syndicate (1218), for which we provide 100% of the capacity. The results of Newline Syndicate (1218) are consolidated in our financial statements. In support of Newline Syndicate (1218)’s capacity at Lloyd’s, NCNL and Odyssey America have pledged securities and cash with a fair value of $139.1 million and $123.5 million, respectively, as of December 31, 2009 in a deposit trust account in favor of the Society and Council of Lloyd’s. These securities may be substituted with other securities at our discretion, subject to approval by Lloyd’s. The securities are carried at fair value and are included in investments and cash in our consolidated balance sheets. Interest earned on the securities is included in investment income. The pledge of assets in support of Newline Syndicate (1218) provides us with the ability to participate in writing business through Lloyd’s, which remains an important part of our business. The pledged assets effectively secure the contingent obligations of Newline Syndicate (1218) should it not meet its obligations. NCNL and Odyssey America’s contingent liability to the Society and Council of Lloyd’s is limited to the aggregate amount of the pledged assets. We have 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 our obligations to support these liabilities will continue until they are settled or the liabilities are reinsured by a third party approved by Lloyd’s. We expect to continue to actively operate Newline Syndicate (1218) and support its requirements at Lloyd’s. We believe that Newline Syndicate 1218 maintains sufficient liquidity and financial resources to support its ultimate liabilities and we do not anticipate that the pledged assets will be utilized.

On December 16, 2009, our Board of Directors declared quarterly dividends of $0.5078125 per share on our 8.125% Series A preferred shares and $0.2208788 per share on our floating rate Series B preferred shares. The total dividends of $1.5 million were paid on January 20, 2010 to Series A and Series B preferred shareholders of record on December 31, 2009.

As described in Note 6 to our consolidated financial statements included in this Annual Report on Form 10–K, as of December 31, 2009, we held $47.5 million of investments, or approximately 0.6% of net assets and

liabilities measured at fair value, that are classified as Level 3 (which are financial instruments 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 and that reflect our own assumptions about the methodology and valuation techniques that a market participant would use in pricing the asset or liability). These Level 3 investments are valued using a discounted cash flow model, including unobservable inputs that are supported by limited market−based activity. During the year ended December 31, 2009, we purchased $19.9 million of investments classified as Level 3, and transferred our investment in Advent (which, at the time, had a value of $32.6 million as compared to $32.9 million as of December 31, 2009), which is classified in other invested assets, from Level 2 to Level 3. In addition, Level 3 investments with a value of $24.3 million were sold during the year ended December 31, 2009. During the year ended December 31, 2009, we transferred $47.8 million of Level 3 investments to Level 2 after determining that broker−dealer quotes were available to determine the fair value of the instruments.

Financial Strength and Credit Ratings

We and our subsidiaries are assigned financial strength (insurance) and credit ratings from internationally recognized rating agencies, which include A.M. Best Company, Inc. ("A.M. Best"), Standard & Poor's Ratings Services ("Standard & Poor's") and Moody's Investors Service ("Moody's"). Financial strength ratings represent the opinions of the rating agencies of the financial strength of a company and its capacity to meet the obligations of insurance and reinsurance contracts. The rating agencies consider many factors in determining the financial strength rating of an insurance or reinsurance company, including the relative level of statutory surplus necessary to support our business operations.

These ratings are used by insurers, reinsurers and intermediaries as an important means of assessing the financial strength and quality of reinsurers. A reduction in our financial strength ratings could limit or prevent us from writing new reinsurance or insurance business. The financial strength ratings of our principal operating subsidiaries are as follows:

	A.M. Best	Standard & Poor's	Moody's
Odyssey America	"A" (Excellent)	"A−" (Strong)	"A3" (Good)
Hudson	"A" (Excellent)	Not Rated	Not Rated
Hudson Specialty	"A" (Excellent)	"A−" (Strong)	Not Rated

Our senior unsecured debt is currently rated "BBB−" by Standard & Poor's, "Baa3" by Moody's and "bbb" by A.M. Best. Our Series A and Series B preferred shares are currently rated "BB" by Standard & Poor's, "Ba2" by Moody's and "bb+" by A.M. Best.

Accounting Pronouncements

Recently Adopted

A description of recently adopted accounting pronouncements is provided in Note 3 to our consolidated financial statements included in this Annual Report on Form 10−K.

Off−Balance Sheet Arrangements

We have off−balance sheet arrangements, including certain arrangements with affiliated companies that have financial implications. A description of these arrangements is provided in Note 16 to our consolidated financial statements included in this Annual Report on Form 10−K.

Market Sensitive Instruments

The term "market risk" refers to the risk of loss arising from adverse changes in prices. We believe that we are principally exposed to four types of market risk related to our investment operations: interest rate risk, credit

risk, equity price risk and foreign currency risk. Market sensitive instruments discussed in this section principally relate to our fixed income securities and common stocks carried at fair value which are classified as available for sale. As of December 31, 2009, our total investments and cash of $8.7 billion include $4.9 billion of fixed income securities that are subject primarily to interest rate risk and credit risk.

Interest Rate Risk

The following table displays the potential impact of fair value fluctuations on our fixed income securities portfolio as of December 31, 2009 and 2008, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments. This analysis was performed on each security individually.

	As of December 31, 2009			As of December 31, 2008		
Percent Change in Interest Rates	Fair Value of Fixed Income Portfolio	Hypothetical $ Change	Hypothetical % Change	Fair Value of Fixed Income Portfolio	Hypothetical $ Change	Hypothetical % Change
	(In millions)					
200 basis point rise	$ 4,098.4	$ (808.3)	(16.5)%	$ 3,276.0	$ (656.5)	(16.7)%
100 basis point rise	4,500.1	(406.6)	(8.3)	3,576.5	(356.0)	(9.1)
Base scenario	4,906.7	—	—	3,932.5	—	—
100 basis point decline	5,297.3	390.6	8.0	4,307.9	375.4	9.5
200 basis point decline	5,717.1	810.4	16.5	4,637.2	704.7	17.9

The preceding table indicates an asymmetric fair value response to equivalent basis point shifts, up and down, in interest rates. This is partially caused by the impact of bonds in our portfolio that have put or call features, which reflect different dynamics in changing interest rate environments than bonds without these features. In an increasing interest rate environment, put features tend to limit losses in fair value by giving the holder the ability to put the bonds back to the issuer for early maturity. In a declining interest rate environment, call features tend to limit gains in fair value by giving the issuer the ability to call the bond, which limits the gain in fair value. As the mix of bonds with puts and calls in our portfolio changes, different asymmetric results in hypothetical fair values occur.

As of December 31, 2009, we had net unrealized gains of $828.2 million, before taxes, related to our total investments and cash. This net amount was comprised of gross unrealized appreciation of $876.0 million, offset by gross unrealized depreciation of $47.8 million, all of which are related to fixed income securities and common stocks.

As of December 31, 2009, we were party to floating to fixed interest rate swap contracts with a notional amount of $140.0 million. As of December 31, 2009, the fair value of these contracts is reported in other liabilities at $43 thousand. Net realized investment losses on interest rate swaps totaled $2.0 million for the year ended December 31, 2009.

During 2008, we entered into Eurodollar futures contracts to manage our interest rate risk with respect to certain investments. During the first quarter of 2009, we closed the futures contracts. A futures contract is a variation of a forward contract, with some additional features, such as a clearinghouse guarantee against credit losses, a daily settlement of gains and losses, and trading on an organized electronic or floor trading facility. Futures contracts are entered either long or short. We had entered into the long side, which agrees to buy the underlying currency at the future date at the agreed–upon price. Futures contracts had net realized investment losses of $0.3 million for the year ended December 31, 2009.

Disclosure About Limitations of Interest Rate Sensitivity Analysis

Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the existing level and composition of fixed income security assets, and should not be relied on as indicative of future results.

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Certain shortcomings are inherent in the method of analysis used in the computation of the fair value of fixed rate instruments. Actual values may differ from those projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities, including non–parallel shifts in the term structure of interest rates and a change in individual issuer credit spreads.

Credit Risk

Credit risk is the risk that one party to a financial instrument fails to discharge an obligation and thereby causes financial loss to another party. Our exposure to credit risk is concentrated in investments and underwriting balances.

We have exposure to credit risk, primarily as a holder of fixed income securities. We control this exposure by emphasizing investment grade ratings in the fixed income securities we purchase. We also have exposure to credit risk associated with the collection of current and future amounts owing from our reinsurers. We control this exposure by emphasizing reinsurers with financial strength.

Our credit risk exposure, based upon carrying value, as of December 31, 2009 and 2008 (without taking into account amounts pledged as collateral for our benefit of $220.2 million and $291.4 million as of December 31, 2009 and 2008, respectively) was comprised as follows (in millions):

	As of December 31, 2009	As of December 31, 2008
Fixed income securities	$ 4,906.7	$ 3,932.5
Derivatives (primarily credit default swaps)	20.0	111.0
Cash, cash equivalents and short–term investments	1,361.7	2,040.5
Premiums receivable	473.9	496.4
Recoverable from reinsurers	1,165.5	996.5
Total gross exposure	$ 7,927.8	$ 7,576.9

Our risk management strategy with respect to investments in debt instruments is to invest primarily in securities of high credit quality issuers and to limit the amount of credit risk exposure with respect to any one issuer. While we review third party ratings, we carry out our own analysis and do not delegate the credit decision to rating agencies. We endeavor to limit credit exposure by imposing fixed income portfolio limits on individual corporate issuers and limits based on credit quality and may, from time to time, invest in credit default swaps, or other types of derivatives, to further mitigate credit risk exposure.

The composition of the fair value of our fixed income securities portfolio as of the dates indicated, classified according to the higher of each security's respective Standard & Poor's and Moody's issuer credit ratings, is presented below (in millions):

	As of December 31, 2009		As of December 31, 2008	
Issuer Credit Rating	Fair Value	%	Fair Value	%
AAA/Aaa	$ 3,034.4	61.9%	$ 3,221.2	81.9%
AA/Aa2	393.0	8.0	302.8	7.7
A/A2	706.5	14.4	77.8	2.0
BBB/Baa2	257.1	5.2	1.4	—
BB/Ba2	143.3	2.9	16.2	0.4
B/B2	87.5	1.8	100.3	2.6
CCC/Caa or lower or not rated	284.9	5.8	212.8	5.4
Total	$ 4,906.7	100.0%	$ 3,932.5	100.0%

As of December 31, 2009, 89.5% of our fixed income portfolio at fair value was rated investment grade (as compared to 91.6% as of December 31, 2008), with 69.9% (primarily consisting of government obligations) being rated AA/Aa2 or better (as compared to 89.6% as of December 31, 2008). As of December 31, 2009, holdings of fixed income securities in the ten issuers (excluding federal governments) to which we had the greatest exposure was $1.6 billion, which was approximately 18.2% of our total invested assets. The exposure to the largest single issuer of corporate bonds held as of December 31, 2009 was $146.3 million, which was approximately 1.7% of our total investment portfolio, or 4.1% of our total shareholders' equity.

Our investment portfolio as of December 31, 2009 included $3.1 billion in U.S. taxable and tax exempt state and municipal bonds, most of which were purchased during 2008, and of which approximately $2.0 billion (63.8%) were fully insured by Berkshire Hathaway Assurance Corp. ("BHAC") for the payment of interest and principal in the event of issuer default; we believe that the BHAC insurance significantly mitigates the credit risk associated with these bonds.

Our risk management objective is to mitigate the adverse change in the fair value of our financial assets that would likely result in the event of significant defaults or other adverse events in the U.S. credit markets. Beginning in 2003, we attempted to meet this objective by purchasing credit default protection ("credit default swaps") referenced to various issuers in the banking, mortgage and insurance sectors of the financial services industry, which are representative of the systemic financial risk, versus hedging specific assets. We chose this approach because it was impossible to predict which of the hedged assets would be adversely affected and to what degree. As a result, we did not specifically align hedged items with hedging instruments.

Under a credit default swap, as the buyer, we agree to pay to a specific counterparty, at specified periods, fixed premium amounts based on an agreed notional principal amount in exchange for protection against default by the issuers of specified referenced debt securities. The credit events, as defined by the respective credit default swap contracts, establishing the rights to recover amounts from the counterparties are comprised of ISDA−standard credit events, which are: bankruptcy, obligation acceleration, obligation default, failure to pay, repudiation/moratorium and restructuring. As of December 31, 2009, all credit default swap contracts held by us have been purchased from and entered into with either Citibank, N.A., Deutsche Bank AG or Barclays Bank PLC as the counterparty, with positions on certain covered risks with more than one of these counterparties.

We obtain market derived fair values for our credit default swaps from third party providers, principally broker−dealers. To validate broker−dealer credit default swap fair value quotations, two reasonability tests are performed. First, we obtain credit default swap bid−spreads from independent broker−dealers (non−counterparty broker−dealers). These spreads are entered as inputs into a discounted cash flow model, which calculates a fair value that is compared for reasonability to the counterparty broker−dealer provided fair values. The discounted cash flow model uses the independently obtained credit default swap bid−spreads to calculate the present value of the remaining protection payments using the appropriate currency−denominated swap curve, with consideration given to various other parameters including single name bid−spread in basis points and the remaining term to maturity of the credit default swap contract. Secondly, a comparison is performed against recently transacted credit default swap values as provided by independent broker−dealers, and to prices reflected in recent trades of identical financial instruments where available.

The initial premium paid for each credit default swap contract was recorded as a derivative asset and was subsequently adjusted for changes in the unrealized fair value of the contract at each balance sheet date. As these contracts do not qualify for hedge accounting, changes in the unrealized fair value of the contract were recorded as net realized investment gains (losses) on investments in our consolidated statements of operations and comprehensive income. Sales of credit default swap contracts require us to reverse through net gains (losses) on investments any previously recorded unrealized fair value changes since the inception of the contract, and to record the actual amount of the final cash settlement. Derivative assets were reported gross, on a contract−by−contract basis, and are recorded at fair value in other invested assets in the consolidated balance sheet. The sale, expiration or early settlement of a credit default swap will not result in a cash payment owed by us; rather, such an event can only result in a cash payment by a third party purchaser of the contract, or the counterparty, to us. Accordingly, there is no opportunity for netting of amounts owed in settlement. Cash receipts at the date of sale of the credit default swaps were recorded as cash flows from investing activities arising from net sales of assets and liabilities classified as held for trading.

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The total cost of the credit default swaps was $20.6 million and $30.8 million as of December 31, 2009 and 2008, respectively, and the fair value was $10.0 million and $82.8 million, as of December 31, 2009 and 2008, respectively. The notional amount of the credit default swaps was $1.3 billion and $1.8 billion as of December 31, 2009 and 2008, respectively. The credit default swaps had net realized investment losses of $28.7 million and net realized investment gains of $350.7 million for the year ended December 31, 2009, and 2008, respectively. The fair values of credit default swaps are subject to significant volatility given potential differences in the perceived risk of default of the underlying issuers, movements in credit spreads and the length of time to the contracts' maturities. The fair value of the credit default swaps may vary dramatically either up or down in short periods, and their ultimate value may therefore only be known upon their disposition. Credit default swap transactions generally settle in cash. As we fund all of our obligations relating to these contracts upon initiation of the transaction, there are no requirements in these contracts for us to provide collateral.

The following tables summarize the effect of the credit default swap hedging instruments and related hedged items on our historical financial position, results of operations and cash flows as of and for the years ended December 31, 2009 and 2008 (in millions):

	As of and for the Year Ended December 31, 2009					
			Effect on Pre-tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Income	Net Realized Investment Gains	Net Equity	Net Cash Flow from Disposals
Credit risk exposures:						
Fixed income securities	$ 4,906.7	$ 4,906.7	$ 237.8	$ 218.6	$ 456.4	$ 124.4
Derivatives — other invested assets	6.9	6.9	—	2.9	2.9	(0.2)
Cash, cash equivalents and short-term investments	1,361.7	1,361.7	—	65.9	65.9	65.9
Premiums receivable	473.9	473.9	—	(2.5)	(2.5)	(2.5)
Reinsurance recoverable	1,165.5	1,165.5	—	2.6	2.6	—
Total credit risk exposure	$ 7,914.7	$ 7,914.7	237.8	287.5	525.3	187.6
Hedging instruments:						
Other invested assets:						
Credit default swaps:						
Banking	$ 410.6	$ 3.1	—	(1.3)	(1.3)	12.8
Insurance	884.6	6.9	—	(27.4)	(27.4)	21.2
Total credit default swaps	$ 1,295.2	$ 10.0	—	(28.7)	(28.7)	34.0
Net equity impact			$ 237.8	$ 258.8	$ 496.6	$ 221.6

	As of and for the Year Ended December 31, 2008					
			Effect on Pre–tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Loss	Net Realized Investment Gains	Net Equity	Net Cash Flow from Disposals
Credit risk exposures:						
Fixed income securities	$ 3,932.5	$ 3,932.5	$ 133.8	$ 154.2	$ 288.0	$ 316.3
Derivatives — other invested assets	28.2	28.2	—	62.4	62.4	35.1
Cash, cash equivalents and short–term investments	2,040.5	2,040.5	—	(88.0)	(88.0)	(88.0)
Premiums receivable	496.4	496.4	—	(1.5)	(1.5)	(1.5)
Reinsurance recoverable	996.5	996.5	—	(0.1)	(0.1)	—
Total credit risk exposure	$ 7,494.1	$ 7,494.1	133.8	127.0	260.8	261.9
Hedging instruments:						
Other invested assets:						
Credit default swaps:						
Mortgage	$ —	$ —	—	126.2	126.2	269.5
Banking	689.7	21.6	—	38.8	38.8	32.7
Insurance	1,093.2	61.2	—	185.7	185.7	209.9
Total credit default swaps	$ 1,782.9	$ 82.8	—	350.7	350.7	512.1
Net equity impact			$ 133.8	$ 477.7	$ 611.5	$ 774.0

In the normal course of effecting our economic hedging strategy with respect to credit risk, we expect that there may be periods where the notional value of the hedging instrument may exceed or be less than the exposure item being hedged. This situation may arise when management compensates for imperfect correlations between the hedging item and the hedge, due to the timing of opportunities related to our ability to exit and enter hedged or hedging items at attractive prices or when management desires to only partially hedge an exposure.

The fair values of credit default swap contracts are sensitive to individual issuer credit default swap yield curves and current market spreads. The timing and amount of changes in fair value of fixed income securities and underwriting balances are by their nature uncertain. As a result of these data limitations and market uncertainties, it is not possible to estimate the reasonably likely future impact of our economic hedging programs.

Our holdings of credit default swap contracts have declined significantly in 2009 relative to prior years, largely as a result of significant sales in 2008. In the latter part of 2008, we revised the financial objectives of our hedging program by determining not to replace our credit default swap hedge position as sales or expiries occurred, primarily based upon our judgment that our exposure to elevated levels of credit risk had moderated, but also due to (i) the significant increase in the cost of purchasing credit protection (reducing the attractiveness of the credit default swap contract as a hedging instrument), (ii) improvement in our capital and liquidity (having benefited significantly from, among other things, $568.9 million in gains from sales of credit default swaps realized since the beginning of 2007), and (iii) our judgment that managing credit risk through means other than the use of derivatives was, given the market environment, once again appropriate for mitigating our credit exposure arising from financial assets. As a result, the effects that credit default swaps as hedging instruments may be expected to have on our future financial position, liquidity and operating results may be expected to diminish relative to the effects in recent years. We continue to evaluate the potential impact of the volatility in the U.S. credit markets on our financial statements and may, if conditions warrant, initiate new credit default swap contracts as a hedging mechanism in the future, although there can be no assurance that we will do so, in an effort to achieve our continuing objective to minimize the potential for loss of value of held assets where, in our view, an unusual or excessive exposure exists.

For the year ended December 31, 2009, we sold a portion of our credit default swaps, contributing to a decrease in the fair value of the portfolio to $10.0 million as of December 31, 2009, from $82.8 million as of December 31, 2008. The credit default swap portfolio had an average term to expiration of 1.5 years as of December 31, 2009, a decrease from 2.5 years as of December 31, 2008.

As of December 31, 2009, our holdings of financial instruments without quoted prices, or “non−traded investments,” included a collateral loan, which was fully impaired during 2005. We periodically evaluate the carrying value of non−traded investments by reviewing the borrowers’ current financial positions and the timeliness of their interest and principal payments.

Equity Price Risk

Our investment portfolio is managed with a long term, value−oriented investment philosophy emphasizing downside protection. We have policies to limit and monitor our individual issuer exposures and aggregate equity exposure. Aggregate exposure to single issuers and total equity positions are monitored at the subsidiary level and in aggregate at the consolidated level.

During much of 2008 and the immediately preceding years, we had been concerned with the valuation level of worldwide equity markets, uncertainty resulting from credit issues in the United States and global economic conditions. As protection against a decline in equity markets and as an “economic hedge” against a broad market downturn, we had held short positions effected by way of equity index−based exchange−traded securities including Standard & Poor’s depository receipts (“SPDRs”), the iShares Canadian S&P/TSX60 (XIU), U.S. listed common stocks, equity total return swaps and equity index total return swaps, referred to in the aggregate as our “equity hedges.” We had also purchased S&P 500 index call options to limit the potential loss on U.S. equity index total return swaps and SPDRs short positions, and to provide general protection against the short position in common stocks. In November 2008, following significant declines in global equity markets, we revised the financial objectives of our hedging program on the basis of our assessment that elevated risks in the global equity markets had moderated, and subsequently closed substantially all of our equity hedge positions.

During the remainder of the fourth quarter of 2008 and continuing into 2009, we increased our investments in equity securities as a result of the opportunities presented by significant declines in valuations. These additions to our portfolio, coupled with the significant appreciation in the value of the worldwide equity markets during 2009, resulted in a significant increase in the value of our equity holdings and, thus, to the exposure to increased loss potential should the equity markets again suffer a significant decline in value. We continue to manage our exposure to market price fluctuations primarily through policies designed to monitor and limit our individual issuer exposures and aggregate equity exposure. However, in late September 2009, we also initiated U.S. equity index total return swap contracts, which as of December 31, 2009 have a notional value of $818.4 million, to protect against potential future broad market downturns. The collateral requirement related to entering the total return swaps was $78.5 million as of December 31, 2009. These total return swap transactions terminate during the third quarter of 2010. The equity index total return swaps, in the aggregate, were in a gain position as of December 31, 2009, and are recorded in other invested assets. Changes in the fair values of equity index and common stock total return swaps are recorded as realized gains or losses in the consolidated statements of operations in the period in which they occur. As of December 31, 2009 and 2008, we had aggregate equity holdings with fair value of $2.2 billion (common stocks of $2.1 billion plus preferred stock of $0.1 billion) and $1.6 billion (common stocks), respectively.

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The following tables summarize the effect of equity risk hedging instruments and related hedged items on our historical financial position, results of operations and cash flows as of and for the years ended December 31, 2009 and 2008 (in millions):

	As of and for the Year Ended December 31, 2009					
			Effect on Pre–tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Income	Net Realized Investment Gains	Net Equity	Net Cash Flow Impact from Disposals
Equity risk exposures:						
Preferred stocks	$ 82.6	$ 82.6	$ 0.4	$ 7.1	$ 7.5	$ (1.1)
Common stocks, at fair value	2,071.0	2,071.0	464.8	7.7	472.5	30.0
Total equity exposure	$ 2,153.6	$ 2,153.6	465.2	14.8	480.0	28.9
Hedging instruments:						
Other invested assets:						
Total return swaps	$ 818.4	$ 3.1	—	(30.6)	(30.6)	(33.7)
Total equity hedging instruments	$ 818.4	$ 3.1	—	(30.6)	(30.6)	(33.7)
Net equity impact			$ 465.2	$ (15.8)	$ 449.4	$ (4.8)

	As of and for the Year Ended December 31, 2008					
			Effect on Pre–tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Loss	Net Realized Investment Gains	Net Equity	Net Cash Flow Impact from Disposals
Equity risk exposures:						
Preferred stocks	$ 0.1	$ 0.1	$ 0.5	$ (0.8)	$ (0.3)	$ —
Common stocks, at fair value	1,555.1	1,555.1	(153.5)	(326.9)	(480.4)	12.1
Total equity exposure	$ 1,555.2	$ 1,555.2	(153.0)	(327.7)	(480.7)	12.1
Hedging instruments:						
Other invested assets:						
Total return swaps	$ —	$ —	—	536.4	536.4	540.2
Short positions	—	—	—	12.8	12.8	14.5
Call options	75.3	—	—	(1.2)	(1.2)	(2.2)
Total equity hedging instruments	$ 75.3	$ —	—	548.0	548.0	552.5
Net equity impact			$ (153.0)	$ 220.3	$ 67.3	$ 564.6

In the normal course of effecting our economic hedging strategy with respect to equity risk, we expect that there may be periods where the notional value of the hedging instrument may exceed or be less than the exposure item being hedged. This situation may arise when management compensates for imperfect correlations between the hedging item and the hedge, due to the timing of opportunities related to our ability to exit and enter hedged or hedging items at attractive prices or when management desires to only partially hedge an exposure.

The following table summarizes the potential impact of a 10% change in our equity and equity−related holdings (including equity hedges where appropriate) on pre−tax other comprehensive income (loss) and pre−tax net income for the years ended December 31, 2009, 2008 and 2007. Certain shortcomings are inherent in the method of analysis presented, as it is based on the assumptions that the equity and equity−related holdings had increased/decreased by 10%, with all other variables held constant, and that all the equity and equity−related instruments move according to a one−to−one correlation with global equity markets.

Change in global equity markets	Year Ended December 31, 2009	2008	2007
	Effect on Pre−tax: Other Comprehensive Income (Loss) (In millions)		
10% decrease	$ 215.4	$ 155.5	$ 88.7
10% increase	(215.4)	(155.5)	(88.7)

Change in global equity markets	Year Ended December 31, 2009	2008	2007
	Effect on Pre−tax: Net Income (In millions)		
10% decrease	$ (81.5)	$ —	$ (68.7)
10% increase	81.5	—	68.7

Generally, a 10% decline in the global equity markets would result in a similar decrease in the value of our equity investment holdings, resulting in decreases in our pre−tax other comprehensive income, as the majority of our equity investment holdings are classified as available for sale. Conversely, a 10% increase in global equity markets would generally result in a similar increase in the value of our equity investment holdings, resulting in increases in our pre−tax other comprehensive income. As the equity hedges held by us as of December 31, 2009 were all entered into at the end of September 2009, and as there were no other equity hedges in our portfolio during 2009 prior to September, the effects of changes in the global equity markets for the year ended December 31, 2009 were not fully offset by the effects of any hedging activities. For the year ended December 31, 2008, however, during which our hedging activities were significant, the effect of changes in global equity markets on pre−tax other comprehensive income and pre−tax income was more than offset by the effect on pre−tax net income of the equity hedges, effected primarily through positions in derivatives, and securities sold but not yet purchased.

As of December 31, 2009, our equity related holdings in the ten issuers to which we had the greatest exposure totaled $1.6 billion, which was approximately 18.1% of our total invested assets. The exposure to the largest single issuer of equity related holdings held as of December 31, 2009 was $257.0 million, which was approximately 2.9% of our total invested assets, or 7.2% of our total shareholders' equity.

Foreign Currency Risk

Through investment in securities denominated in foreign currencies, we are exposed to foreign (i.e., non−U.S.) currency risk. Foreign currency exchange risk exists because changes in the exchange rates of the underlying foreign currencies in which our investments are denominated affect the fair values of these investments when they are converted to the U.S. dollar. As of December 31, 2009 and 2008, our total exposure to foreign−denominated securities in U.S. dollar terms was approximately $2.0 billion and $1.9 billion, or 22.6% and 23.8%, respectively, of our total investments and cash. The primary foreign currency exposures were from securities denominated in Euros, which represented 8.1% and 9.7% of our total investments and cash as of December 31, 2009 and 2008, respectively, the British pound, which represented 4.9% and 6.0% of our total investments and cash as of December 31, 2009 and 2008, respectively, and the Canadian dollar, which represented 4.0% and 3.5%, of our total investments and cash as of December 31, 2009 and 2008, respectively. As of December 31, 2009, the potential impact of a 10% decline in each of the foreign exchange rates on the

valuation of investment assets denominated in foreign currencies would result in a $197.0 million decline in the fair value of our total investments and cash, before taxes.

Through our international operations, we conduct our business in a variety of foreign (non−U.S.) currencies, with the primary exposures being Euros, British pounds, and Canadian dollars. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates to the extent that they do not offset each other resulting in a natural hedge. Our reporting currency is the U.S. dollar, and exchange rate fluctuations relative to the U.S. dollar may materially impact our results and financial condition. We manage this risk on a macro basis by entering into forward currency contracts. As of December 31, 2009 and 2008, we were party to forward currency contracts with notional amounts of $416.3 million and $533.9 million, respectively. As of December 31, 2009 and 2008, the fair value of these contracts is reported in other liabilities and other invested assets at $39.3 million and $28.2 million, respectively. Forward currency contracts had net realized investment losses of $59.9 million and net realized investment gains of $66.7 million for the years ended December 31, 2009 and 2008, respectively.

Investment Impairment Risk

On a quarterly basis, we review our investment portfolio for declines in value and specifically consider 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 that are determined to be temporary are recorded as unrealized depreciation, net of tax, in accumulated other comprehensive income. If we determine that a decline is "other−than−temporary," the cost or amortized cost of the investment will be written down to the fair value and a realized investment loss will be recorded in our consolidated statements of operations.

In assessing the value of our debt and equity securities held as investments, and possible impairments of such securities, we review (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 we may consider relevant. Generally, a change in the market or interest rate environment would not, of itself, result in an impairment of an investment, but rather a temporary decline in value. In addition, we consider our ability and intent to hold the security to recovery when evaluating possible impairments.

Decisions regarding other−than−temporary impairments require an evaluation of facts and circumstances at a specific time to determine if an other−than−temporary impairment exists. For our available−for−sale fixed income securities, additional facts are evaluated to determine if the other−than−temporary impairment is related to credit or other factors. For our available−for−sale fixed income securities, should the facts and circumstances change, such that an other−than−temporary impairment is considered appropriate, and additional factors determine that the other−than−temporary impairment is related to credit, we will recognize the impairment by reducing the cost or amortized cost of the investment to its fair value and recording the loss in our consolidated statements of operations. When it is determined that an other−than−temporary impairment for our available−for−sale fixed income securities exists that is related to other factors (e.g., interest rates and market conditions), we will recognize the impairment in other comprehensive income. For our redeemable preferred stock at fair value, should the facts and circumstances change such that an other−than−temporary impairment is considered appropriate, we will recognize the impairment by reducing the cost of the investment to its fair value and recording the loss in our consolidated statements of operations. Upon the disposition of a security where an other−than−temporary impairment has been taken, we will record a gain or loss based on the adjusted cost or carrying value of the investment.

Risks and uncertainties are inherent in our other−than−temporary decline in value assessment methodology. Risks and uncertainties include, but are not limited to, incorrect or overly optimistic assumptions about financial condition or liquidity, incorrect or overly optimistic assumptions about future prospects, inadequacy of any underlying collateral, unfavorable changes in economic or social conditions and unfavorable changes in interest rates.

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The following tables reflect the fair value and gross unrealized depreciation of our fixed income securities and common stock investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2009 and 2008 (in millions):

	Duration of Unrealized Loss								
	Less than 12 Months			Greater than 12 Months			Total		
December 31, 2009	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities
Fixed income securities investment grade:									
United States government, government agencies and authorities	$ 62.2	$ (4.3)	9	$ —	$ —	—	$ 62.2	$ (4.3)	9
States, municipalities and political subdivisions	572.0	(39.3)	6	1.0	(0.1)	1	573.0	(39.4)	7
Foreign governments	—	—	—	8.5	(0.1)	1	8.5	(0.1)	1
Corporate	4.9	(0.1)	1	—	—	—	4.9	(0.1)	1
Total investment grade	639.1	(43.7)	16	9.5	(0.2)	2	648.6	(43.9)	18
Fixed income securities non–investment grade, corporate	41.9	—	3	—	—	—	41.9	—	3
Total fixed income securities	681.0	(43.7)	19	9.5	(0.2)	2	690.5	(43.9)	21
Common stocks, at fair value	36.2	(3.9)	7	—	—	—	36.2	(3.9)	7
Total temporarily impaired securities	$ 717.2	$ (47.6)	26	$ 9.5	$ (0.2)	2	$ 726.7	$ (47.8)	28

	Duration of Unrealized Loss								
	Less than 12 Months			Greater than 12 Months			Total		
December 31, 2008	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities
Fixed income securities investment grade:									
States, municipalities and political subdivisions	$ 579.0	$ (23.4)	34	$ 7.9	$ (0.7)	2	$ 586.9	$ (24.1)	36
Foreign governments	—	—	—	8.4	—	1	8.4	—	1
Total investment grade	579.0	(23.4)	34	16.3	(0.7)	3	595.3	(24.1)	37
Fixed income securities non–investment grade, corporate	90.5	(13.8)	4	—	(0.1)	1	90.5	(13.9)	5
Total fixed income securities	669.5	(37.2)	38	16.3	(0.8)	4	685.8	(38.0)	42
Redeemable preferred stocks, at fair value	0.1	(0.4)	2	—	—	—	0.1	(0.4)	2
Common stocks, at fair value	596.3	(129.0)	15	—	—	—	596.3	(129.0)	15
Total temporarily	$1,265.9	$ (166.6)	55	$ 16.3	$ (0.8)	4	$1,282.2	$ (167.4)	59

impaired securities

We believe the gross unrealized depreciation is temporary in nature and we have not recorded a realized investment loss related to these securities. Given the size of our investment portfolio and capital position, we believe it is likely that we will not be required to sell or liquidate these securities before the fair value recovers the gross unrealized depreciation.

Disclosure of Contractual Obligations

The following table provides a payment schedule of present and future obligations as of December 31, 2009 (in millions):

Contractual Obligations	Payment due by period				
	Total	Less than 1 Year	1–3 Years	3–5 Years	More than 5 Years
Long term debt — principal	$ 490.0	$ —	$ —	$ 225.0	$ 265.0
Long term debt — interest	147.4	29.5	59.1	38.9	19.9
Operating leases	66.4	9.5	13.8	10.1	33.0
Employee benefits	116.5	24.9	35.6	15.2	40.8
Losses and LAE	5,507.8	1,247.6	1,511.6	869.5	1,879.1
Total	$ 6,328.1	$ 1,311.5	$ 1,620.1	$ 1,158.7	$ 2,237.8

For further detail on our long term debt principal and interest payments, see Note 13 to our consolidated financial statements included in this Annual Report on Form 10–K. For further detail on our operating lease payments, see Note 16 to our consolidated financial statements included in this Annual Report on Form 10–K. For further detail on our employee benefit plans, see Notes 19 and 20 to our consolidated statements in this Annual Report on Form 10–K.

For further detail on our losses and LAE, see Note 9 to our consolidated financial statements included in this Annual Report on Form 10–K. Our reserves for losses and LAE do not have contractual maturity dates. However, based on historical payment patterns, we have included an estimate of when we expect our losses and LAE to be paid in the table above. The exact timing of the payment of claims cannot be predicted with certainty. We maintain a portfolio of investments with varying maturities and a substantial amount of short–term investments to provide adequate cash flows for the payment of claims. The reserves for unpaid losses and LAE reflected in the table above have not been reduced for reinsurance recoverables on unpaid losses which are reflected in our consolidated balance sheet as an asset of $841.5 million as of December 31, 2009. Based on historical patterns, we estimate that we will collect the recoveries as follows: $192.0 million in less than one year; $222.6 million in one to three years; $133.3 million between three and five years and $293.5 million in more than five years.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

See Item 7–Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. ***Financial Statements and Supplementary Data***

ODYSSEY RE HOLDINGS CORP.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Odyssey Re Holdings Corp. and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
New York, New York
February 25, 2010

ODYSSEY RE HOLDINGS CORP.
CONSOLIDATED BALANCE SHEETS

	December 31, 2009	December 31, 2008
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $3,971,139 and $3,429,226, respectively)	$ 4,373,965	$ 3,594,278
Fixed income securities, held as trading securities, at fair value (amortized cost $598,918 and $474,465, respectively)	532,718	338,209
Redeemable preferred stock, at fair value (cost $108 and $510, respectively)	108	114
Convertible preferred stock, held as trading securities, at fair value (cost $75,000)	82,470	—
Equity securities:		
Common stocks, at fair value (cost $1,679,748 and $1,628,611, respectively)	2,071,037	1,555,142
Common stocks, at equity	158,460	141,473
Short–term investments, at fair value (amortized cost $125,100 and $1,202,366, respectively)	125,100	1,202,360
Short–term investments, held as trading securities, at fair value (cost $238,419)	238,403	—
Cash and cash equivalents	941,444	755,747
Cash and cash equivalents held as collateral	56,720	82,374
Other invested assets	146,728	222,841
Total investments and cash	8,727,153	7,892,538
Accrued investment income	79,400	66,575
Premiums receivable	473,878	496,418
Reinsurance recoverable on paid losses	70,511	82,999
Reinsurance recoverable on unpaid losses	841,486	690,171
Prepaid reinsurance premiums	113,047	94,797
Funds held by reinsureds	140,480	128,543
Deferred acquisition costs	126,466	139,069
Federal and foreign income taxes receivable	45,333	52,096
Other assets	167,686	83,303
Total assets	$ 10,785,440	$ 9,726,509
LIABILITIES		
Unpaid losses and loss adjustment expenses	$ 5,507,766	$ 5,250,484
Unearned premiums	691,213	701,955
Reinsurance balances payable	178,428	116,388
Funds held under reinsurance contracts	41,250	55,495
Debt obligations	489,402	489,278
Other liabilities	322,147	285,174
Total liabilities	7,230,206	6,898,774
Commitments and Contingencies (Note 16)		
SHAREHOLDERS' EQUITY		
Preferred shares, $0.01 par value; 200,000,000 shares authorized; 2,000,000 and 2,000,000 Series A shares issued and outstanding, respectively; 1,167,263 and 1,872,000 Series B shares issued and outstanding, respectively	32	39
Common shares, $0.01 par value; 500,000,000 shares authorized; 56,604,650 and 60,264,270 shares issued, respectively	567	603
Additional paid–in capital	515,066	614,203
Treasury shares, at cost (21,321 shares in 2008)	—	(795)
Accumulated other comprehensive income, net of deferred income taxes	546,580	82,421
Retained earnings	2,492,989	2,131,264
Total shareholders' equity	3,555,234	2,827,735
Total liabilities and shareholders' equity	$ 10,785,440	$ 9,726,509

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
	2009	2008	2007
	(In thousands, except per share and per share amounts)		
REVENUES			
Gross premiums written	$ 2,195,035	$ 2,294,542	$ 2,282,682
Ceded premiums written	301,222	263,721	193,239
Net premiums written	1,893,813	2,030,821	2,089,443
Decrease in net unearned premiums	33,599	45,543	31,094
Net premiums earned	1,927,412	2,076,364	2,120,537
Net investment income	317,894	255,199	329,422
Net realized investment gains (losses):			
Net realized investment gains	312,964	1,050,951	593,626
Other−than−temporary impairment losses	(127,013)	(358,692)	(54,490)
Total net realized investment gains	185,951	692,259	539,136
Total revenues	2,431,257	3,023,822	2,989,095
EXPENSES			
Losses and loss adjustment expenses	1,301,996	1,508,725	1,408,364
Acquisition costs	375,259	418,005	437,257
Other underwriting expenses	185,688	175,013	178,555
Other expense, net	44,416	60,419	14,006
Interest expense	31,040	34,180	37,665
Total expenses	1,938,399	2,196,342	2,075,847
Income before income taxes	492,858	827,480	913,248
Federal and foreign income tax provision (benefit):			
Current	153,250	533,899	201,803
Deferred	(32,706)	(255,427)	115,870
Total federal and foreign income tax provision	120,544	278,472	317,673
Net income	372,314	549,008	595,575
Preferred dividends	(5,233)	(7,380)	(8,345)
Gain on purchase of Series B preferred shares	7,997	1,456	—
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 375,078	$ 543,084	$ 587,230
BASIC			
Weighted average common shares outstanding	N/A	63,384,032	70,443,600
Basic earnings per common share	$ N/A	$ 8.46	$ 8.26
DILUTED			
Weighted average common shares outstanding	N/A	63,870,337	71,387,255
Diluted earnings per common share	$ N/A	$ 8.43	$ 8.19
DIVIDENDS			
Dividends declared per common share	$ 0.225	$ 0.275	$ 0.250
COMPREHENSIVE INCOME			
Net income	$ 372,314	$ 549,008	$ 595,575
Other comprehensive income (loss), net of tax	464,159	(1,217)	76,190
Comprehensive income	$ 836,473	$ 547,791	$ 671,765

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2009	2008	2007
	(In thousands, except share amounts)		
PREFERRED SHARES (par value)			
Balance, beginning of year	$ 39	$ 40	$ 40
Preferred shares purchased	(7)	(1)	—
Balance end of year	32	39	40
COMMON SHARES (par value)			
Balance, beginning of year	603	697	712
Common shares repurchased and retired	(18)	(95)	(26)
Common shares cancelled due to Merger (see Note 1)	(18)	—	—
Common shares issued	—	1	11
Balance end of year	567	603	697
ADDITIONAL PAID–IN CAPITAL			
Balance, beginning of year	614,203	970,020	1,029,349
Adjustment to the beginning balance due to a change in accounting	—	—	11,170
Adjusted beginning balance	614,203	970,020	1,040,519
Common shares repurchased and retired	(73,745)	(351,258)	(94,457)
Preferred shares purchased	(17,173)	(3,119)	—
Net change due to stock option exercises and restricted share awards	(13,105)	(12,028)	(10,384)
Net effect of share–based compensation	4,701	9,465	8,211
Common shares issued	167	1,123	25,825
Common shares cancelled due to Merger (see Note 1)	18	—	—
Effect of a change in accounting standard	—	—	306
Balance end of year	515,066	614,203	970,020
TREASURY SHARES (at cost)			
Balance, beginning of year	(795)	(6,250)	(2,528)
Purchases of treasury shares	(18,001)	(14,048)	(16,555)
Reissuance of treasury shares	17,606	19,503	12,833
Cancellation of treasury shares due to Merger (see Note 1)	1,190	—	—
Balance end of year	—	(795)	(6,250)
ACCUMULATED OTHER COMPREHENSIVE INCOME NET OF DEFERRED INCOME TAXES			
Balance, beginning of year	82,421	85,023	25,329
Unrealized net appreciation (depreciation) on securities, net of reclassification adjustments	463,169	(13,149)	77,783
Foreign currency translation adjustments	2,768	4,109	(1,658)
Benefit plan liabilities	(1,778)	7,823	65
Cumulative effect of changes in accounting	—	(1,385)	(16,496)
Balance end of year	546,580	82,421	85,023
RETAINED EARNINGS			
Balance, beginning of year	2,131,264	1,605,170	1,030,677
Adjustment to the beginning balance due to a change in accounting	—	—	(11,170)
Adjusted beginning balance	2,131,264	1,605,170	1,019,507
Net income	372,314	549,008	595,575
Gain on purchase of Series B preferred shares	7,997	1,456	—
Dividends to preferred shareholders	(5,233)	(7,380)	(8,345)
Dividends to common shareholders	(13,353)	(17,357)	(17,757)
Cumulative effect of changes in accounting	—	367	16,190
Balance end of year	2,492,989	2,131,264	1,605,170
TOTAL SHAREHOLDERS' EQUITY	$ 3,555,234	$ 2,827,735	$ 2,654,700
COMMON SHARES OUTSTANDING			
Balance, beginning of year	60,242,949	69,521,494	71,140,948
Shares cancelled due to Merger (see Note 1)	(1,847,272)	—	—
Repurchased and retired	(1,789,100)	(9,480,756)	(2,636,989)
Net treasury shares (acquired) reissued	(10,927)	141,911	(85,564)
Shares issued	9,000	60,300	1,103,099
Balance end of year	56,604,650	60,242,949	69,521,494

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 372,314	$ 549,008	$ 595,575
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Decrease (increase) in premiums receivable and funds held, net	66,698	(15,960)	(31,559)
Decrease in unearned premiums and prepaid reinsurance premiums, net.	(33,399)	(37,495)	(27,099)
Increase in unpaid losses and loss adjustment expenses, net	43,246	293,754	72,436
Change in current and deferred federal and foreign income taxes, net	(235,274)	(73,183)	93,738
Decrease (increase) in deferred acquisition costs	13,612	8,304	(914)
Change in other assets and liabilities, net	(57,257)	64,422	(8,791)
Net realized investment gains	(185,951)	(692,259)	(539,136)
Bond (discount) premium amortization, net	(13,319)	6,091	(3,582)
Amortization of compensation plans	26,226	9,466	6,714
Net cash (used in) provided by operating activities	(3,104)	112,148	157,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	206,909	121,418	19,829
Sales of fixed income securities, available for sale	446,906	4,650,338	536,372
Purchases of fixed income securities, available for sale	(1,134,974)	(3,581,390)	(1,531,002)
Sales of equity securities	597,640	65,838	358,483
Purchases of equity securities	(623,844)	(1,255,902)	(365,399)
Sales of other invested assets	29,366	1,159,278	59,087
Purchases of other invested assets	(29,828)	(35,707)	(56,182)
Net change in cash and cash equivalents held as collateral	30,407	196,573	63,929
Net change in obligation to return borrowed securities	—	(47,853)	1,342
Sales of trading securities	247,669	6,351	52,672
Purchases of trading securities	(622,721)	(243,573)	(21,311)
Net change in short–term investments	1,096,288	(712,105)	(348,637)
Acquisition of subsidiary and net assets of a business, net of cash acquired	(3,357)	(9,132)	—
Net cash provided by (used in) investing activities	240,461	314,134	(1,230,817)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares repurchased and retired	(72,573)	(354,076)	(92,165)
Purchase of treasury shares	(18,001)	(14,048)	(17,259)
Purchase of Series B preferred shares	(9,183)	(1,664)	—
Dividends paid to preferred shareholders	(5,882)	(7,526)	(8,369)
Dividends paid to common shareholders	(13,353)	(17,357)	(17,757)
Proceeds from exercise of stock options	851	3,527	2,530
Excess tax benefit from compensation plans	3,816	1,301	1,503
Net cash used in financing activities	(114,325)	(389,843)	(131,517)
Effect of exchange rate changes on cash and cash equivalents	62,665	(178,655)	41,119
Increase (decrease) in cash and cash equivalents	185,697	(142,216)	(1,163,833)
Cash and cash equivalents, beginning of year	755,747	897,963	2,061,796
Cash and cash equivalents, end of year	$ 941,444	$ 755,747	$ 897,963
Supplemental disclosures of cash flow information:			
Interest paid	$ 30,555	$ 33,779	$ 36,985
Income taxes paid	$ 355,943	$ 348,390	$ 224,621
Non–cash activity (see Note 13) Conversion of 4.375% convertible debentures	$ —	$ —	$ (23,474)
Issuance of common stock	$ —	$ —	$ 23,474

See accompanying notes to consolidated financial statements.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Odyssey Re Holdings Corp. (together with its subsidiaries, the "Company" or "OdysseyRe") is an underwriter of reinsurance, providing a full range of property and casualty products on a worldwide basis, and an underwriter of specialty insurance, primarily in the United States and through the Lloyd's of London marketplace. Odyssey Re Holdings Corp. was formed as a holding company and incorporated in Delaware in 2001 in conjunction with its initial public offering. Odyssey Re Holdings Corp. owns all of the common shares of Odyssey America Reinsurance Corporation ("Odyssey America"), its principal operating subsidiary, which is domiciled in the state of Connecticut. Odyssey America directly or indirectly owns all of the common shares of the following subsidiaries: Clearwater Insurance Company ("Clearwater"); Clearwater Select Insurance Company; Newline Holdings U.K. Limited, Newline Underwriting Management Limited, which manages Newline Syndicate (1218), a member of Lloyd's of London, Newline Insurance Company Limited ("NICL"), Newline Corporate Name Limited ("NCNL"), which provides capital for and receives the distributed earnings from Newline Syndicate (1218) (collectively, "Newline"); Hudson Insurance Company ("Hudson"); Hudson Specialty Insurance Company ("Hudson Specialty") and Napa River Insurance Services, Inc. As of December 31, 2009, Fairfax Financial Holdings Limited ("Fairfax"), a publicly traded financial services holding company based in Canada, owned 100.0% of OdysseyRe.

On September 18, 2009, Fairfax and OdysseyRe announced that they had entered into an agreement and plan of merger (the "Merger Agreement") pursuant to which Fairfax would promptly commence a tender offer to acquire all of the outstanding shares of common stock of OdysseyRe that Fairfax and its subsidiaries did not currently own, for $65.00 in cash per share, representing total cash consideration of approximately $1.1 billion. Pursuant to the Merger Agreement, on September 23, 2009, Fairfax commenced a tender offer for all of the outstanding shares of common stock of OdysseyRe (the "Offer") other than shares owned by Fairfax and its subsidiaries for $65.00 in cash per share. The Board of Directors of OdysseyRe, following the unanimous recommendation of a special committee comprised solely of independent directors which had been formed to review and consider any Fairfax proposal, recommended that OdysseyRe's minority stockholders tender their shares to the Fairfax offer and vote or consent to approve and adopt the Merger Agreement if it were to be submitted for their approval and adoption.

Pursuant to the Offer, which expired on October 21, 2009 at 12:00 midnight, New York City time, Fairfax acquired a total of approximately 14.3 million shares of common stock of OdysseyRe (the "Tendered Shares"). The Tendered Shares, combined with the shares previously owned by Fairfax and its subsidiaries, represented approximately 97.1% of the 58,451,922 shares of common stock of OdysseyRe outstanding. Following the purchase of the Tendered Shares, Fairfax caused a short−form merger pursuant to which Fairfax Investments USA Corp., a newly−formed, wholly−owned subsidiary of Fairfax, merged with and into OdysseyRe (the "Merger").

The Merger was effected on October 28, 2009 pursuant to Section 253 of the General Corporation Law of the State of Delaware (the "DGCL") by the execution and filing of a Certificate of Ownership and Merger with the Secretary of State of the State of Delaware. As a result of the Merger, all of the remaining shares of OdysseyRe's common stock held by the remaining minority shareholders of OdysseyRe (the "Remaining Shares") were cancelled and, subject to appraisal rights under Delaware law, converted into the right to receive $65.00 per share in cash, without interest, and subject to any applicable withholding of taxes. As a result of the Merger, Fairfax and its subsidiaries became the owner of 100% of the outstanding shares of the Company's common stock. The Company subsequently withdrew its shares of common stock from listing on the New York Stock Exchange and terminated registration of these shares under the Securities Exchange Act of 1934. All common shares remaining in treasury following the Merger were cancelled.

2. Summary of Significant Accounting Policies

(a) *Basis of Presentation.* The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany

transactions have been eliminated. The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions, which could differ materially from actual results that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Certain amounts from prior periods have been reclassified to conform to the current year's presentations.

(b) *Investments.* The majority of the Company's investments in fixed income securities and common stocks are categorized as "available for sale" and are recorded at their estimated fair value based on quoted market prices. Certain investments, including fixed income securities that contain embedded derivatives, are reflected in trading securities (see Note 3), while most investments in common stocks of affiliates are carried at the Company's proportionate share of the equity of those affiliates. Short–term investments (some of which are classified as "available for sale", and some of which are classified as "held as trading"), which have a maturity of one year or less from the date of purchase, are carried at fair value. The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Investments in limited partnerships and investment funds have been reported in other invested assets. Other invested assets also include trust accounts relating to the Company's benefit plans and derivative securities, all of which are carried at fair value. The Company routinely evaluates the carrying value of its investments in common stocks of affiliates and in partnerships and investment funds. In the case of limited partnerships and investment funds, the carrying value is generally established on the basis of the net valuation criteria as determined by the managers of the investments. Such valuations could differ significantly from the values that would have been available had markets existed for the securities. Investment transactions are recorded on their trade date, with balances pending settlement reflected in the consolidated balance sheet as a component of other assets or other liabilities.

Investment income, which is reported net of applicable investment expenses, is recorded as earned. Realized investment gains or losses are determined on the basis of average cost. The Company records, in investment income, its proportionate share of income or loss, including realized gains or losses, for those securities for which the equity method of accounting is utilized, which include most common stocks of affiliates, limited partnerships and investment funds. Due to the timing of when financial information is reported by equity investees and received by the Company, including limited partnerships and investment funds, results attributable to these investments are generally reported by the Company on a one month or one quarter lag. Unrealized appreciation and depreciation related to trading securities is recorded as realized investment gains or losses in the consolidated statements of operations.

The net amount of unrealized appreciation or depreciation on the Company's available for sale investments, net of applicable deferred income taxes, is reflected in shareholders' equity in accumulated other comprehensive income. A decline in the fair value of an available for sale investment below its cost or amortized cost that is deemed other–than–temporary is recorded as a realized investment loss in the consolidated statements of operations, resulting in a new cost or amortized cost basis for the investment. Other–than–temporary declines in the carrying values of investments recorded in accordance with the equity method of accounting are recorded in net investment income in the consolidated statements of operations.

(c) *Premium Revenue Recognition.* Reinsurance assumed premiums written and related costs are based upon reports received from ceding companies. Where reinsurance assumed premiums written have not been reported by the ceding company, they are estimated, at the individual contract level, based on historical patterns and experience from the ceding company and judgments of the Company. Subsequent adjustments to premiums written, based on actual results or revised estimates from the ceding company, are recorded in the period in which they become known. Reinsurance assumed premiums written related to proportional treaty business are established on a basis that is consistent with the coverage periods under the terms of the underlying insurance contracts. Reinsurance assumed premiums written related to excess of loss and facultative reinsurance business are recorded over the coverage term of the contracts, which is generally one year. Unearned premium reserves are established for the portion of reinsurance assumed premiums written to be recognized over the remaining contract period. Unearned premium reserves related to proportional treaty contracts are computed based on reports received from ceding companies, which show premiums written but not yet earned. Premium adjustments

made over the life of the contract are recognized as earned premiums based on the applicable contract period to which they apply. Insurance premiums are earned on a pro rata basis over the policy period, which is generally one year. A reserve for uncollectible premiums is established when deemed necessary.

The cost of reinsurance purchased by the Company (reinsurance premiums ceded) is reported as prepaid reinsurance premiums and amortized over the contract period in proportion to the amount of insurance protection provided. The ultimate amount of premiums, including adjustments, is recognized as premiums ceded, and amortized over the applicable contract period to which they apply. Reserves are established for the unexpired portion of premiums ceded and recorded as an asset in prepaid reinsurance premiums. Premiums earned are reported net of reinsurance ceded premiums earned in the consolidated statements of operations. Amounts paid by the Company for retroactive reinsurance that meets the conditions for reinsurance accounting are reported as reinsurance receivables to the extent those amounts do not exceed the associated liabilities. If the liabilities exceed the amounts paid, reinsurance receivables are increased to reflect the difference, and the resulting gain is deferred and amortized over the estimated settlement period. If the amounts paid for retroactive reinsurance exceed the liabilities, the Company will increase the related liabilities or reduce the reinsurance receivable, or both, at the time the reinsurance contract is effective, and the excess is charged to net income. Changes in the estimated amount of liabilities relating to the underlying reinsured contracts are recognized in net income in the period of the change.

Assumed and ceded reinstatement premiums represent additional premiums related to reinsurance coverages, principally catastrophe excess of loss contracts, which are paid when the incurred loss limits have been utilized under the reinsurance contract and such limits are reinstated. Premiums written and earned premiums related to a loss event are estimated and accrued as earned. The accrual is adjusted based upon any change to the ultimate losses incurred under the contract.

(d) *Deferred Acquisition Costs.* Acquisition costs, which are reported net of acquisition costs ceded, consist of commissions and brokerage expenses incurred on insurance and reinsurance business written, and are deferred and amortized over the period in which the related premiums are earned, which is generally one year. Commission adjustments are accrued based on changes in premiums and losses recorded by the Company in the period in which they become known. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premium, which considers anticipated losses and loss adjustment expenses and estimated remaining costs of servicing the business, all based on historical experience. The realizable value of the Company's deferred acquisition costs is determined without consideration of investment income.

(e) *Goodwill and Intangible Assets.* The Company accounts for goodwill and intangible assets as permitted or required by GAAP. A purchase price paid that is in excess of net assets arising from a business combination is recorded as an asset ("goodwill") and is not amortized. Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statements of operations. The Company has determined that its goodwill and intangible assets are not impaired as of December 31, 2009 and 2008.

ODYSSEY RE HOLDINGS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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, 2009 and 2008 (in thousands):

		Intangible Assets		
	Goodwill	Indefinite Life	Finite Life	Total
Balance, January 1, 2008	$ 24,708	$ 5,813	$ 4,375	$ 34,896
Acquired during 2008	8,669	—	8,340	17,009
Amortization during 2008	—	—	(1,575)	(1,575)
Balance, December 31, 2008	33,377	5,813	11,140	50,330
Acquired during 2009	3,357	—	—	3,357
Amortization during 2009	—	—	(2,642)	(2,642)
Balance, December 31, 2009	$ 36,734	$ 5,813	$ 8,498	$ 51,045

The Company amortized $0.8 million for the year ended December 31, 2007, related to its intangible assets with a finite life. The Company did not incur any impairment of its intangible assets during 2009, 2008 or 2007.

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

	Years Ended December 31,				
	2010	2011	2012	2013	2014
Amortization of intangible assets	$ 2,047	$ 1,858	$ 1,698	$ 1,312	$ 459

(f) *Unpaid losses and loss adjustment expenses.* The reserves for losses and loss adjustment expenses are estimates of amounts needed to pay reported and unreported claims and related loss adjustment expenses. The estimates are based on assumptions related to the ultimate cost to settle such claims. The inherent uncertainties of estimating reserves are greater for reinsurers than for primary insurers, due to the diversity of development patterns among different types of reinsurance contracts and the necessary reliance on ceding companies for information regarding reported claims. As a result, there can be no assurance that the ultimate liability will not exceed amounts reserved, with a resulting adverse effect on the Company.

The reserve for unpaid losses and loss adjustment expenses is based on the Company's evaluations of reported claims and individual case estimates received from ceding companies for reinsurance business or the estimates advised by the Company's claims adjusters for insurance business. The Company utilizes generally accepted actuarial methodologies to determine reserves for losses and loss adjustment expenses on the basis of historical experience and other estimates. The reserves are reviewed continually during the year and changes in estimates in losses and loss adjustment expenses are reflected as an expense in the consolidated statements of operations in the period the adjustment is made. Reinsurance recoverables on unpaid losses and loss adjustment expenses are reported as assets. A reserve for uncollectible reinsurance recoverables is established based on an evaluation of each reinsurer or retrocessionaire and historical experience. The Company uses tabular reserving for workers' compensation indemnity loss reserves, which are considered to be fixed and determinable, and discounts such reserves using an interest rate of 3.5%. Workers' compensation indemnity loss reserves have been discounted using the Life Table for Total Population: United States, 2004.

(g) *Deposit Assets and Liabilities.* The Company may enter into assumed and ceded reinsurance contracts that contain certain loss limiting provisions and, as a result, do not meet the risk transfer provisions of GAAP accounting standards. These contracts are accounted for using the deposit accounting method in accordance with GAAP. Under the deposit method of accounting, revenues and expenses from reinsurance contracts are not recognized as written premium and incurred losses. Instead, the profits or losses from these contracts are recognized net, as other income or expense over the contract or contractual settlement periods. In accordance

with this accounting standard, these contracts are deemed as either transferring only significant timing risk or only significant underwriting risk or transferring neither significant timing nor underwriting risk.

For such contracts, the Company initially records the amount of consideration paid as a deposit asset or received as a deposit liability. Revenue or expense is recognized over the term of the contract, with any deferred amount recorded as a component of assets or liabilities until such time it is earned. The ultimate asset or liability under these contracts is estimated, and the asset or liability initially established, which represents consideration received, is increased or decreased over the term of the contract. The change during the period is recorded in the Company's consolidated statements of operations, with increases and decreases in the ultimate asset or liability shown in other expense, net. As of December 31, 2009 and 2008, the Company had reflected in other assets $7.8 million and $8.0 million, respectively, and in other liabilities $1.6 million and $1.1 million, respectively, related to deposit contracts. In cases where cedants retain the consideration on a funds held basis, the Company records those assets in other assets, and records the related investment income on the assets in the Company's consolidated statements of operations as investment income.

(h) *Income Taxes.* The Company records deferred income taxes to provide for the net tax effect of temporary differences between the carrying values of assets and liabilities in the Company's consolidated financial statements and their tax bases. Such differences relate principally to deferred acquisition costs, unearned premiums, unpaid losses and loss adjustment expenses, investments and tax credits. Deferred tax assets are reduced by a valuation allowance when the Company believes it is more likely than not that all or a portion of deferred taxes will not be realized. As of December 31, 2009 and 2008, a valuation allowance was not required. During the third quarter of 2006, Fairfax reduced its ownership of the Company to below 80%, and as a result, the Company was deconsolidated from the United States tax group of Fairfax. Accordingly, the Company filed or will file separate company tax returns for the period August 2, 2006 to October 20, 2009. As a result of the Merger, effective October 28, 2009, the Company rejoined the United States tax group of Fairfax. The Merger had no effect on the Company's tax position (see Note 15). 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, 2009 and 2008, the Company has not recorded any interest or penalties.

(i) *Derivatives.* The Company utilizes derivative instruments to manage against potential adverse changes in the value of its assets and liabilities. Derivatives include credit default swaps, call options and warrants, total return swaps, interest rate swaps, forward currency contracts and other equity and credit derivatives. In addition, the Company holds options on certain securities within its fixed income portfolio, which allows the Company to extend the maturity date on fixed income securities or convert fixed income securities to equity securities. The Company categorizes these investments as trading securities, and changes in fair value are recorded as realized investment gains or losses in the consolidated statements of operations. All derivative instruments are recognized as either assets or liabilities on the consolidated balance sheet and are measured at their fair value. Gains or losses from changes in the derivative values are reported based on how the derivative is used and whether it qualifies for hedge accounting. As the Company's derivative instruments do not qualify for hedge accounting, changes in fair value are included in realized investment gains and losses in the consolidated statements of operations. Margin balances required by counterparties in support of derivative positions are included in fixed income securities, available for sale.

(j) *Operating Segments.* The Company has four operating segments that reflect the manner in which management monitors and evaluates the Company's financial performance. The Company's four segments include: Americas, EuroAsia, London Market and U.S. Insurance (see Note 14).

(k) *Foreign Currency.* Foreign currency transaction gains or losses resulting from a change in exchange rates between the currency in which a transaction is denominated, or the original currency, and the functional currency are reflected in the consolidated statements of operations in the period in which they occur. The Company translates the financial statements of its foreign subsidiaries and branches, which have functional currencies other than the U.S. dollar, into U.S. dollars by translating balance sheet accounts at the balance sheet

date exchange rate and income statement accounts at the average exchange rate for the year. Translation gains or losses are recorded, net of deferred income taxes, as a component of accumulated other comprehensive income.

The following table presents the foreign exchange effect, net of tax, on certain line items in the Company's financial statements for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Statement of operations:			
Net investment income	$ 1,771	$ (4,693)	$ 2,797
Net realized investment gains	7,449	11,435	87,942
Other expense, net	(4,233)	(45,796)	1,204
Income before income taxes	4,987	(39,054)	91,943
Total federal and foreign income tax (benefit) provision	(1,745)	13,669	(32,180)
Net income	3,242	(25,385)	59,763
Other comprehensive income (loss), net of tax	2,768	4,109	(1,658)
Total effect on comprehensive income and shareholders' equity	$ 6,010	$ (21,276)	$ 58,105

(l) *Earnings Per Share.* Prior to the Merger, the Company calculated earnings per share using the two−class method. The Company treated unvested share−based payment awards that had non−forfeitable rights to dividends or dividend equivalents as a separate class of securities in the calculation. Under the Company's former restricted share plan, the grantees had non−forfeitable rights to dividends before the vesting date and, accordingly, the restricted shares were considered participating securities. During the fourth quarter of 2009, Fairfax attained 100% ownership of the Company; accordingly, the Company has not presented earnings per share for the year ended December 31, 2009.

(m) *Stock−Based Compensation Plans.* Prior to the Merger, the Company accounted for its share−based payments to employees in accordance with Accounting Standards Codification ("ASC") 718, "Share−Based Payment." Following the acquisition, the Company established the Restricted Share and Equity Value Plan (the "Plan"). Under the terms of the Plan, each restricted equity value right ("REVRs") will have a value (the "REVR Value") equal to the total shareholders' equity of the Company attributable to the common equity as of the last day of the most recently completed quarter of the Company for which Fairfax has publicly released its earnings report, or in the event that Fairfax does not intend to publicly release an earnings report, for which financial statements that report the Company's book value are available, as adjusted for dividends, capital contributions or other extraordinary events (in each case, as determined by the Board of Directors of the Company or the Compensation Committee thereof, in its sole discretion), divided by 58,443,149 (which is the number of Company common shares outstanding as of September 30, 2009). Upon vesting of a REVR, a participant will receive a single sum cash payment equal to the REVR Value as of the applicable vesting date, less any applicable withholding of taxes. The Company accounts for the Plan as a liability plan in accordance with ASC 718.

(n) *Payments.* Payments of claims by the Company, as reinsurer, to a broker on behalf of a reinsured company are recorded on the Company's books as a paid loss at the time the cash is disbursed. The payment is treated as a paid claim to the reinsured. Premiums due to the Company from the reinsured are recorded as receivables from the reinsured until the cash is received by the Company, either directly from the reinsured or from the broker.

(o) *Funds Held Balances.* Funds held under reinsurance contracts is an account used to record a liability, in accordance with the contractual terms, arising from the Company's receipt of a deposit from a reinsurer or the withholding of a portion of the premiums due as a guarantee that a reinsurer will meet its loss and other obligations. Interest generally accrues on withheld funds in accordance with contract terms. Funds held by

reinsured is an account used to record an asset resulting from the ceding company, in accordance with the contractual terms, withholding a portion of the premium due the Company as a guarantee that the Company will meet its loss and other obligations.

(p) *Fixed Assets.* Fixed assets, with a net book value of $11.5 million and $10.7 million as of December 31, 2009 and 2008, respectively, are included in other assets. Property and equipment are recorded at cost. Depreciation and amortization are generally computed on a straight−line basis over the following estimated useful lives:

Leasehold improvements	10 years or term of lease, if shorter
Electronic data processing equipment and furniture	5 years
Personal computers and software	3 years

Depreciation and amortization expense for the years ended December 31, 2009, 2008 and 2007 was $4.6 million, $5.1 million and $9.5 million, respectively.

3. Recent Accounting Pronouncements

In December 2008, the FASB issued an accounting standard to require enhanced disclosures regarding the major categories of plan assets, concentrations of risk, inputs and valuation techniques used to measure the fair value of plan assets and the effect of using unobservable inputs (Level 3 classification under the fair value accounting standard). The disclosure requirements of this standard were adopted as of December 31, 2009 and are included in these consolidated financial statements.

In June 2009, the FASB issued an accounting standard to provide a timeline for the application of the codification project (“Codification”), which, effective July 1, 2009, eliminated the current four levels of hierarchy of authoritative accounting and reporting guidance and provides one source for authoritative accounting and reporting. The Codification does not change existing GAAP, as such affects the Company. The Codification was adopted by the Company in the third quarter of 2009.

In April 2009, the FASB issued an accounting standard to provide additional guidance in estimating the fair value of assets and liabilities when the volume of activity has significantly decreased. The new accounting standard requires additional disclosures to discuss interim and annual significant assumptions and valuation techniques used to determine the fair value of the assets and liabilities. The accounting standard does not change the principles of fair value measurement but instead enhances it to provide further guidance on inactive markets. The Company adopted the accounting standard as of April 1, 2009. The adoption of this accounting standard did not have an impact on the Company’s consolidated financial statements.

In April 2009, the FASB issued an accounting standard that provides additional guidance for the measurement of other−than−temporary impairments on debt securities classified as available−for−sale and held−to−maturity. This accounting standard requires entities to separate their other−than−temporary impairment charges on available−for−sale or held−to−maturity debt securities into credit and other components. An other−than−temporary impairment charge resulting from credit−related losses associated with an impaired debt security should be recorded to earnings, while an other−than−temporary impairment resulting from other factors (i.e., interest rates and market conditions) should be recognized in other comprehensive income. In addition, if an other−than−temporary impairment exists that is related to factors other than credit, and it is more likely than not that the Company will have to sell the security prior to recovery, the other−than−temporary impairment should be recorded in earnings. Also, this accounting standard provides additional presentation and disclosure guidance for debt and equity securities. The adoption of this accounting standard as of April 1, 2009, did not have an impact on consolidated shareholders’ equity or net income.

In April 2009, the FASB issued an accounting standard to require additional interim period disclosures regarding the fair value of financial instruments. Entities are required to disclose how the amounts in the

disclosure relate to amounts in the balance sheet, the method used to determine the fair value and significant assumptions used in the valuation. The Company adopted this accounting standard as of April 1, 2009, which had no impact on the Company's disclosures.

In June 2008, the FASB issued an accounting standard that addresses the calculation of earnings per share for entities with instruments granted in share−based payment transactions that are participating securities prior to vesting and therefore should be included in the earnings allocation in calculating earnings per share under the two−class method. This accounting standard requires entities to treat unvested share−based payment awards that have non−forfeitable rights to dividends or dividend equivalents as a separate class of securities in calculating earnings per share. Under the Company's restricted share plan, the grantees have non−forfeitable rights to dividends before the vesting date and, accordingly, the restricted shares are participating securities. On January 1, 2009, the Company adopted the accounting standard on a retrospective basis. The adoption of this accounting standard resulted in a reduction of diluted earnings per share to common shareholders of $0.07 and $0.04 for the years ended December 31, 2008 and 2007, respectively.

In May 2008, the FASB issued an accounting standard to clarify the guidance related to convertible debt with options to settle partially or fully in cash. This accounting standard does not change the accounting for convertible debt that does not offer a cash settlement feature, nor does it apply if the conversion feature is accounted for as an embedded derivative or for convertible preferred stock. On January 1, 2009, the Company adopted the accounting standard and applied it on a retrospective basis to the Company's convertible senior debentures issued in June 2002 (see Note 13). As of May 1, 2007, all of the convertible senior debentures had been either repurchased by the Company or converted into shares of the Company's common stock. The adoption of this accounting standard resulted in a cumulative increase, as of May 1, 2007, to additional paid−in capital and a corresponding decrease to retained earnings of $11.5 million.

In March 2008, the FASB issued an accounting standard that requires additional disclosures for derivative and hedging activities. On January 1, 2009, the Company adopted the disclosure provisions of this accounting standard.

4. Business Combinations

In 2004, Hudson Specialty purchased 40% of Hooghuis Group LLC ("Hooghuis"), an underwriting agency specializing in U.S. directors' and officers' liability insurance. On June 9, 2008, Hudson Specialty purchased the remaining 60% of the outstanding shares of Hooghuis at a cost of $5.3 million. As a result of the acquisition, the Company acquired $9.9 million in assets (including $2.9 million in intangible assets, which is being amortized over the expected lives of such assets, and $1.0 million in goodwill) and $5.5 million in liabilities. As of December 31, 2009, the unamortized balance of the intangible assets was $1.8 million. On May 27, 2009, Hudson Specialty made a $3.4 million payment as final settlement for contingent consideration on its original 40% interest in Hooghuis, which has been reflected as additional goodwill.

On August 29, 2008, Hudson purchased certain assets and liabilities associated with the crop insurance business previously produced by CropUSA Insurance Agency, Inc. ("CropUSA") for cash consideration of $8.0 million. Since 2006, CropUSA had acted as managing general underwriter for Hudson in the crop insurance sector. The acquisition resulted in an increase of $34.1 million in assets (including $7.7 million in goodwill and $5.5 million in intangible assets, which will be amortized over the expected lives of such assets) and $26.1 million in liabilities. As of December 31, 2009, the unamortized balance of the intangible assets was $3.8 million.

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5. Earnings Per Common Share

As discussed in Note 3 to the consolidated financial statements, on January 1, 2009 the Company adopted, on a retrospective basis, an accounting standard that resulted in the Company treating its unvested share−based payment awards as a separate class of securities for the purpose of calculating earnings per share. As a result of the Merger (see Note 1), Fairfax attained 100% ownership of the Company; accordingly, the Company has not presented earnings per common share for the year ended December 31, 2009. The following table shows the allocation of net income as calculated in accordance with the accounting standard for the years ended December 31, 2008 and 2007 (in thousands):

	2008	2007
Net income	$549,008	$595,575
Preferred dividends	(7,380)	(8,345)
Gain on purchase of Series B preferred shares	1,456	—
Net income available to common shareholders	$543,084	$587,230
Allocation of net income for basic earnings per share:		
Common shares	$536,135	$581,535
Participating securities	6,949	5,695
Net income available to common shareholders	$543,084	$587,230

Net income per common share for the years ended December 31, 2008 and 2007 as presented in the following table has been computed based upon weighted average common shares outstanding (in thousands, except share and per share amounts):

	2008	2007
Net income to common shares — basic	$ 536,135	$ 581,535
Interest on 4.375% convertible senior debentures, net of tax	—	177
Undistributed earnings allocated to share−based payments	2,544	2,749
Net income to common shares — diluted	$ 538,679	$ 584,461
Weighted average common shares outstanding — basic	63,384,032	70,443,600
Effect of dilutive shares:		
Stock options	106,912	171,897
Restricted shares	379,393	420,038
4.375% convertible senior debentures	—	351,720
Total effect of dilutive shares	486,305	943,655
Weighted average common shares outstanding — diluted	63,870,337	71,387,255
Net earnings per common share:		
Basic	$ 8.46	$ 8.26
Diluted	8.43	8.19

In calculating diluted earnings per share, the Company is required to evaluate each stock option and restricted stock grant to determine if it is dilutive or anti−dilutive in nature. For the years ended December 31, 2008 and 2007, respectively, 110,537, and 31,926 existing stock options and restricted stock awards outstanding were excluded from the computation of weighted average common shares for diluted earnings per common

share, due to the anti−dilutive effect.

Net income per participating security for the years ended December 31, 2008 and 2007, as presented in the following table, has been computed based upon weighted average restricted shares outstanding (in thousands, except share and per share amounts):

	2008	2007
Net income to participating securities — basic	$ 6,949	$ 5,695
Weighted average restricted shares outstanding — basic	822,928	690,847
Net earnings per participating security — basic	$ 8.45	$ 8.24

6. Fair Value Measurements

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

Fair Value Hierarchy

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

Level 1: Level 1 financial instruments are financial assets and liabilities for which the values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

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

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

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

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

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

Level 3: Level 3 financial instruments are financial assets and liabilities for which the values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company's own assumptions about the methodology and valuation techniques that a market participant would use in pricing the asset or liability.

The Company is responsible for determining the fair value of its investment portfolio by utilizing market

driven fair value measurements obtained from active markets where available, by considering other observable and unobservable inputs and by employing valuation techniques that make use of current market data. For the majority of the Company's investment portfolio, the Company uses quoted prices and other information from independent pricing sources in determining fair values.

For determining the fair value of its Level 1 investments, the Company utilizes quoted market prices. The majority of the Company's Level 1 investments are common stocks that are actively traded in a public market. Short−term investments and cash equivalents, for which the cost basis approximates fair value, are also classified as Level 1 investments.

The Company's Level 2 investments, the majority of which are in government, corporate and municipal fixed income securities, are priced using publicly traded over−the−counter prices and broker−dealer quotes. Observable inputs such as benchmark yields, reported trades, broker−dealer quotes, issuer spreads and bids are available for these investments. For determining the fair value of credit default swaps, which are classified as Level 2, the Company utilizes broker−dealer quotes that include observable credit spreads. Also included in Level 2 are inactively traded convertible corporate debentures that are valued using a pricing model that includes observable inputs such as credit spreads and discount rates in the calculation. During the year ended December 31, 2009, the Company transferred $47.8 million of Level 3 investments to Level 2 after determining that broker−dealer quotes were available to determine the fair value of the instruments.

The Company uses valuation techniques to establish the fair value of Level 3 investments. During the year ended December 31, 2009, the Company purchased $19.9 million of investments that are classified as Level 3. As of December 31, 2009, the Company held $47.5 million of investments that are classified as Level 3. These Level 3 investments are valued using a discounted cash flow model, including unobservable inputs that are supported by limited market−based activity. To verify Level 3 pricing, the Company assesses the reasonableness of the fair values by comparison to economic pricing models, by reference to movements in credit spreads and by comparing the fair values to recent transaction prices for similar assets, where available.

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. However, during the third quarter of 2009, the Company transferred its investment in Advent Capital (Holdings) PLC ("Advent") from Level 2 to Level 3, following Advent's delisting from the London Stock Exchange.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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, 2009 and 2008 (in thousands):

		Fair Value Measurements as of December 31, 2009		
	Asset / Liability Measured at Fair Value December 31, 2009	Quoted Prices in Active Markets for Identical Assets / Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 141,037	$ —	$ 141,037	$ —
States, municipalities and political subdivisions	3,087,556	—	3,087,556	—
Foreign governments	796,611	—	796,611	—
Corporate	348,761	—	348,761	—
Total fixed income securities, available for sale	4,373,965	—	4,373,965	—
Fixed income securities, held as trading securities:				
Foreign governments	99,399	—	99,399	—
Mortgage–related	70,344	—	56,098	14,246
Corporate	362,975	—	362,975	—
Total fixed income securities, held as trading securities	532,718	—	518,472	14,246
Redeemable preferred stock, available for sale	108	—	108	—
Convertible preferred stock, held as trading securities	82,470	—	82,470	—
Common stocks, available for sale	2,071,037	2,035,131	35,906	—
Short–term investments, available for sale	125,100	125,100	—	—
Short–term investments, held as trading securities	238,403	238,403	—	—
Cash equivalents	776,136	776,136	—	—
Derivatives	19,981	—	19,981	—
Other investments	46,131	1,553	11,280	33,298
Total assets measured at fair value	$ 8,266,049	$ 3,176,323	$ 5,042,182	$ 47,544
Derivative liabilities	$ 39,295	$ —	$ 39,295	$ —

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Asset / Liability Measured at Fair Value December 31, 2008	Fair Value Measurements as of December 31, 2008: Quoted Prices in Active Markets for Identical Assets / Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 353,709	$ —	$ 353,709	$ —
States, municipalities and political subdivisions	2,278,452	—	2,278,452	—
Foreign governments	840,203	—	839,203	1,000
Corporate	121,914	—	121,914	—
Total fixed income securities, available for sale	3,594,278	—	3,593,278	1,000
Fixed income securities, held as trading securities:				
Foreign governments	84,055	—	84,055	—
Mortgage–related	66,423	—	—	66,423
Corporate	187,731	—	187,731	—
Total fixed income securities, held as trading securities	338,209	—	271,786	66,423
Redeemable preferred stock, available for sale	114	7	107	—
Common stocks, available for sale	1,555,142	1,527,825	27,317	—
Short–term investments, available for sale	1,202,360	1,174,016	28,344	—
Cash equivalents	472,544	472,544	—	—
Derivatives	111,069	—	111,069	—
Other investments	27,693	1,552	26,141	—
Total assets measured at fair value	$ 7,301,409	$ 3,175,944	$ 4,058,042	$ 67,423
Derivative liabilities	$ 101	$ 68	$ 33	$ —

The following tables provide a summary of changes in the fair value of Level 3 financial assets for the years ended December 31, 2009 and 2008 (in thousands):

	Year Ended December 31, 2009 Fixed Income Securities	2008 Fixed Income Securities	2009 Other Invested Assets	2008 Equity Securities
Beginning balance	$ 67,423	$ 1,000	$ —	$ 8,147
Total realized investment (losses) gains included in net income	(266)	(4,767)	(25)	7,827
Purchases	19,159	72,663	700	—
Settlements	(24,283)	(1,473)	—	(15,974)
Transfers from Level 2 to Level 3	—	—	32,623	—
Transfers from Level 3 to Level 2	(47,787)	—	—	—
Ending balance	$ 14,246	$ 67,423	$ 33,298	$ —

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents realized investment gains (losses) included in net income related to Level 3 assets for the years ended December 31, 2009 and 2008 (in thousands):

	Year Ended December 31, 2009 — Net Realized Investment Gains (Losses) on Fixed Income Securities	Year Ended December 31, 2008 — Net Realized Investment Gains (Losses) on Fixed Income Securities
Realized investment gains related to securities sold	$ 6,466	$ 916
Realized investment losses related to securities held	(6,732)	(5,683)
Total net realized investment losses relating to Level 3 assets	$ (266)	$ (4,767)

	Year Ended December 31, 2009 — Net Realized Investment Losses on Other Invested Assets	Year Ended December 31, 2008 — Net Realized Investment Gains on Equity Securities
Realized investment gains related to securities sold	$ —	$ 7,827
Realized investment losses related to securities held	(25)	—
Total net realized investment (losses) gains relating to Level 3 assets	$ (25)	$ 7,827

Fair Value Option

The fair value option ("FVO") available under GAAP allows companies to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities. Changes in the fair value of assets and liabilities for which the election is made will be recognized in net income as they occur. The FVO election is permitted on an instrument–by–instrument basis at initial recognition of an asset or liability or upon the occurrence of an event that gives rise to a new basis of accounting for that instrument.

On January 1, 2008, the Company elected the FVO for its investment in Advent. At the time, Advent was publicly traded on a foreign stock exchange and its traded price was determined to be a better indicator of its value than its carrying value under the equity method. During the third quarter of 2009, Fairfax and certain of its subsidiaries, including the Company, purchased additional shares of Advent, bringing Fairfax's ownership in Advent to 97.0%. The remaining 3.0% of the outstanding shares of Advent were purchased by Fairfax during the fourth quarter of 2009, resulting in 100.0% ownership in Advent's common stock, of which the Company holds 22.8%.

During the fourth quarter of 2007, the Company recognized an impairment adjustment to its investment in Advent, under the equity method of accounting, and wrote–down Advent's value to its publicly traded fair value as of December 31, 2007. Accordingly, the Company's election of the FVO had no effect on Advent's carrying value or the Company's shareholders' equity as of January 1, 2008. Upon the election of the FVO for Advent, the Company recorded a cumulative adjustment of $2.4 million, or $1.5 million net of tax, to reclassify foreign currency unrealized gains from the foreign currency translation account (included in accumulated other comprehensive income) to retained earnings as of January 1, 2008.

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, 2009, Advent is recorded at fair value of $32.9 million in other invested assets, with related changes in fair value recognized as a realized investment gain or loss in the period in which they occur. The change in Advent's fair value resulted in the recognition of a realized investment gain of $6.2 million for the year ended December 31,

2009 and a realized investment loss of $9.0 million for the year ended December 31, 2008. Advent's value as of December 31, 2009, calculated in accordance with the equity method of accounting, would have been $38.6 million.

As of December 31, 2009, the Company has not elected the FVO for any of its liabilities.

7. Investments and Cash

A summary of the Company's investment portfolio as of December 31, 2009, excluding common stocks, at equity, other invested assets, fixed income securities held as trading securities, convertible preferred stock held as trading securities and short–term investments held as trading securities is as follows (in thousands):

	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 138,033	$ 7,309	$ 4,305	$ 141,037
States, municipalities and political subdivisions	2,808,873	318,037	39,354	3,087,556
Foreign governments	748,680	48,060	129	796,611
Corporate	275,553	73,292	84	348,761
Total fixed income securities, available for sale	3,971,139	446,698	43,872	4,373,965
Redeemable preferred stock, at fair value	108	—	—	108
Common stocks, at fair value	1,679,748	395,222	3,933	2,071,037
Short–term investments, at fair value	125,100	—	—	125,100
Cash and cash equivalents	941,444	—	—	941,444
Cash and cash equivalents held as collateral	56,720	—	—	56,720
Total	$ 6,774,259	$ 841,920	$ 47,805	$ 7,568,374

Common stocks accounted for under the equity method of accounting were carried at $158.5 million as of December 31, 2009, reflecting gross unrealized appreciation of $34.1 million and no gross unrealized depreciation. Other invested assets were carried at $146.7 million as of December 31, 2009, reflecting no gross unrealized appreciation or depreciation. Fixed income securities held as trading securities were carried at fair value of $532.7 million as of December 31, 2009, with changes in fair value reflected as realized investment gains or losses in the consolidated statements of operations. Fixed income securities held as trading securities include corporate, foreign government and mortgage–related securities, with fair values of $363.0 million, $99.4 million and $70.3 million, respectively, as of December 31, 2009. Convertible preferred stock and short–term investments held as trading securities were carried at fair value of $82.5 million and $238.4 million, respectively, as of December 31, 2009, with changes in fair value reflected in realized investment gains or losses in the consolidated statement of operations.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the Company's investment portfolio as of December 31, 2008, excluding common stocks, at equity, other invested assets and fixed income securities held as trading securities, is as follows (in thousands):

	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
Fixed income securities, available for sale:				
United States government, government agencies and authorities	$ 303,859	$ 49,850	$ —	$ 353,709
States, municipalities and political subdivisions	2,209,040	93,467	24,055	2,278,452
Foreign governments	781,933	58,307	37	840,203
Corporate	134,394	1,373	13,853	121,914
Total fixed income securities, available for sale	3,429,226	202,997	37,945	3,594,278
Redeemable preferred stock, at fair value	510	—	396	114
Common stocks, at fair value	1,628,611	55,578	129,047	1,555,142
Short−term investments, at fair value	1,202,366	—	6	1,202,360
Cash and cash equivalents	755,747	—	—	755,747
Cash and cash equivalents held as collateral	82,374	—	—	82,374
Total	$ 7,098,834	$ 258,575	$ 167,394	$ 7,190,015

Common stocks accounted for under the equity method of accounting were carried at $141.5 million as of December 31, 2008, reflecting gross unrealized appreciation of $26.6 million and gross unrealized depreciation of $2.1 million. Other invested assets were carried at $222.8 million as of December 31, 2008, reflecting no gross unrealized appreciation or depreciation. Fixed income securities held as trading securities were carried at fair value of $338.2 million as of December 31, 2008, with changes in fair value reflected as realized investment gains or losses in the consolidated statements of operations. Fixed income securities held as trading securities include corporate, foreign government securities, and mortgage−related securities, with fair values of $187.7 million, $84.1 million and $66.4 million, respectively, as of December 31, 2008.

The fair values of fixed income securities and common stocks are based on the quoted market prices of the investments as of the close of business on December 31 of the respective years.

(a) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2009, by contractual maturity, are shown below (in thousands).

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	At December 31, 2009					
	Available for Sale			Held for Trading		
	Cost or Amortized Cost	Fair Value	% of Total Fair Value	Cost or Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less	$ 23,514	$ 23,955	0.5%	$ 95,143	$ 99,180	18.6%
Due after one year through five years	464,337	501,183	11.5	305,284	204,868	38.4
Due after five years through ten years	256,357	279,612	6.4	37,750	52,552	9.9
Due after ten years	3,226,931	3,569,215	81.6	160,741	176,118	33.1
Total fixed income securities	$ 3,971,139	$ 4,373,965	100.0%	$ 598,918	$ 532,718	100.0%

Actual maturities may differ from the contractual maturities shown in the table above due to the existence of call or put options. In the case of securities containing call options, the actual maturity will be the same as the contractual maturity if the issuer elects not to exercise its call option. Total securities subject to a call option represent approximately 53.0% of the total fair value. In the case of securities containing put options, the actual maturity will be the same as the contractual maturity if the Company elects not to exercise its put option. Total securities containing the put option represent approximately 3.2% of the total fair value.

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

The following table sets forth the components of net investment income for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Interest on fixed income securities	$ 253,100	$ 197,097	$ 205,886
Dividends on preferred stocks	—	—	143
Dividends on common stocks, at fair value	52,564	31,893	22,351
Net income of common stocks, at equity	9,192	2,196	15,032
Interest on cash and short–term investments	8,818	52,940	79,827
Other invested assets	22,688	11,372	44,875
Gross investment income	346,362	295,498	368,114
Less: investment expenses	24,817	35,009	30,665
Less: interest on funds held under reinsurance contracts	3,651	5,290	8,027
Net investment income	$ 317,894	$ 255,199	$ 329,422

Net income of common stocks, at equity includes an other–than–temporary impairment of $5.3 million for the year ended December 31, 2007 related to the Company’s investment in Advent.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the components of net realized investment gains and losses for the year ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Fixed income securities, available for sale:			
Realized investment gains	$ 114,973	$ 324,921	$ 68,675
Realized investment losses	26,253	27,548	22,285
Net realized investment gains	88,720	297,373	46,390
Fixed income securities, held as trading securities:			
Realized investment gains	132,589	1,282	21,568
Realized investment losses	2,673	144,450	23,835
Net realized investment gains (losses)	129,916	(143,168)	(2,267)
Redeemable preferred stock:			
Realized investment gains	—	—	4
Realized investment losses	394	833	397
Net realized investment losses	(394)	(833)	(393)
Convertible preferred stock, held as trading securities:			
Realized investment gains	7,470	—	—
Net realized investment gains	7,470	—	—
Equity securities:			
Realized investment gains	136,916	25,574	153,441
Realized investment losses	129,262	354,509	47,228
Net realized investment gains (losses)	7,654	(328,935)	106,213
Derivative securities:			
Realized investment gains	14,730	985,700	337,086
Realized investment losses	133,358	34,000	53,435
Net realized investment (losses) gains	(118,628)	951,700	283,651
Other securities:			
Realized investment gains	136,700	116,956	167,902
Realized investment losses	65,487	200,834	62,360
Net realized investment gains (losses)	71,213	(83,878)	105,542
Total realized investment gains:			
Realized investment gains	543,378	1,454,433	748,676
Realized investment losses	357,427	762,174	209,540
Net realized investment gains	$ 185,951	$ 692,259	$ 539,136

Included in net realized investment gains for the year ended December 31, 2009, is a net decrease in fair value of $15.5 million, as compared to a net decrease for the year ended December 31, 2008 of $290.7 million and a net increase for the year ended December 31, 2007 of $259.0 million, principally related to derivatives and investments designated as trading securities.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Included in net realized investment gains for the years ended December 31, 2009, 2008 and 2007 are $127.0 million, $358.7 million and $54.5 million, respectively, related to realized investment losses on the other−than−temporary impairment of investments, as follows (in thousands):

	2009	2008	2007
Fixed income securities	$ 3,361	$ 18,902	$ 12,004
Preferred stock	216	833	389
Equity securities	123,436	338,957	42,097
Total other−than−temporary impairments	$127,013	$358,692	$ 54,490

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

(c) Unrealized Appreciation (Depreciation)

The following table sets forth the changes in unrealized net appreciation (depreciation) of investments, and the related tax effect, reflected in accumulated other comprehensive income for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Fixed income securities	$ 237,773	$ 133,792	$ 77,337
Redeemable preferred stock	395	504	(899)
Equity securities	474,391	(154,688)	23,486
Short−term investments	6	(6)	—
Other invested assets	—	169	(20)
Increase (decrease) in unrealized net appreciation of investments	712,565	(20,229)	99,904
Deferred income tax (expense) benefit	(249,396)	7,080	(34,966)
Change in net unrealized appreciation (depreciation) of investments, net of tax	463,169	(13,149)	64,938
Cumulative effect of a change in accounting principle, net of tax	—	—	12,845
Change in net unrealized appreciation (depreciation) of investments included on other comprehensive income	$ 463,169	$ (13,149)	$ 77,783

The Company reviews, on a quarterly basis, its investment portfolio for declines in value, and specifically considers securities with fair values that have declined to less than 80% of their cost or amortized cost at the time of review. Declines in the fair value of investments which are determined to be temporary are recorded as unrealized depreciation, net of tax, in accumulated other comprehensive income. If the Company determines that a decline relating to credit issues is “other−than−temporary,” the cost or amortized cost of the investment will be written down to the fair value, and a realized loss will be recorded in the Company’s consolidated statements of operations. If the Company determines that a decline related to other factors (e.g., interest rates or market conditions) is “other−than−temporary,” the cost or amortized cost of the investment will be written down to the fair value within other comprehensive income.

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In assessing the value of the Company's debt and equity securities held as investments, and possible impairments of such securities, the Company reviews (i) the issuer's current financial position and disclosures related thereto, (ii) general and specific market and industry developments, (iii) the timely payment by the issuer of its principal, interest and other obligations, (iv) the outlook and expected financial performance of the issuer, (v) current and historical valuation parameters for the issuer and similar companies, (vi) relevant forecasts, analyses and recommendations by research analysts, rating agencies and investment advisors, and (vii) other information the Company may consider relevant. Generally, a change in the market or interest rate environment would not, of itself, result in an impairment of an investment. In addition, the Company considers its ability and intent to hold the security to recovery when evaluating possible impairments.

The facts and circumstances involved in making a decision regarding an other−than−temporary−impairment are those that exist at that time. Should the facts and circumstances change such that an other−than−temporary impairment is considered appropriate, the Company will recognize the impairment, by reducing the cost, amortized cost or carrying value of the investment to its fair value, and recording the loss in its consolidated statements of operations. Upon the disposition of a security where an other−than−temporary impairment has been taken, the Company will record a gain or loss based on the adjusted cost or carrying value of the investment.

The following tables reflect the fair value and gross unrealized depreciation of the Company's fixed income securities, preferred stocks and common stocks, at fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized depreciation position, as of December 31, 2009 and 2008 (in thousands):

	Duration of Unrealized Loss								
	Less than 12 Months			Greater than 12 Months			Total		
December 31, 2009	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities
Fixed income securities investment grade:									
United States government, government agencies and authorities	$ 62,215	$ (4,305)	9	$ —	$ —	—	$ 62,215	$ (4,305)	9
States, municipalities and political subdivisions	571,987	(39,267)	6	1,035	(87)	1	573,022	(39,354)	7
Foreign governments	—	—	—	8,539	(129)	1	8,539	(129)	1
Corporate	4,880	(57)	1	—	—	—	4,880	(57)	1
Total investment grade	639,082	(43,629)	16	9,574	(216)	2	648,656	(43,845)	18
Fixed income securities non−investment grade, corporate	41,888	(27)	3	—	—	—	41,888	(27)	3
Total fixed income securities	680,970	(43,656)	19	9,574	(216)	2	690,544	(43,872)	21
Common stocks, at fair value	36,153	(3,933)	7	—	—	—	36,153	(3,933)	7
Total temporarily impaired securities	$717,123	$ (47,589)	26	$ 9,574	$ (216)	2	$726,697	$ (47,805)	28

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Duration of Unrealized Loss								
	Less than 12 Months			Greater than 12 Months			Total		
December 31, 2008	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities	Fair Value	Gross Unrealized Depreciation	Number of Securities
Fixed income securities investment grade:									
States, municipalities and political subdivisions	$ 578,977	$ (23,386)	34	$ 7,947	$ (669)	2	$ 586,924	$ (24,055)	36
Foreign governments	—	—	—	8,370	(37)	1	8,370	(37)	1
Total investment grade	578,977	(23,386)	34	16,317	(706)	3	595,294	(24,092)	37
Fixed income securities non–investment grade, corporate	90,491	(13,795)	4	6	(58)	1	90,497	(13,853)	5
Total fixed income securities	669,468	(37,181)	38	16,323	(764)	4	685,791	(37,945)	42
Redeemable preferred stocks, at fair value	115	(396)	2	—	—	—	115	(396)	2
Common stocks, at fair value	596,337	(129,047)	15	—	—	—	596,337	(129,047)	15
Total temporarily impaired securities	$1,265,920	$ (166,624)	55	$ 16,323	$ (764)	4	$1,282,243	$ (167,388)	59

The Company believes the gross unrealized depreciation is temporary in nature and we have not recorded a realized investment loss related to these securities. Given the size of our investment portfolio and capital position, the Company believes it is likely that it will not be required to sell or liquidate these securities before the fair value recovers the gross unrealized depreciation.

(d) Common Stocks, at Equity

Common stocks, at equity, totaled $158.5 million as of December 31, 2009 and $141.5 million as of December 31, 2008. The following table sets forth the components of common stocks, at equity, as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Fairfax Asia Limited	$ 84,086	$ 67,092
TRG Holding Corporation	74,347	74,354
Other	27	27
Total common stocks, at equity	$158,460	$141,473

On June 4, 2009, the Company purchased additional shares of Fairfax Asia Limited (“Fairfax Asia”) at a cost of $1.0 million. For common stocks, at equity, as of December 31, 2009, the relative ownership held by the Company was 13.0% for TRG Holding Corporation (which is 100% owned by Fairfax) and 26.2% (economic) for Fairfax Asia Limited (which is 100% owned by Fairfax).

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(e) Other Invested Assets

Other invested assets totaled $146.7 million as of December 31, 2009, compared to $222.8 million as of December 31, 2008. The following table shows the components of other invested assets as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Hedge funds, at equity	$ 51,510	$ 51,802
Private equity partnerships, at equity	22,375	25,547
Private equity partnerships, at fair value	374	—
Derivatives, at fair value	19,982	111,069
Benefit plan funds, at fair value	12,833	13,443
Advent Capital (Holdings) PLC	32,924	14,250
Other	6,730	6,730
Total other invested assets	$146,728	$222,841

The Company's hedge fund and private equity partnership investments may be subject to restrictions on redemptions or sales, which are determined by the governing documents thereof, and limit the Company's ability to liquidate these investments in the short term. Due to a time lag in reporting by a majority of hedge fund and private equity fund managers, valuations for these investments are reported by OdysseyRe on a one month or one quarter lag. For the years ended December 31, 2009 and 2007, the Company recognized net investment income of $17.9 million and $8.2 million, respectively, from its hedge funds and private equity investments and incurred a loss of $19.6 million, which is netted against net investment income, for the year ended December 31, 2008. For the year ended December 31, 2009, the Company recognized a loss of $0.3 million from its private equity investments that are held as trading securities. Interest and dividend income, and realized and unrealized gains and losses of hedge funds and private equity partnerships, are included in net investment income. With respect to the Company's $22.7 million investment in private equity partnerships included in other invested assets as of December 31, 2009, the Company has commitments that may require additional funding of up to $128.3 million. As of December 31, 2009, other invested assets include $6.7 million related to the Company's investment in O.R.E Holdings Limited, which is net of other–than–temporary write–downs of $9.9 million.

As of December 31, 2009, the Company held one collateral loan which constituted a financial instrument without a quoted price, or a "non–traded investment." This collateral loan was fully impaired during 2005. The Company periodically evaluates the carrying values of non–traded investments by reviewing the borrowers' current financial position and the timeliness of their interest and principal payments.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(f) Derivative Investments and Short Sales

The Company has utilized, credit default swaps, call options and warrants, total return swaps, interest rate options, forward currency contracts, futures contracts and short sales to manage against adverse changes in the values of assets and liabilities. These products are typically not linked to specific assets or liabilities on the consolidated balance sheets or a forecasted transaction and, therefore, do not qualify for hedge accounting. The following tables set forth the Company's derivative positions, which are included in other invested assets or other liabilities in the consolidated balance sheets, as of December 31, 2009, and December 31, 2008, respectively (in thousands):

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

	As of December 31, 2008			
	Exposure/ Notional Amount	Cost	Fair Value Asset	Fair Value Liability
Credit default swaps	$1,782,868	$ 30,776	$ 82,843	$ —
Futures contracts	791,000	—	—	68
Forward currency contracts	533,890	—	28,225	—
Warrants	163,116	5,577	1	—
Interest rate swaps	140,000	—	—	33
Call options	75,324	22	—	—

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables summarize the effect of the hedging instruments and related hedged items on the Company's historical financial position, results of operations and cash flows as of and for the years ended December 31, 2009 and 2008 (in thousands):

	As of and for the Year Ended December 31, 2009					
			Effect on Pre–tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Income	Net Realized Investment Gains	Net Equity	Net Cash Flow from Disposals
Equity risk exposures:						
Preferred stocks	$ 82,578	$ 82,578	$ 395	$ 7,076	$ 7,471	$ (1,096)
Common stocks, at fair value	2,071,037	2,071,037	464,758	7,654	472,412	30,039
Total equity exposure	$ 2,153,615	$2,153,615	465,153	14,730	479,883	28,943
Hedging instruments:						
Other invested assets:						
Total return swaps	$ 818,416	$ 3,132	—	(30,592)	(30,592)	(33,724)
Total equity hedging instruments	$ 818,416	$ 3,132	—	(30,592)	(30,592)	(33,724)
Net equity impact			$ 465,153	$ (15,862)	$ 449,291	$ (4,781)
Credit risk exposures:						
Fixed income securities	$ 4,906,683	$4,906,683	$ 237,773	$ 218,636	$ 456,409	$ 124,396
Derivatives — other invested assets	6,864	6,864	—	2,868	2,868	(237)
Cash, cash equivalents and short–term investments	1,361,667	1,361,667	6	65,932	65,938	65,932
Premiums receivable	473,878	473,878	—	(2,500)	(2,500)	(2,500)
Reinsurance recoverable	1,165,524	1,165,524	—	2,647	2,647	—
Total credit risk exposure	$ 7,914,616	$7,914,616	237,779	287,583	525,362	187,591
Hedging instruments:						
Other invested assets:						
Credit default swaps:						
Banking	$ 410,643	$ 3,098	—	(1,348)	(1,348)	12,836
Insurance	884,544	6,888	—	(27,358)	(27,358)	21,124
Total credit default swaps	$ 1,295,187	$ 9,986	—	(28,706)	(28,706)	33,960
Net equity impact			$ 237,779	$ 258,877	$ 496,656	$ 221,551

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	As of and for the Year Ended December 31, 2008					
			Effect on Pre–tax:			
	Exposure / Notional Value	Carrying Value	Other Comprehensive Loss	Net Realized Investment Gains	Net Equity	Net Cash Flow from Disposals
Equity risk exposures:						
Preferred stocks	$ 114	$ 114	$ 504	$ (833)	$ (329)	$ —
Common stocks, at fair value	1,555,142	1,555,142	(153,513)	(326,892)	(480,405)	12,064
Total equity exposure	$ 1,555,256	$ 1,555,256	(153,009)	(327,725)	(480,734)	12,064
Hedging instruments:						
Other invested assets:						
Total return swaps	$ —	$ —	—	536,364	536,364	540,212
Short positions	—	—	—	12,822	12,822	14,457
Call options	75,324	—	—	(1,151)	(1,151)	(2,191)
Total equity hedging instruments	$ 75,324	$ —	—	548,035	548,035	552,478
Net equity impact			$ (153,009)	$ 220,310	$ 67,301	$ 564,542
Credit risk exposures:						
Fixed income securities	$ 3,932,487	$ 3,932,487	$ 133,792	$ 154,205	$ 287,997	$ 316,316
Derivatives — other invested assets	28,226	28,226	—	62,395	62,395	35,138
Cash, cash equivalents and short–term investments	2,040,481	2,040,481	(6)	(87,985)	(87,991)	(87,985)
Premiums receivable	496,418	496,418	—	(1,517)	(1,517)	(1,517)
Reinsurance recoverable	996,510	996,510	—	(120)	(120)	—
Total credit risk exposure	$ 7,494,122	$ 7,494,122	133,786	126,978	260,764	261,952
Hedging instruments:						
Other invested assets:						
Credit default swaps:						
Mortgage	$ —	$ —	—	126,222	126,222	269,432
Banking	689,691	21,577	—	38,812	38,812	32,738
Insurance	1,093,177	61,266	—	185,697	185,697	209,882
Total credit default swaps	$ 1,782,868	$ 82,843	—	350,731	350,731	512,052
Net equity impact			$ 133,786	$ 477,709	$ 611,495	$ 774,004

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

The Company holds credit default swaps, referenced to certain issuers in the banking and insurance sectors of the financial services industry worldwide, that serve as an economic hedge against declines in the fair value of investments and other corporate assets resulting from systemic financial and credit risk. Under a credit default swap, as the buyer, the Company agrees to pay to a specific counterparty, at specified periods, fixed premium amounts based on an agreed notional principal amount in exchange for protection against default by the issuers of specified referenced debt securities. The credit events, as defined by the respective credit default swap contracts, establishing the rights to recover amounts from the counterparties are comprised of ISDA–standard credit events, which are: bankruptcy, obligation acceleration, obligation default, failure to pay, repudiation/moratorium and restructuring. As of December 31, 2009 all credit default swap contracts held by the

Company have been purchased from and entered into with either Citibank, N.A., Deutsche Bank AG or Barclays Bank PLC as the counterparty, with positions on certain covered risks with more than one of these counterparties. The Company obtains market–derived fair values for its credit default swaps from third–party providers, principally broker–dealers. The Company assesses the reasonableness of the fair values obtained from these providers by comparison to models validated by qualified personnel, by reference to movements in credit spreads and by comparing the fair values to recent transaction prices for similar credit default swaps, where available.

The initial premium paid for each credit default swap contract is recorded as a derivative asset and is subsequently adjusted for changes in the unrealized fair value of the contract at each balance sheet date. As these contracts do not qualify for hedge accounting, changes in the unrealized fair value of the contract are recorded as net realized investment gains or losses in the Company's consolidated statements of operations and comprehensive income. Sales of credit default swap contracts required the Company to reverse through net realized investment gains previously recorded unrealized fair value changes since the inception of the contract, and to record the actual amount based upon the final cash settlement. Derivative assets are reported gross, on a contract–by–contract basis, at fair value in other invested assets in the consolidated balance sheets. The sale, expiration or early settlement of a credit default swap will not result in a cash payment owed by the Company; rather, such an event can only result in a cash payment by a third party purchaser of the contract, or the counterparty, to the Company. Accordingly, there is no opportunity for netting of amounts owed in settlement. Cash receipts at the date of sale of the credit default swaps are recorded as cash flows from investing activities arising from net sales of assets and liabilities classified as held for trading.

The fair values of credit default swaps may be subject to significant volatility, given potential differences in the perceived risk of default of the underlying issuers, movements in credit spreads and the length of time to the contracts' maturities. The fair value of the credit default swaps may vary dramatically either up or down in short periods, and their ultimate value may therefore only be known upon their disposition. Credit default swap transactions generally settle in cash. As the Company funds all of its obligations relating to these contracts upon initiation of the transaction, there are no requirements in these contracts for the Company to provide collateral.

The Company's holdings of credit default swap contracts have declined significantly in 2009 relative to prior years, largely as a result of significant sales in 2008. In the latter part of 2008, the Company revised the financial objectives of its hedging program by determining not to replace its credit default swap hedge position as sales or expiries occurred, primarily based on the Company's judgment that its exposure to elevated levels of credit risk had moderated, but also due to (i) the significant increase in the cost of purchasing credit protection (reducing the attractiveness of the credit default swap contract as a hedging instrument), (ii) improvement in the Company's capital and liquidity (having benefited significantly from, among other things, more than $568.9 million in gains from sales of credit default swaps realized since 2007), and (iii) the Company's judgment that managing credit risk through means other than the use of derivatives was, given the market environment, once again appropriate for mitigating the Company's credit exposure arising from financial assets.

For the year ended December 31, 2009, the Company sold a portion of its credit default swaps, which contributed to the decrease in the fair value of the portfolio to $10.0 million as of December 31, 2009, from $82.8 million as of December 31, 2008. The credit default swap portfolio has an average term to expiration of 1.5 years as of December 31, 2009, a decrease from 2.5 years as of December 31, 2008.

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 liabilities as of December 31, 2009 and other invested assets as of December 31, 2008, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has investments in warrants, which are contracts that grant the holder the right, but not the obligation, to purchase an underlying financial instrument at a given price and time or at a series of prices and

times. Warrants, which are included in other invested assets, are recorded at fair value, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has entered into interest rate swaps to protect it from adverse movements in interest rates. Under its current interest rate swap contracts, the Company receives a floating interest rate and pays a fixed interest rate based on the notional amounts in the contracts. Interest rate swaps are recorded in other invested assets or other liabilities based on their positive or negative fair value with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has purchased equity index total return swaps as an "economic hedge" against a broad market downturn. During the fourth quarter of 2008, the Company had removed the then−existing economic hedge on its portfolio, closing all of its total return swap contracts for a gain. Since closing these positions, however, the Company has increased its holdings in equity securities through additional acquisitions. In addition, the equity markets have experienced significant appreciation in value since the end of 2008, further increasing the value of the Company's holdings as well as the Company's exposure to market volatility. As a result, in late September 2009, the Company initiated U.S. equity index total return swap contracts, which had a notional value of $818.4 million as of December 31, 2009, to protect against potential future broad market downturns. The collateral requirement related to entering the total return swaps was $78.5 million as of December 31, 2009. These total return swap transactions terminate during the third quarter of 2010. The equity index total return swaps, in the aggregate, were in a gain position as of December 31, 2009, and are recorded in other invested assets. Changes in the fair values of equity index and common stock total return swaps are recorded as realized gains or losses in the consolidated statements of operations in the period in which they occur.

In connection with the 2008 total return swap transactions, the Company owned a series of index call options on Standard & Poor's depository receipts ("SPDRs") and the iShares Canadian S&P/TSX60 (XIU), the majority of which expired in 2008 and the last of which was closed out as of January 14, 2009. A call option gives the purchaser the right, but not the obligation, to purchase an underlying security at a specific price or prices at or for a certain time. The call options were recorded at fair value in other invested assets, and changes in the fair value were recorded as realized investment gains or losses in the consolidated statements of operations.

During 2008, the Company entered into Eurodollar futures contracts to manage its interest rate risk with respect to certain investments. During the first quarter of 2009, the Company closed the futures contracts. A futures contract is a variation of a forward contract, with some additional features, such as a clearinghouse guarantee against credit losses, a daily settlement of gains and losses, and trading on an organized electronic or floor trading facility. Futures contracts are entered either long or short. The Company had entered into the long position, which agrees to buy the underlying currency at the future date at the price agreed upon. As of December 31, 2008, futures contracts were recorded at fair value in other liabilities, 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 held short positions, primarily in equity securities, all of which were closed out during the second quarter of 2008. In connection with the short positions, the Company purchased a SPDR call option as protection against a decline in the value of the short positions. The call option was closed out on July 7, 2008. The call option was recorded at fair value in other invested assets in the consolidated balance sheets, and changes in the fair value were recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

Counterparties to the derivative instruments expose the Company to credit risk in the event of non−performance. The Company believes this risk is low, given the diversification among various highly rated counterparties. The credit risk exposure is reflected in the fair value of the derivative instruments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company holds options on certain securities within its fixed income portfolio, which allows the Company to extend the maturity date of fixed income securities or allows the Company to convert fixed income securities to equity securities. As a result of changes in accounting, on January 1, 2007, the Company no longer bifurcates these options from the host fixed income securities, and, beginning on January 1, 2007, changes in the fair value of the hybrid financial instruments are recorded as realized investment gains and losses in the Company's consolidated statements of operations. Prior to these changes in accounting, changes in the fair value of the host instrument were recorded as unrealized investment gains and losses, a component of shareholders' equity, while changes in the fair value of the embedded options were recorded as realized investment gains and losses. Upon adopting these changes in accounting, the Company recorded a cumulative adjustment of $16.5 million to reclassify unrealized investment gains, net of tax, including foreign currency effects, to retained earnings as of January 1, 2007. The following sets forth the components of the cumulative adjustment as of January 1, 2007 (in thousands):

	As of January 1, 2007			
	Cost or Amortized Cost	Fair Value	Gain, pre–tax	Loss, pre–tax
Corporate securities	$ 150,658	$ 168,403	$ 18,941	$ (1,196)
Foreign government securities	76,877	84,511	8,426	(792)
Net cumulative effect of a change in accounting	$ 227,535	$ 252,914	$ 27,367	$ (1,988)

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The net realized investment gains or losses on disposal in the table below represent the total gains or losses from the purchase dates of the investments and have been reported in net realized investment gains in the consolidated statements of operations. The change in fair value presented below consists of two components: (i) the reversal of the gain or loss recognized in previous years on securities sold and (ii) the change in fair value resulting from mark–to–market adjustments on contracts still outstanding. The following table sets forth the total net realized investment gains and losses on derivatives and short sales for the years ended December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Credit default swaps:			
Net realized investment gain on disposal	$ 33,960	$ 512,052	$ 22,838
Change in fair value	(62,666)	(161,321)	275,486
Net realized investment (loss) gain	(28,706)	350,731	298,324
Total return swaps:			
Net realized investment (loss) gain on disposal	(33,724)	540,212	(9,608)
Change in fair value	3,132	(3,848)	4,394
Net realized investment (loss) gain	(30,592)	536,364	(5,214)
Other:			
Change in fair value	46	—	—
Net realized investment gain	46	—	—
Forward currency contracts:			
Net realized investment gain on disposal	7,592	35,728	—
Change in fair value	(67,475)	30,988	(2,763)
Net realized investment (loss) gain	(59,883)	66,716	(2,763)
Warrants:			
Net realized investment loss on disposal	(237)	(590)	(8)
Change in fair value	3,059	(3,731)	(3,167)
Net realized investment gain (loss)	2,822	(4,321)	(3,175)
Interest rate swaps:			
Net realized investment loss on disposal	(2,030)	—	—
Change in fair value	(10)	(32)	—
Net realized investment loss	(2,040)	(32)	—
Futures contracts:			
Net realized investment (loss) gain on disposal	(275)	3,393	—
Net realized investment (loss) gain	(275)	3,393	—
Call options:			
Net realized investment (loss) gain on disposal	—	(2,191)	4,887
Change in fair value	—	1,040	(8,408)
Net realized investment loss	—	(1,151)	(3,521)
Total derivatives:			
Net realized investment gain on disposal	5,286	1,088,604	18,109
Change in fair value	(123,914)	(136,904)	265,542
Net realized investment (loss) gain	$ (118,628)	$ 951,700	$ 283,651

	2009	2008	2007
Short positions:			
Net realized investment gain on disposal	—	14,457	54,338
Change in fair value	—	(1,635)	6,128
Total net realized investment gain	$ —	$ 12,822	$ 60,466

(g) Assets on Deposit

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutes and regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. The Company utilizes trust funds in certain transactions where the trust funds are set up for the benefit of the ceding companies and generally take the place of letter of credit requirements. As of December 31, 2009, restricted assets supporting these deposits and trust fund requirements totaled $1,074.0 million, as depicted in the following table (in thousands):

	As of December 31, 2009		
	Restricted Assets Relating to:		
	U.S. Regulatory Requirements	Foreign Regulatory Requirements	Total
Fixed income securities	$ 431,700	$ 517,327	$ 949,027
Cash, cash equivalents and short–term investments	5,745	119,187	124,932
Total	$ 437,445	$ 636,514	$1,073,959

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8. 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, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Beginning balance of unrealized net appreciation on securities	$ 75,166	$ 88,315	$ 23,377
Adjustment to beginning balance due to a change in accounting standards (see Note 7)	—	—	(12,845)
Adjusted beginning balance of net appreciation on securities	75,166	88,315	10,532
Ending balance of unrealized net appreciation on securities	538,335	75,166	88,315
Current period change in unrealized net appreciation (depreciation) on securities	463,169	(13,149)	77,783
Beginning balance of foreign currency translation adjustments	10,716	8,138	13,447
Adjustment to beginning balance due to a change in accounting standards (see Notes 6 and 7)	—	(1,531)	(3,651)
Adjusted beginning balance of foreign currency translation adjustments	10,716	6,607	9,796
Ending balance of foreign currency translation adjustments	13,484	10,716	8,138
Current period change in foreign currency translation adjustments	2,768	4,109	(1,658)
Beginning balance of benefit plan liabilities	(3,461)	(11,430)	(1,259)
Adjustment to beginning balance due to a change in accounting standards	—	146	(10,236)
Adjusted beginning balance of benefit plan liabilities	(3,461)	(11,284)	(11,495)
Ending balance of benefit plan liabilities	(5,239)	(3,461)	(11,430)
Current period change in benefit plan liabilities	(1,778)	7,823	65
Other comprehensive income (loss)	$464,159	$ (1,217)	$ 76,190
Beginning balance of accumulated other comprehensive income	$ 82,421	$ 85,023	$ 25,329
Other comprehensive income (loss)	464,159	(1,217)	76,190
Effect of changes in accounting (see Notes 6 and 7)	—	(1,385)	(16,496)
Change in accumulated other comprehensive income (loss)	464,159	(2,602)	59,694
Ending balance of accumulated other comprehensive income	$546,580	$ 82,421	$ 85,023

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of comprehensive income for the years ended December 31, 2009 2008 and 2007 are shown in the following table (in thousands):

	2009	2008	2007
Net income	$ 372,314	$ 549,008	$ 595,575
Other comprehensive income (loss), before tax:			
Unrealized net appreciation (depreciation) on securities arising during the period	837,143	(101,258)	247,052
Reclassification adjustment for realized investment (gains) losses included in net income	(124,578)	81,029	(127,387)
Foreign currency translation adjustments	4,258	6,321	(2,551)
Benefit plan liabilities	(2,735)	12,035	100
Other comprehensive income (loss), before tax	714,088	(1,873)	117,214
Tax (provision) benefit:			
Unrealized net (appreciation) depreciation on securities arising during the period	(292,998)	35,440	(86,468)
Reclassification adjustment for realized investment gains (losses) included in net income	43,602	(28,360)	44,586
Foreign currency translation adjustments	(1,490)	(2,212)	893
Benefit plan liabilities	957	(4,212)	(35)
Total tax (provision) benefit	(249,929)	656	(41,024)
Other comprehensive income (loss), net of tax	464,159	(1,217)	76,190
Comprehensive income	$ 836,473	$ 547,791	$ 671,765

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

9. 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, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Gross unpaid losses and loss adjustment expenses, beginning of year	$5,250,484	$5,119,085	$5,142,159
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year	690,171	643,509	739,019
Net unpaid losses and loss adjustment expenses, beginning of year	4,560,313	4,475,576	4,403,140
Add: Net losses and loss adjustment expenses incurred related to:			
Current year	1,313,319	1,518,780	1,367,857
Prior years	(11,323)	(10,055)	40,507
Total net losses and loss adjustment expenses incurred	1,301,996	1,508,725	1,408,364
Less: Net paid losses and loss adjustment expenses related to:			
Current year	230,610	264,784	251,373
Prior years	1,024,182	1,016,008	1,111,139
Total net paid losses and loss adjustment expenses	1,254,792	1,280,792	1,362,512
Effects of exchange rate changes	58,763	(143,196)	26,584
Net unpaid losses and loss adjustment expenses, end of year	4,666,280	4,560,313	4,475,576
Add: Ceded unpaid losses and loss adjustment expenses, end of year	841,486	690,171	643,509
Gross unpaid losses and loss adjustment expenses, end of year	$5,507,766	$5,250,484	$5,119,085

Estimates of reserves for unpaid losses and loss adjustment expenses, with respect to loss events that have occurred on or before the balance sheet date, are contingent on many assumptions that may or may not occur in the future. These assumptions include loss estimates attributable to a variety of loss events, including 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, 2009. The estimate is reviewed on a quarterly basis and the ultimate liability may be more or less than the amounts provided, for which any adjustments will be reflected in the periods in which they become known.

Net losses and loss adjustment expenses incurred related to the current year, as reflected in the table above, were $1,313.3 million, $1,518.8 million and $1,367.9 million for the years ended December 31, 2009, 2008 and 2007, respectively. The decrease in losses and loss adjustment expenses incurred for the year ended December

31, 2009 was principally attributable to a reduction in property catastrophe losses. The increase in losses and loss adjustment expenses for the year ended December 31, 2008 was primarily attributable to increased property catastrophe losses. For the years ended December 31, 2009, 2008 and 2007, current year catastrophe events were $131.1 million, $264.7 million and $105.9 million, respectively. For the year ended December 31, 2009, current year property catastrophe losses included $53.5 million related to Windstorm Klaus, $16.2 million related to Windstorm Wolfgang and $10.4 million related to the floods in Turkey. For the year ended December 31, 2008, current year property catastrophe losses included $143.8 million related to Hurricane Ike, $45.9 million related to the China winter storm, $19.1 million related to Windstorm Emma and $11.3 million related to Hurricane Gustav. For the year ended December 31, 2007, the total catastrophe losses included $38.5 million for Windstorm Kyrill, $12.3 million for Cyclone Gonu and $10.0 million for the Mexico flood in Tabasco.

Net losses and loss adjustment expenses incurred related to prior years decreased $11.3 million and $10.1 million for the years ended December 31, 2009 and 2008, respectively, and increased $40.5 million for the year ended December 31, 2007. The decrease in prior period losses and loss adjustment expenses for the year ended December 31, 2009 was attributable to reduced loss estimates due to loss emergence lower than expectations in the period on business written in the EuroAsia, London Market and U.S. Insurance divisions, partially offset by increased loss estimates due to loss emergence greater than expectations in the period in the Americas division. The decrease in prior period losses and loss adjustment expenses for the year ended December 31, 2008 was attributable to decreased loss estimates due to loss emergence lower than expectations in the period in the London Market and U.S. Insurance divisions, partially offset by increased loss estimates due to loss emergence greater than expectations in the period in the Americas division. The increase in prior period losses and loss adjustment expenses for the year ended December 31, 2007 was attributable to increased loss estimates due to loss emergence greater than expectations in the period in the Americas division and included $21.2 million related to settlement of litigation. This increase was partially offset by decreased loss estimates due to loss emergence lower than expectations in the period in the EuroAsia, London Market, and U.S. Insurance divisions.

The effects of exchange rate changes on net unpaid losses and loss adjustment expenses resulted in an increase of $58.8 million for the year ended December 31, 2009, a decrease of $143.2 million for the year ended December 31, 2008 and an increase of $26.6 million for the year ended December 31, 2007. The effects of exchange rate changes were attributable to changes in foreign currency exchange rates for unpaid losses and loss adjustment expenses in the London Market division.

Ceded unpaid losses and loss adjustment expenses were $841.5 million, $690.2 million and $643.5 million as of December 31, 2009, 2008 and 2007, respectively. The increase in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2009 was principally attributable to a $139.5 million increase in unpaid reinsurance recoverables related to non−catastrophe exposure, principally in the London Market division. The increase in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2008 was attributable to a $62.9 million increase in unpaid reinsurance recoverables related to property catastrophe events, principally Hurricane Ike.

The Company uses tabular reserving for workers' compensation indemnity loss reserves, which are considered to be fixed and determinable, and discounts such reserves using an interest rate of 3.5%. Workers' compensation indemnity loss reserves have been discounted using the Life Table for Total Population: United States, 2004. Reserves reported at the discounted value were $115.8 million and $118.2 million as of December 31, 2009 and 2008, respectively. The amount of case reserve discount was $54.3 million and $55.6 million as of December 31, 2009 and 2008, respectively. The amount of incurred but not reported reserve discount was $21.9 million and $24.0 million as of December 31, 2009 and 2008, respectively.

10. Asbestos and Environmental Losses and Loss Adjustment Expenses

The Company has exposure to losses from asbestos, environmental pollution and other latent injury damage claims. Net unpaid asbestos and environmental losses and loss adjustment expenses as of December 31, 2009

were $265.5 million, representing 5.7% of total net unpaid losses and loss adjustment expenses, compared to $260.3 million, or 5.7% of total net unpaid losses and loss adjustment expenses as of December 31, 2008. Exposure arises from reinsurance contracts written by Clearwater prior to 1986 under which the Company has assumed liabilities, on an indemnity or assumption basis, from ceding companies, primarily in connection with general liability insurance policies issued by such ceding companies. The Company's estimate of its ultimate liability for these exposures includes "case basis" reserves and a provision for liabilities incurred but not reported. Case basis reserves are a combination of reserves reported to the Company by ceding companies and additional case reserves determined by the Company. The provision for liabilities incurred but not reported is established based on an annual review of the Company's experience and external trends in reported loss and claim payments, with monitoring of emerging experience on a quarterly basis.

Estimation of ultimate asbestos and environmental liabilities is unusually complex due to several factors resulting from the long period between exposure and manifestation of these claims. This lag can complicate the identification of the sources of asbestos and environmental exposure, the verification of coverage, and the allocation of liability among insurers and reinsurers over multiple years. This lag also exposes the claim settlement process to changes in underlying laws and judicial interpretations. There continues to be substantial uncertainty regarding the ultimate number of insureds with injuries resulting from these exposures.

In addition, other issues have emerged regarding asbestos exposure that have further impacted the ability to estimate ultimate liabilities for this exposure. These issues include an increasingly aggressive plaintiffs' bar, an increased involvement of defendants with peripheral exposure, the use of bankruptcy filings due to asbestos liabilities as an attempt to resolve these liabilities to the disadvantage of insurers, the concentration of litigation in venues favorable to plaintiffs, and the potential of asbestos litigation reform at the state or federal level.

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The Company's reserves for asbestos and environmental–related liabilities displayed below are from business written prior to 1986. The Company's asbestos and environmental reserve development, gross and net of reinsurance, for the years ended December 31, 2009, 2008 and 2007, is set forth in the table below (in thousands):

	2009	2008	2007
Asbestos			
Gross unpaid losses and loss adjustment expenses, beginning of year	$360,733	$339,271	$308,747
Add: Gross losses and loss adjustment expenses incurred	69,384	73,816	85,923
Less: Gross calendar year paid losses and loss adjustment expenses	43,382	52,354	55,399
Gross unpaid losses and loss adjustment expenses, end of year	$386,735	$360,733	$339,271
Net unpaid losses and loss adjustment expenses, beginning of year	$230,486	$222,426	$189,015
Add: Net losses and loss adjustment expenses incurred	39,959	41,007	62,970
Less: Net calendar year paid losses and loss adjustment expenses	28,873	32,947	29,559
Net unpaid losses and loss adjustment expenses, end of year	$241,572	$230,486	$222,426
Environmental			
Gross unpaid losses and loss adjustment expenses, beginning of year	$ 34,242	$ 41,984	$ 35,935
Add: Gross losses and loss adjustment expenses incurred	863	2,613	14,180
Less: Gross calendar year paid losses and loss adjustment expenses	7,963	10,355	8,131
Gross unpaid losses and loss adjustment expenses, end of year	$ 27,142	$ 34,242	$ 41,984
Net unpaid losses and loss adjustment expenses, beginning of year	$ 29,819	$ 34,485	$ 26,745
Add: Net losses and loss adjustment expenses incurred	578	4,078	14,474
Less: Net calendar year paid losses and loss adjustment expenses	6,512	8,744	6,734
Net unpaid losses and loss adjustment expenses, end of year	$ 23,885	$ 29,819	$ 34,485

Net losses and loss adjustment expenses for asbestos claims increased $40.0 million, $41.0 million and $63.0 million for the years ended December 31, 2009, 2008 and 2007, respectively. The increases in net losses and loss adjustment expenses incurred were primarily attributable to the annual reviews of claim activity and loss emergence trend information obtained in the calendar periods from ceding companies and other industry sources. Upon consideration of this new loss emergence information received in 2009, 2008 and 2007, the

Company revised its loss development assumptions used in its asbestos loss reserving analyses, which had the effect of increasing the asbestos loss estimates for these calendar periods.

Net losses and loss adjustment expenses for environmental claims increased $0.6 million, $4.1 million and $14.5 million for the years ended December 31, 2009, 2008 and 2007, respectively. The increases in net losses and loss adjustment expenses incurred for the years ended December 31, 2009, 2008 and 2007 were attributable to the annual reviews of claim activity and loss emergence trend information obtained in the calendar year from ceding companies.

The Company's survival ratio for asbestos and environmental–related liabilities as of December 31, 2009 is seven years. The Company's underlying survival ratio for asbestos–related liabilities is eight years and for environmental–related liabilities is three years. The asbestos and environmental–related liability survival ratio represents the asbestos and environmental reserves, net of reinsurance, as of December 31, 2009, divided by the average paid asbestos and environmental claims for the last three years of $37.8 million, which are net of reinsurance. Our survival ratios may fluctuate over time due to the variability of large payments and adjustments to liabilities.

11. Reinsurance and Retrocessions

The Company utilizes reinsurance and retrocessional agreements to reduce and spread the risk of loss on its insurance and reinsurance business and to limit exposure to multiple claims arising from a single occurrence. The Company is subject to accumulation risk with respect to catastrophic events involving multiple treaties, facultative certificates and insurance policies. To protect against these risks, the Company purchases catastrophe excess of loss protection. The retention, the level of capacity purchased, the geographical scope of the coverage and the costs vary from year to year. In 2009, the Company purchased catastrophe excess of loss protection for certain non–U.S. exposures as well as various additional specific protections for its facultative property account in Latin America. Additionally, the Company purchases specific protections related to the insurance business underwritten by its London Market and U.S. Insurance divisions.

There is a credit risk with respect to reinsurance, which would result in the Company recording a charge to earnings in the event that such reinsuring companies are unable, at some later date, to meet their obligations under the reinsurance agreements in force. Reinsurance recoverables are recorded as assets and a reserve for uncollectible reinsurance recoverables is established, based on the Company's evaluation of each reinsurer's or retrocessionaire's ability to meet its obligations under the agreements. Premiums written and earned are stated net of reinsurance ceded in the consolidated statements of operations. Direct, reinsurance assumed, reinsurance ceded and net amounts for the years ended December 31, 2009, 2008 and 2007 follow (in thousands):

	Year Ended December 31,		
	2009	2008	2007
Premiums Written			
Direct	$ 780,467	$ 792,351	$ 736,822
Add: assumed	1,414,568	1,502,191	1,545,860
Less: ceded	301,222	263,721	193,239
Net	$ 1,893,813	$ 2,030,821	$ 2,089,443
Premiums Earned			
Direct	$ 741,074	$ 773,042	$ 738,116
Add: assumed	1,472,116	1,525,516	1,566,392
Less: ceded	285,778	222,194	183,971
Net	$ 1,927,412	$ 2,076,364	$ 2,120,537

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The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2009 and 2008 was $912.0 million and $773.2 million, respectively. The reserve for uncollectible recoverables as of December 31, 2009 and 2008 was $41.9 million and $44.5 million, respectively, and has been netted against reinsurance recoverables on loss payments in the consolidated balance sheets. The Company has also established a reserve for potentially uncollectible assumed reinsurance balances of $5.5 million and $3.0 million as of December 31, 2009 and 2008, respectively, which has been netted against premiums receivable.

In accordance with the terms of certain of its reinsurance agreements, the Company has recorded interest expense associated with its ceded reinsurance agreements of $3.7 million, $5.3 million and $8.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

12. Reinsurance Recoverables

The Company's ten largest reinsurers represent 46.0% of its total reinsurance recoverables as of December 31, 2009. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than $22.7 million, or 2.5%, of reinsurance recoverables as of December 31, 2009, and the average balance is less than $1.5 million. The Company held total collateral of $220.2 million as of December 31, 2009, representing 24.1% of total reinsurance recoverables. The following table shows the total amount that is recoverable from each of the Company's ten largest reinsurers for paid and unpaid losses as of December 31, 2009, 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 of London	$ 128,778	14.2%	$ —	A
Federal Crop Insurance Corporation	43,963	4.8	—	NR
Underwriters Reinsurance Company (Barbados)	37,298	4.1	37,298	NR
Everest Re (Bermuda) Ltd.	36,813	4.0	—	A+
D.E. Shaw Bermuda Ltd.	34,981	3.8	34,981	NR
Max Bermuda Ltd.	32,865	3.6	17,208	A–
Swiss Reinsurance America Corporation	31,978	3.5	—	A
Arch Reinsurance Company	25,367	2.8	15,207	A
Brit Insurance Ltd.	24,445	2.7	—	A
Swiss Reinsurance Europe S.A.	22,907	2.5	—	A
Sub–total	419,395	46.0	104,694	
All Other	492,602	54.0	115,526	
Total	$ 911,997	100.0%	$ 220,220	

Reinsurance recoverables were $773.2 million and collateral was $225.7 million, or 29.2% of the reinsurance recoverable balance, as of December 31, 2008.

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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, 2009 and the amount of collateral held from each group (in thousands):

Reinsurer	Reinsurance Recoverable	% of Total	Collateral
Lloyd's of London	$ 128,778	14.2%	$ —
Swiss Re Group	106,578	11.6	37,354
Federal Crop Insurance Corporation	43,963	4.8	—
Everest Re Group Ltd.	37,576	4.1	—
Platinum Underwriters Holding Ltd.	35,524	3.9	—
Sub–total	352,419	38.6	37,354
All Other	559,578	61.4	182,866
Total	$ 911,997	100.0%	$ 220,220

The Company is the beneficiary of letters of credit, cash and other forms of collateral to secure certain amounts due from its reinsurers. The total amount of collateral held by the Company as of December 31, 2009 is $220.2 million, which represents 24.1% of the total amount of reinsurance recoverables, comprised of the following forms of collateral (in thousands):

Form of Collateral	Collateral	% of Recoverables
Letters of credit	$ 112,625	12.3%
Funds withheld from reinsurers	41,250	4.5
Trust agreements	66,345	7.3
Total	$ 220,220	24.1%

Each reinsurance contract between the Company and the reinsurer describes the losses which are covered under the contract and terms upon which payments are to be made. The Company generally has the ability to utilize collateral to settle unpaid balances due under its reinsurance contracts when it determines that the reinsurer has not met its contractual obligations. Letters of credit are for the sole benefit of the Company to support the obligations of the reinsurer, providing the Company with the unconditional ability, in its sole discretion, to draw upon the letters of credit in support of any unpaid amounts due under the relevant contracts. Cash and investments supporting funds withheld from reinsurers are included in the Company's invested assets. Funds withheld from reinsurers are typically used to automatically offset payments due to the Company in accordance with the terms of the relevant reinsurance contracts. Amounts held under trust agreements are typically comprised of cash and investment grade fixed income securities and are not included in the Company's invested assets. The ability of the Company to draw upon funds held under trust agreements to satisfy any unpaid amounts due under the relevant reinsurance contracts is typically unconditional and at the sole discretion of the Company.

13. Debt Obligations, Common Shares and Preferred Shares

Debt Obligations

The components of the Company's debt obligations as of December 31, 2009 and 2008 were as follows (in thousands):

	2009	2008
7.65% Senior Notes due 2013	$224,833	$224,790
6.875% Senior Notes due 2015	124,569	124,488
Series A Floating Rate Senior Debentures due 2021	50,000	50,000
Series B Floating Rate Senior Debentures due 2016	50,000	50,000
Series C Floating Rate Senior Debentures due 2021	40,000	40,000
Total debt obligations	$489,402	$489,278

On November 28, 2006, the Company completed the private sale of $40.0 million aggregate principal amount of floating rate senior debentures, series C, due December 15, 2021 (the "Series C Notes"). Interest on the Series C Notes accrues at a rate per annum equal to the three−month London Interbank Offer Rate ("LIBOR"), reset quarterly, plus 2.50%, and is payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. The Company has the option to redeem the Series C Notes at par, plus accrued and unpaid interest, in whole or in part on any interest payment date on or after December 15, 2011. For the years ended December 31, 2009 and 2008, the average annual interest rate on the Series C Notes was 3.48% and 5.71%, respectively.

On February 22, 2006, the Company issued $100.0 million aggregate principal amount of floating rate senior debentures, pursuant to a private placement. The net proceeds from the offering, after fees and expenses, were $99.3 million. The debentures were sold in two tranches: $50.0 million of series A, due March 15, 2021 (the "Series A Notes"), and $50.0 million of series B, due March 15, 2016 (the "Series B Notes"). Interest on each series of debentures is due quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. The interest rate on each series of debentures is equal to the three−month LIBOR, reset quarterly, plus 2.20%. The Series A Notes are callable by the Company on any interest payment date on or after March 15, 2011 at their par value, plus accrued and unpaid interest, and the Series B Notes are callable by the Company on any interest payment date on or after March 15, 2009 at their par value, plus accrued and unpaid interest. For the years ended December 31, 2009 and 2008, the average annual interest rate on each series of notes was 3.18% and 5.41%, respectively.

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

During the fourth quarter of 2003, the Company issued $225.0 million aggregate principal amount of senior notes due November 1, 2013. The issue was sold at a discount of $0.4 million, which is being amortized over the life of the notes. Interest accrues on the senior notes at a fixed rate of 7.65% per annum, which is due semi−annually on May 1 and November 1.

In June 2002, the Company issued $110.0 million aggregate principal amount of convertible senior debentures, due 2022 (the "Convertible Notes"). Interest accrued on the Convertible Notes at a fixed rate of 4.375% per annum, due semi−annually on June 15 and December 15. The Convertible Notes became redeemable at the Company's option on June 22, 2005. Under certain conditions specified in the indenture under which the Convertible Notes were issued (the "Indenture"), each Convertible Notes holder had the right to request conversion of its Convertible Notes into 46.9925 of the Company's common shares for every $1,000 principal

amount of the Convertible Notes held by such holder, which represented a conversion price of $21.28 per share. These conditions included the common stock of the Company trading at or above $25.54 per share for a specified period of time. Pursuant to the terms of the Indenture, the Company was permitted to satisfy the conversion obligations in stock or in cash, or in a combination thereof. The conversion conditions were first satisfied on August 9, 2006, and in accordance with the Indenture, the Convertible Notes became convertible, at the option of the holders, on August 14, 2006. As of March 31, 2007, 1.9 million shares of the Company's common stock were issued to the Convertible Notes holders who elected to convert their Convertible Notes. In March 2007, the Company announced that it had called for the redemption of the remaining $22.5 million principal value of the outstanding Convertible Notes. At the close of business on April 30, 2007, all holders of the Convertible Notes had exercised their rights of conversion with respect to the Convertible Notes. Accordingly, on May 1, 2007, the Company issued 1,056,107 shares of its common stock related to the final conversion of $22.5 million principal value of the Convertible Notes, and no Convertible Notes remained outstanding as of such date.

As of December 31, 2009, the aggregate maturities of the Company's debt obligations, at face value, were as follows (in thousands):

Year	Amount
2013	$225,000
2015	125,000
2016	50,000
2021	90,000
Total	$490,000

As of December 31, 2009 and 2008, the amortized cost of the Company's debt obligations was $489.4 million and $489.3 million respectively, as reflected in the respective consolidated balance sheets. As of December 31, 2009 and 2008, the estimated fair value of the Company's debt obligations was $503.6 million and $407.0 million, respectively. The estimated fair value is based on quoted market prices of the Company's debt, where available, and for debt similar to the Company's, and discounted cash flow calculations.

On July 13, 2007, the Company entered into a $200.0 million credit facility (the "Credit Agreement") with Wachovia Bank National Association ("Wachovia"), KeyBank National Association and a syndicate of lenders. The original Credit Agreement provided for a five–year credit facility of $200.0 million, $100.0 million of which was available for direct, unsecured borrowings by the Company, and all of which was available for the issuance of secured letters of credit to support the Company's insurance and reinsurance business. As of June 17, 2009, the Credit Agreement was amended to explicitly permit the Company to pledge collateral to secure its obligations under swap agreements, subject to certain financial limitations, in the event that such collateral is required by the counterparty or counterparties. As of February **24**, 2010, the Credit Agreement was amended (i) to reduce the size of the facility to $100.0 million, removing the unsecured $100.0 million tranche, (ii) to remove the previous limitation on dividends and other "restricted payments" that the Company may pay to its shareholders and (iii) amend certain of the covenants and default provisions, the minimum ratings requirement, and the pricing of the credit facility.

The amended Credit Agreement contains an option that permits the Company to request an increase in the aggregate amount of the facility by an amount up to $50.0 million, to a maximum facility size of $150.0 million. Following such a request, each lender has the right, but not the obligation, to commit to all or a portion of the proposed increase. As of December 31, 2009, there was $54.9 million outstanding under the Credit Agreement,all of which was in support of secured letters of credit, which included $21.0 million in letters of credit that were cancelled effective January 15, 2010 (see Note 17).

In December 2008, the Company entered into interest rate swaps, with an aggregate notional value of $140.0 million, to protect it from adverse movements in interest rates. Under these swap contracts, the Company receives a floating interest rate of three−month LIBOR and pays a fixed interest rate of 2.49% on the $140.0 million notional value of the contracts, for a five−year period ending in December 2013.

Common Shares

The Company's Board of Directors authorized a share repurchase program whereby the Company was authorized to repurchase shares of its common stock on the open market from time to time through December 31, 2009, up to an aggregate repurchase price of $600.0 million. Shares repurchased under the program were retired. During the year ended December 31, 2009, the Company repurchased and retired 1,789,100 shares of its common stock, at a cost of $72.6 million, an average repurchase price of $40.56 per share. From the inception of the program through October 21, 2009, the Company repurchased and retired 13,906,845 shares of its common stock at a total cost of $518.4 million.

During the year ended December 31, 2007, the Company converted the remaining Convertible Notes into 1,103,099 shares of the Company's common stock, resulting in a decrease to Convertible Notes, and a corresponding increase to shareholders' equity, of $23.5 million.

In each of the first three quarters of 2009, the Company paid a dividend of $0.075 per common share, resulting in an aggregate annual dividend of $0.225 per common share, totaling $13.4 million. The dividends were paid on March 31, 2009, June 30, 2009 and September 30, 2009. No common stock dividend was declared or paid during the fourth quarter of 2009. On March 28, 2008 and June 27, 2008, the Company paid dividends of $0.0625 per common share, and on September 26, 2008 and December 30, 2008, the Company paid dividends of $0.075 per common share. These common share dividends resulted in an aggregate annual dividend of $0.275 per common share in 2008, totaling $17.4 million.

Preferred Shares

The Company's 8.125% Series A preferred shares (2.0 million shares outstanding) have a liquidation preference of $25.00 per share and are redeemable at $25.00 per share at the Company's option, in whole, or in part from time to time, starting on or after October 20, 2010. Dividends on the Company's floating rate Series B preferred shares (1.2 million shares outstanding) are payable at an annual rate equal to 3.25% above the three−month LIBOR on the applicable quarterly determination date. The Series B preferred shares have a liquidation preference of $25.00 per share and are redeemable at the Company's option, in whole or in part from time to time, at the redemption prices below (in thousands, except per share amounts):

	Redemption Price	
Period	**Per Share**	**In Aggregate**
October 20, 2010 through October 19, 2011	$25.375	$29,619
October 20, 2011 through October 19, 2012	25.250	29,473
October 20, 2012 through October 19, 2013	25.125	29,327
October 20, 2013 and thereafter	25.000	29,182

Dividends on each series of preferred shares are deferrable on a non−cumulative basis, provided that no dividends or other distributions have been declared or paid or set apart for payment on any other class or series of the Company's capital shares ranking junior to or equal with the preferred shares. Dividends on Series A and Series B preferred shares will each be payable when, as and if declared by the Company's Board of Directors, quarterly in arrears on the 20th day of January, April, July, and October of each year. Deferred dividends on either series will not accrue interest prior to the date of redemption. On December 16, 2009, the Company's Board of Directors declared quarterly dividends of $0.5078125 per share on the Company's 8.125% Series A

preferred shares and $0.2208788 per share on the Company's floating rate Series B preferred shares. The total dividends of $1.5 million were paid on January 20, 2010 to Series A and Series B preferred shareholders of record on December 31, 2009.

During the first quarter of 2009 and the fourth quarter of 2008, Odyssey America purchased 704,737 and 128,000 shares, respectively, of the Company's Series B preferred shares, with a liquidation preference of $17.2 million and $3.1 million, respectively, for $9.2 million and $1.7 million, respectively. As a result of the purchase of the Series B preferred shares, the Company recorded a gain of $8.0 million for the year ended December 31, 2009, and $1.4 million for the year ended December 31, 2008, which amounts were reflected in the Company's retained earnings and included in net income available to common shareholders.

As of December 31, 2009, a subsidiary of Fairfax owned 253,599 shares and 70,000 shares of the Company's Series A and Series B preferred stock, respectively.

14. Segment Reporting

The Company's operations are managed through four operating divisions: Americas, EuroAsia, London Market and U.S. Insurance. The Americas division is comprised of the Company's reinsurance operations in the United States, Canada and Latin America, and writes property and casualty reinsurance business on a treaty and facultative basis. The EuroAsia division writes treaty reinsurance business. The London Market division operates through three distribution channels: Newline Syndicate (1218) at Lloyd's and NICL, which focus on casualty insurance, and the London branch of Odyssey America, which focuses on worldwide property and casualty reinsurance. The U.S. Insurance division writes specialty insurance lines and classes of business, such as medical professional liability, professional liability, crop and commercial automobile.

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The financial results of these divisions for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

Year Ended December 31, 2009	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 745,936	$ 559,165	$342,925	$ 547,009	$2,195,035
Net premiums written	731,228	532,981	254,462	375,142	1,893,813
Net premiums earned	$ 775,000	$ 542,777	$251,596	$ 358,039	$1,927,412
Losses and loss adjustment expenses	548,686	392,709	140,807	219,794	1,301,996
Acquisition costs and other underwriting expenses	245,903	135,777	71,590	107,677	560,947
Total underwriting deductions	794,589	528,486	212,397	327,471	1,862,943
Underwriting (loss) income	$ (19,589)	$ 14,291	$ 39,199	$ 30,568	64,469
Net investment income					317,894
Net realized investment gains (losses):					
Net realized investment gains					312,964
Other–than–temporary impairment losses					(127,013)
Total net realized investment gains					185,951
Other expense, net					(44,416)
Interest expense					(31,040)
Income before income taxes					$ 492,858
Underwriting ratios:					
Losses and loss adjustment expenses	70.8%	72.4%	56.0%	61.4%	67.6%
Acquisition costs and other underwriting expenses	31.7	25.0	28.4	30.1	29.1
Combined ratio	102.5%	97.4%	84.4%	91.5%	96.7%

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Year Ended December 31, 2008	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 776,387	$ 596,710	$381,764	$ 539,681	$2,294,542
Net premiums written	760,696	569,289	306,526	394,310	2,030,821
Net premiums earned	$ 780,027	$ 566,517	$314,616	$ 415,204	$2,076,364
Losses and loss adjustment expenses	645,550	397,203	188,566	277,406	1,508,725
Acquisition costs and other underwriting expenses	253,542	147,091	81,672	110,713	593,018
Total underwriting deductions	899,092	544,294	270,238	388,119	2,101,743
Underwriting (loss) income	$(119,065)	$ 22,223	$ 44,378	$ 27,085	(25,379)
Net investment income					255,199
Net realized investment gains (losses):					
Net realized investment gains					1,050,951
Other–than–temporary impairment losses					(358,692)
Total net realized investment gains					692,259
Other expense, net					(60,419)
Interest expense					(34,180)
Income before income taxes					$ 827,480
Underwriting ratios:					
Losses and loss adjustment expenses	82.8%	70.1%	59.9%	66.8%	72.7%
Acquisition costs and other underwriting expenses	32.5	26.0	26.0	26.7	28.5
Combined ratio	115.3%	96.1%	85.9%	93.5%	101.2%

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Year Ended December 31, 2007	Americas	EuroAsia	London Market	U.S. Insurance	Total
Gross premiums written	$ 834,921	$ 565,608	$349,874	$ 532,279	$2,282,682
Net premiums written	817,849	542,058	305,601	423,935	2,089,443
Net premiums earned	$ 841,869	$ 543,141	$306,799	$ 428,728	$2,120,537
Losses and loss adjustment expenses	661,429	348,593	150,413	247,929	1,408,364
Acquisition costs and other underwriting expenses	270,812	149,424	80,636	114,940	615,812
Total underwriting deductions	932,241	498,017	231,049	362,869	2,024,176
Underwriting (loss) income	$ (90,372)	$ 45,124	$ 75,750	$ 65,859	96,361
Net investment income					329,422
Net realized investment gains (losses):					
Net realized investment gains					593,626
Other–than–temporary impairment losses					(54,490)
Total net realized investment gains					539,136
Other expense, net					(14,006)
Interest expense					(37,665)
Income before income taxes					$ 913,248
Underwriting ratios:					
Losses and loss adjustment expenses	78.6%	64.2%	49.0%	57.8%	66.4%
Acquisition costs and other underwriting expenses	32.1	27.5	26.3	26.8	29.1
Combined ratio	110.7%	91.7%	75.3%	84.6%	95.5%

Gross Premiums Written by Major Unit/Division

	Years Ended December 31, 2009	2008	2007
United States	$ 561,773	$ 577,931	$ 649,201
Latin America	146,163	158,140	141,433
Canada	38,000	40,316	43,287
Total Americas	745,936	776,387	834,921
EuroAsia	559,165	596,710	565,608
London Market	342,925	381,764	349,874
U.S. Insurance	547,009	539,681	532,279
Total gross premiums written	$2,195,035	$2,294,542	$2,282,682

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Gross Premiums Written by Type of Business/Business Unit

	Years Ended December 31,		
	2009	2008	2007
Americas			
Property excess of loss	$ 157,690	$ 144,227	$ 125,053
Property proportional	97,925	132,432	123,331
Property facultative	21,810	17,948	19,479
Subtotal property	277,425	294,607	267,863
Casualty excess of loss	203,448	150,529	181,470
Casualty proportional	134,389	186,617	232,542
Casualty facultative	57,131	71,975	81,995
Subtotal casualty	394,968	409,121	496,007
Marine and aerospace	23,865	27,578	25,427
Surety and credit	49,678	45,081	45,592
Other lines	—	—	32
Total Americas	745,936	776,387	834,921
EuroAsia			
Property excess of loss	193,428	187,469	159,985
Property proportional	183,388	201,887	195,290
Property facultative	14	245	2,275
Subtotal property	376,830	389,601	357,550
Casualty excess of loss	67,604	75,647	66,755
Casualty proportional	28,061	36,867	41,492
Subtotal casualty	95,665	112,514	108,247
Marine and aerospace	44,285	49,100	48,158
Surety and credit	42,385	45,495	51,653
Total EuroAsia	559,165	596,710	565,608
London Market			
Property excess of loss	63,813	62,116	66,318
Property proportional	867	1,430	1,107
Subtotal property	64,680	63,546	67,425
Casualty excess of loss	5,321	4,851	6,789
Casualty proportional	3,550	13,462	15,964
Subtotal casualty	8,871	18,313	22,753
Marine and aerospace	35,916	47,234	55,153
Total reinsurance	109,467	129,093	145,331
Liability lines	227,844	248,185	201,492
Other	5,614	4,486	3,051
Total insurance	233,458	252,671	204,543
Total London Market	342,925	381,764	349,874

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
Gross Premiums Written by Type of Business/Business Unit

	Years Ended December 31,		
	2009	2008	2007
U.S. Insurance			
Property and package	135,047	111,489	68,457
Professional liability	119,918	130,926	139,320
Specialty liability	113,938	90,918	90,398
Medical professional liability	96,957	113,922	130,150
Commercial automobile	65,594	68,159	52,374
Personal automobile	15,555	24,267	51,580
Total U.S. Insurance	547,009	539,681	532,279
Total gross premiums written	$2,195,035	$2,294,542	$2,282,682

The Company does not maintain separate balance sheet data for each of its operating segments. Accordingly, the Company does not review and evaluate the financial results of its operating segments based upon balance sheet data.

15. Federal and Foreign Income Taxes

The components of the federal and foreign income tax provision (benefit) included in the consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 are as follows (in thousands):

	2009	2008	2007
Current:			
United States	$ 77,775	$ 463,222	$123,527
Foreign	75,475	70,677	78,276
Total current income tax provision	153,250	533,899	201,803
Deferred:			
United States	(1,782)	(258,303)	113,621
Foreign	(30,924)	2,876	2,249
Total deferred income tax (benefit) provision	(32,706)	(255,427)	115,870
Total federal and foreign income tax provision	$120,544	$ 278,472	$317,673

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	2009	2008
Unpaid losses and loss adjustment expenses	$ 156,444	$ 164,552
Unearned premiums	36,374	38,946
Reserve for potentially uncollectible balances	11,469	13,958
Pension and benefit accruals	10,075	8,015
Investments	152,869	116,928
Foreign tax credit	74,946	110,631
Other	4,461	—
Total deferred tax assets	446,638	453,030
Deferred acquisition costs	40,335	48,675
Foreign deferred items	35,198	66,122
Other	—	3,648
Total deferred tax liabilities	75,533	118,445
Net deferred tax assets	371,105	334,585
Deferred income taxes on accumulated other comprehensive income	(294,308)	(44,378)
Deferred federal and foreign income tax asset	76,797	290,207
Current taxes payable	(31,464)	(238,111)
Federal and foreign income taxes receivable	$ 45,333	$ 52,096

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, 2009, 2008 and 2007 (in thousands):

	2009		2008		2007	
	Amount	% of Pre–tax Income	Amount	% of Pre–tax Income	Amount	% of Pre–tax Income
Income before income taxes	$492,858		$827,480		$913,248	
Income tax provision computed at the U.S. statutory tax rate on income	$172,500	35.0%	$289,618	35.0%	$319,637	35.0%
(Decrease) increase in income taxes resulting from:						
Dividend received deduction	(8,622)	(1.7)	(4,141)	(0.5)	(3,238)	(0.4)
Tax–exempt income	(38,010)	(7.7)	(7,448)	(0.9)	(2,163)	(0.2)
Other, net	(5,324)	(1.1)	443	0.1	3,437	0.4
Total federal and foreign income tax provision	$120,544	24.5%	$278,472	33.7%	$317,673	34.8%

Domestic pre–tax income was $288.0 million, $642.4 million and $692.8 million for the years ended December 31, 2009, 2008 and 2007, respectively. Foreign pre–tax income was $204.9 million, $185.1 million and $220.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

During the third quarter of 2006, Fairfax reduced its ownership of the Company to below 80%, and as a result, the Company was deconsolidated from the United States tax group of Fairfax. Accordingly, the Company filed or will file separate company tax returns for the period August 2, 2006 to October 20, 2009. As a result of the Merger (see Note 1), effective October 21, 2009, the Company rejoined the United States tax group of Fairfax. The Merger had no effect on the Company's tax position. The Company has elected to recognize accrued interest and penalties associated with uncertain tax positions as part of the income tax provision. As of December 31, 2009 and 2008, the Company has not recorded any interest or penalties. The Company paid federal and foreign income taxes of $355.9 million, $348.4 million and $224.6 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, the Company had a current tax payable of $31.5 million, which reflects $21.1 million payable to Fairfax and a net payable of $10.4 million to the U.S. federal government and various foreign governments. As of December 31, 2008, the Company had a current tax payable of $238.1 million, which reflects $9.3 million payable to Fairfax and a net payable of $228.8 million to the U.S. federal government and various foreign governments. The federal income tax provision is allocated to each of the Company's subsidiaries in the consolidated group pursuant to a written agreement, on the basis of each subsidiary's separate taxable income.

The Company files income tax returns with various federal, state and foreign jurisdictions. The Company's U.S. federal income tax return for 2007 and 2008 remain open for examination. The Internal Revenue Service completed their audit of the Company's 2005 and 2006 tax returns in January 2010 and will commence their audit of the Company's 2007 and 2008 tax returns in 2010. There have been no material adjustments proposed under the current audit cycle. Income tax returns filed with various state and foreign jurisdictions remain open to examination in accordance with individual statutes.

The Company does not have any material unrecognized tax benefits and, accordingly, has not recognized any accrued interest or penalties associated with uncertain tax positions.

16. Commitments and Contingencies

On February 8, 2007, the Company was added as a co−defendant in an amended and consolidated complaint in an existing action against the Company's then−majority (now 100%) shareholder, Fairfax, and certain of Fairfax's officers and directors, who include certain of the Company's current and former directors. The amended and consolidated complaint has been filed in the United States District Court for the Southern District of New York by the lead plaintiffs, who seek to represent a class of all purchasers and acquirers of securities of Fairfax between May 21, 2003 and March 22, 2006, inclusive, and allege, among other things, that the defendants violated U.S. federal securities laws by making material misstatements or failing to disclose certain material information. The amended and consolidated complaint seeks, among other things, certification of the putative class, unspecified compensatory damages, unspecified injunctive relief, reasonable costs and attorneys' fees and other relief. These claims are at a preliminary stage. Pursuant to the scheduling stipulations, the various defendants filed their respective motions to dismiss the amended and consolidated complaint, the lead plaintiffs filed their opposition thereto, and the defendants filed their replies to those oppositions; the motions to dismiss were argued before the Court in December 2007. The Court has not yet issued a ruling on these motions. In November 2009, the Court granted a motion by the lead plaintiffs to withdraw as lead plaintiffs, and allowed other prospective lead plaintiffs 60 days to file motions seeking appointment as replacement lead plaintiff. Two entities filed such motions and subsequently asked the Court to appoint them as co−lead plaintiffs. These motions remain pending. The Company intends to vigorously defend against the allegations. At this early stage of the proceedings, it is not possible to make any determination regarding the likely outcome of this matter.

In July 2006, Fairfax, the Company's then−majority (now 100%) shareholder, filed a lawsuit in the Superior Court, Morris County, New Jersey, seeking damages from a number of defendants who, the complaint alleges, participated in a stock market manipulation scheme involving Fairfax shares, and the complaint was subsequently amended to add additional allegations and two defendants. In January 2008, two of these defendants filed a counterclaim against Fairfax and a third−party complaint against, among others, OdysseyRe

and certain of its directors. Those counterclaims and third−party claims were voluntarily withdrawn in March 2008. In September 2008, the same two defendants filed an amended counterclaim and third−party complaint that again named OdysseyRe and certain directors as defendants. The complaint alleges, among other things, claims of racketeering, intentional infliction of emotional distress, tortious interference with economic advantage and other torts, and seeks unspecified compensatory and punitive damages and other relief. OdysseyRe denies the allegations and intends to vigorously defend against these claims. OdysseyRe has not yet responded to the complaint, and the timing of that response has not been set. At this early stage of the proceedings, it is not possible to make any determination regarding the likely outcome of this matter.

On September 7, 2005, the Company announced that it had been advised by Fairfax, the Company's then−majority (now 100%) shareholder, that Fairfax had received a subpoena from the SEC requesting documents regarding any nontraditional insurance and reinsurance transactions entered into or offered by Fairfax and any of its affiliates, which included OdysseyRe. On June 25, 2009, the Company announced that Fairfax had been informed by the New York Regional Office of the SEC that its investigation as to Fairfax had been completed, and that it did not intend to recommend any enforcement action by the SEC.

The Company participates in Lloyd's through its 100% ownership of Newline Syndicate (1218), for which the Company provides 100% of the capacity. The results of Newline Syndicate (1218) are consolidated in the financial statements of the Company. In support of Newline Syndicate (1218)'s capacity at Lloyd's, NCNL and Odyssey America have pledged securities and cash with a fair value of $139.1 million and $123.5 million, respectively, as of December 31, 2009 in a deposit trust account in favor of the Society and Council of Lloyd's. These securities may be substituted with other securities at the discretion of the Company, subject to approval by Lloyd's. The securities are carried at fair value and are included in investments and cash in the Company's consolidated balance sheets. Interest earned on the securities is included in investment income. The pledge of assets in support of Newline Syndicate (1218) provides the Company with the ability to participate in writing business through Lloyd's, which remains an important part of the Company's business. The pledged assets effectively secure the contingent obligations of Newline Syndicate (1218) should it not meet its obligations. NCNL and Odyssey America's contingent liability to the Society and Council of Lloyd's is limited to the aggregate amount of the pledged assets. The Company has the ability to remove funds at Lloyd's annually, subject to certain minimum amounts required to support outstanding liabilities as determined under risk−based capital models and approved by Lloyd's. The funds used to support outstanding liabilities are adjusted annually and the obligations of the Company to support these liabilities will continue until they are settled or the liabilities are reinsured by a third party approved by Lloyd's. The Company expects to continue to actively operate Newline Syndicate (1218) and support its requirements at Lloyd's. The Company believes that Newline Syndicate (1218) maintains sufficient liquidity and financial resources to support its ultimate liabilities and the Company does not anticipate that the pledged assets will be utilized.

As of July 14, 2000, Odyssey America agreed to guarantee the performance of all the insurance and reinsurance contract obligations, whether incurred before or after the agreement, of Compagnie Transcontinentale de Réassurance ("CTR"), a subsidiary of Fairfax, in the event CTR became insolvent and CTR was not otherwise indemnified under its guarantee agreement with a Fairfax affiliate. The guarantee, which was entered into while Odyssey America and CTR were each 100% owned by Fairfax, was provided by Odyssey America to facilitate the transfer of renewal rights to CTR's business, together with certain CTR employees, to Odyssey America in 2000 in order to further expand the Company's international reinsurance business. The guarantee was terminated effective December 31, 2001. There were no amounts received from CTR under the guarantee, and the Company did not provide any direct consideration for the renewal rights to the business of CTR. CTR was dissolved and its assets and liabilities were assumed by subsidiaries of Fairfax that have the responsibility for the run−off of its liabilities. Although CTR's liabilities were assumed by Fairfax subsidiaries, the guarantee only pertains to those liabilities attaching to the policies written by CTR. Fairfax has agreed to indemnify Odyssey America for all its obligations incurred under its guarantee. The Company's potential exposure in connection with this agreement stems from CTR's remaining gross reserves, which are estimated to be $113.5 million as of December 31, 2009. The Company believes that the financial resources of the Fairfax subsidiaries that have assumed CTR's liabilities provide adequate protection to satisfy the obligations that are

subject to this guarantee. The Company does not expect to make payments under this guarantee and does not consider its potential exposure under this guarantee to be material to its consolidated financial position.

Odyssey America agreed, as of April 1, 2002, to guarantee the payment of all of the insurance contract obligations (the “Subject Contracts”), whether incurred before or after the agreement, of Falcon Insurance Company (Hong Kong) Limited (“Falcon”), a subsidiary of Fairfax Asia Limited (“Fairfax Asia”), in the event Falcon becomes insolvent. Fairfax Asia is 100% owned by Fairfax, which includes a 26.2% economic interest owned by the Company. The guarantee by Odyssey America was made to assist Falcon in writing business through access to Odyssey America’s financial strength ratings and capital resources. Odyssey America is paid a fee for this guarantee of one percent of all gross premiums earned associated with the Subject Contracts on a quarterly basis. For the years ended December 31, 2009, 2008 and 2007, Falcon paid $0.3 million, $0.3 million and $0.5 million, respectively, to Odyssey America in connection with this guarantee. Odyssey America’s potential exposure in connection with this agreement is estimated to be $52.9 million, based on Falcon’s loss reserves at December 31, 2009. Falcon’s shareholders’ equity on a U.S. GAAP basis is estimated to be $58.4 million as of December 31, 2009. Fairfax has agreed to indemnify Odyssey America for any obligation under this guarantee. The Company believes that the financial resources of Falcon provide adequate protection to support its liabilities in the ordinary course of business. The Company anticipates that Falcon will meet all of its obligations in the normal course of business and does not expect to make any payments under this guarantee. The Company does not consider its potential exposure under this guarantee to be material to its consolidated financial position.

The Company organized O.R.E Holdings Limited (“ORE”), a corporation domiciled in Mauritius, on December 30, 2003 to act as a holding company for various investments in India. On January 29, 2004, ORE was capitalized by the Company in the amount of $16.7 million. ORE is consolidated in the Company’s consolidated financial statements. During 2004, ORE entered into a joint venture agreement relating to the purchase by ORE of 45% of the shares of Cheran Enterprises Private Limited (“CEPL”). CEPL is a corporation domiciled in India, engaged in the purchase, development and sale of commercial real estate properties. The joint venture agreement governing CEPL contains a provision whereby Odyssey America could have been called upon to provide a guarantee of a credit facility, if such a facility had been established by CEPL, in an amount up to $65.0 million for the funding of proposed developments. The credit facility was never established, and the requisite conditions for any future provision of the guarantee no longer exist. ORE’s Indian joint venture partner claimed that the guarantee should be available and pursued legal actions against the Company. The Company found this claim without merit and vigorously defended the legal actions. On August 13, 2008, the Company Law Board in Chennai, India ruled in ORE’s favor and directed CEPL to return to ORE the full amount of its investment in CEPL, plus 8% interest, within the one−year period commencing November 1, 2008. As of December 31, 2009, the Company had written down the value of its investment in ORE by $9.9 million. The carrying value of the Company’s investment in ORE as of both December 31, 2009 and 2008 was $6.7 million. Because no payment of the award has yet been received and collection may require additional legal action on the part of ORE, the Company has taken no steps to reverse the write−downs that have been taken to date. The Company continues to vigorously pursue collection of the award.

The Company and its subsidiaries are involved from time to time in ordinary litigation and arbitration proceedings as part of the Company’s business operations. In the Company’s opinion, the outcome of these suits, individually or collectively, is not likely to result in judgments that would be material to the financial condition or results of operations of the Company.

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

	Amount
2010	$ 9,502
2011	7,641
2012	6,131
2013 and thereafter	43,101
Total	$ 66,375

The amounts above are reduced by an aggregate minimum rental recovery of $1.0 million resulting from the sublease of space to other companies. Rental expense, before sublease income under these operating leases, was $11.4 million, $11.3 million and $8.2 million for the years ended December 31, 2009, 2008 and 2007, respectively. The Company recovered pre−tax amounts of less than $0.1 million for the year ended December 31, 2009 and $0.1 million for each of the years ended December 31, 2008 and 2007, from subleases.

17. Statutory Information and Dividend Restrictions

Odyssey America, the Company's principal operating subsidiary, is subject to state regulatory restrictions that limit the maximum amount of dividends payable. In any 12−month period, Odyssey America may pay dividends equal to the greater of (i) 10% of statutory capital and surplus as of the prior year end or (ii) net income for such prior year, without prior approval of the Insurance Commissioner of the State of Connecticut (the "Connecticut Commissioner"). The maximum amount of dividends which Odyssey America may pay in 2010, without such prior approval is $351.3 million, based on Odyssey America's separate company statutory financial statements. Connecticut law further provides that (i) Odyssey America must report to the Connecticut Commissioner, for informational purposes, all dividends and other distributions within five business days after the declaration thereof and at least ten days prior to payment and (ii) Odyssey America may not pay any dividend or distribution in excess of its earned surplus, defined as the insurer's "unassigned funds surplus" reduced by 25% of unrealized appreciation in value or revaluation of assets or unrealized profits on investments, as reflected in its most recent statutory annual statement on file with the Connecticut Commissioner, without the Connecticut Commissioner's approval. Odyssey America paid dividends to the Company of $200.0 million, $410.0 million and $155.0 million during the years ended December 31, 2009, 2008 and 2007, respectively.

The following is the consolidated statutory basis net income and policyholders' surplus of Odyssey America and its subsidiaries, for each of the years ended and as of December 31, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Net income	$ 374,884	$ 602,133	$ 335,783
Policyholders' surplus	$3,512,819	$2,951,335	$2,922,758

The statutory provision for potentially uncollectible reinsurance recoverables due from unauthorized companies is reduced to the extent collateral is held. Pursuant to indemnification agreements between the Company and Clearwater, and between the Company and Hudson, the Company previously provided a $20.5 million letter of credit to Clearwater and a $0.5 million letter of credit to Hudson as of December 31, 2008, which were used as collateral for balances due from unauthorized reinsurers in regard to the indemnification agreements. The use of such collateral provided by the Company is a permitted accounting practice approved by the Insurance Department of the State of Delaware, the domiciliary state of Clearwater and Hudson. Effective January 15, 2010, the letters of credit were cancelled at the request of Clearwater and Hudson, and the

indemnification agreements have been terminated. The indemnification agreements do not affect the accompanying consolidated financial statements, although Odyssey America's, Clearwater's and Hudson's policyholders' surpluses as of December 31, 2009 were negatively impacted by $14.4 million, $14.2 million and $0.2 million, respectively.

18. Related Party Transactions

The Company has entered into various reinsurance arrangements with Fairfax and its affiliates. The approximate amounts included in or deducted from income, expense, assets and liabilities in the accompanying consolidated financial statements, with respect to reinsurance assumed and ceded from and to affiliates, as of and for the years ended December 31, 2009, 2008 and 2007 follow (in thousands):

	2009	2008	2007
Assumed:			
Premiums written	$ 14,434	$ 18,188	$ 26,385
Premiums earned	15,956	21,633	30,368
Losses and loss adjustment expenses	15,868	11,404	6,629
Acquisition costs	3,989	6,592	4,506
Reinsurance payable on paid losses	(86)	2,235	2,721
Reinsurance balances receivable	1,441	2,269	5,203
Unpaid losses and loss adjustment expenses	131,446	148,495	179,377
Unearned premiums	6,489	8,012	11,456
Ceded:			
Premiums written	$ 39	$ 444	$ (653)
Premiums earned	39	656	(276)
Losses and loss adjustment expenses	(882)	14,283	(7,094)
Acquisition costs	(8)	9	(13)
Ceded reinsurance balances payable	333	258	1,180
Reinsurance recoverables on paid losses	(192)	7	463
Reinsurance recoverables on unpaid losses	9,318	13,223	14,258
Prepaid reinsurance premiums	—	—	212

Written premiums assumed from Fairfax's affiliates in 2009 represent 0.7% of OdysseyRe's total gross premiums written for the year ended December 31, 2009. Ceded premiums written represent less than 0.1% of OdysseyRe's total ceded premiums written for the year ended December 31, 2009. The largest amounts of related party assumed business in 2009 were received from Commonwealth Insurance Company and Lombard General Insurance Company of Canada.

The Company's subsidiaries have entered into investment management agreements with Fairfax and its wholly–owned subsidiary, Hamblin Watsa Investment Counsel Ltd. These agreements provide for an annual base fee of 0.20% (20 basis points), calculated and paid quarterly based upon the subsidiary's average invested assets for the preceding three months. The agreements also include incentive fees of 0.10% (10 basis points), which are payable if realized gains exceed 1% of the average investment portfolio in any given year, subject to cumulative realized gains on investments exceeding 1% of the average investment portfolio. Additional incentive fees are paid based upon the performance of the subsidiary's equity portfolio equal to 10% of the return on equities (subject to an annual maximum) in excess of the Standard & Poor's 500 index plus 200 basis points, provided that the equity portfolio has achieved such excess on a cumulative basis. If the performance of the equity portfolio does not equal or exceed this benchmark in a given year, the annual base fee, on the equity portion of the portfolio, is reduced to 0.18% (18 basis points). The aggregate annual investment management fee payable by each subsidiary, including incentive fees, is capped at 0.40% (40 basis points) of its investment portfolio, with

any excess amounts carried into the following year. These agreements may be terminated by either party on 30 days' notice. For the years ended December 31, 2009, 2008 and 2007, total fees, including incentive fees, of $28.8 million, $21.4 million and $17.3 million, respectively, are included in the consolidated statements of operations.

The OdysseyRe Foundation, a not−for−profit entity through which the Company provides funding to charitable organizations active in the communities in which the Company operates, was formed in February 2007. Prior to the formation of the OdysseyRe Foundation, the Company provided funding to charitable organizations through the Sixty−Four Foundation, a not−for−profit affiliate of Fairfax and the Company. Included in other expense, net for the years ended December 31, 2009, 2008 and 2007, are incurred charitable contributions of $5.0 million, $3.7 million and $2.5 million, respectively, related to these entities.

Due to expense sharing and investment management agreements with Fairfax and its affiliates, the Company has accrued, on its consolidated balance sheet, amounts receivable from affiliates of $0.3 million and $1.0 million as of December 31, 2009 and 2008, respectively, and amounts payable to affiliates of $13.3 million and $1.6 million as of December 31, 2009 and 2008, respectively.

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.

19. Employee Benefits

The Company measures the assets and liabilities of its employee benefit plans as of the date of the Company's financial statements, as required by GAAP. During 2008, the measurement date for the Company's defined benefit pension plan and the supplemental employee retirement plan (the "Supplemental Plan") were changed from October 1 to December 31. The Company elected to apply the "fifteen−month" approach to these two benefit plans to measure plan assets and liabilities from the plans' previous measurement date of October 1, 2007, for a fifteen−month period through December 31, 2008. As of January 1, 2008, the net periodic benefit costs of $1.8 million ($1.2 million, after tax) and the change in the minimum benefit plan liabilities of $0.2 million ($0.1 million, after tax) for the period October 1 through December 31, 2007 related to the defined benefit pension plan and Supplemental Plan have been reflected as a direct charge to retained earnings and an increase to accumulated other comprehensive income, respectively.

Defined Benefit Pension Plan

The Company maintains a qualified, non−contributory, defined benefit pension plan ("Plan") covering substantially all employees who have reached age twenty−one and who have completed one year of service. Employer contributions to the Plan are in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended.

The amortization period for unrecognized pension costs and credits, including prior service costs, if any, and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits. Actuarial gains and losses result when actual experience differs from that assumed or when actuarial assumptions are changed.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables set forth the Plan's unfunded status and accrued pension cost recognized in the Company's consolidated financial statements as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 59,980	$ 66,690
Service cost	5,121	6,650
Interest cost	3,432	3,816
Actuarial loss (gain)	3,140	(6,238)
Benefits paid	(4,935)	(3,270)
Settlement of retiree benefit obligations	—	(7,668)
Benefit obligation at end of year	66,738	59,980
Change in Plan assets:		
Fair value of Plan assets at beginning of year	47,931	52,388
Actual return on Plan assets	10,480	2,663
Actual contributions during the year	3,800	3,818
Settlement of retiree benefit obligations	—	(7,668)
Benefits paid	(4,935)	(3,270)
Fair value of Plan assets at end of year	57,276	47,931
Unfunded status and accrued pension cost	$ (9,462)	$ (12,049)

As of December 31, 2009 and 2008, the fair value and percentage of fair value of the total Plan assets are as follows (in thousands):

	As of December 31,			
	2009		2008	
	$	%	$	%
Equity securities	$ 34,671	60.5%	$ 37,749	78.8%
Fixed income securities	13,104	22.9	—	—
Pooled investment hedge fund	6,573	11.5	—	—
Money market	2,928	5.1	10,182	21.2
Fair value of Plan assets	$ 57,276	100.0%	$ 47,931	100.0%

The Plan seeks to maximize the economic value of its investments, by applying a long–term, value–oriented approach to optimize the total investment returns of the Plan's invested assets. Assets are transferred and allocated among various investment vehicles, when appropriate. The long–term rate of return assumption is based on this flexibility to adjust to market conditions. The actual return on assets has historically been in line with the Company's assumptions of expected returns. During 2009, the Company contributed $3.8 million to the Plan. The Company currently expects to make a contribution to the Plan in 2010 of $3.2 million.

The Company accounts for its Plan assets at fair value as required by GAAP. The Company has categorized its Plan assets, based on the priority of the inputs to the valuation technique, into a three–level fair value hierarchy. The Company uses the three–level hierarchy approach that is described in Note 6.

For determining the fair value of the Company's Level 1 Plan assets, quoted market prices are used. The majority of these Plan assets are common stocks that are actively traded in a public market. The Plan's money market account, for which the cost basis approximates fair value, is also classified as a Level 1 investment.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's Level 2 Plan assets, the majority of which are in government, corporate and municipal fixed income securities, are priced using publicly traded over–the–counter prices and broker–dealer quotes. Observable inputs such as benchmark yields, reported trades, broker–dealer quotes, issuer spreads and bids are available for these investments.

The Company's Level 3 Plan assets are valued by a third party by using valuation techniques that include unobservable inputs. To verify Level 3 pricing, the Company's investment manager assesses the reasonableness of the fair values by comparing them to the market's overall performance. During the year ended December 31, 2009, the Company purchased $6.0 million of investments that are classified as Level 3, which had a fair value of $6.6 million as of December 31, 2009.

The following tables present the fair value hierarchy for those Plan assets measured at fair value on a recurring basis as of December 31, 2009 (in thousands):

		Fair Value Measurements as of December 31, 2009		
	Assets Measured at Fair Value December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities	$ 34,671	$ 34,671	$ —	$ —
Debt securities	13,104	—	13,104	—
Pooled investment hedge fund	6,573	—	—	6,573
Money market	2,928	2,928	—	—
Total Plan assets measured at fair value	$ 57,276	$ 37,599	$ 13,104	$ 6,573

The net amount recognized in the consolidated balance sheets related to the accrued pension cost of $9.5 million and $12.0 million, as of December 31, 2009 and 2008, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss recognized is $0.3 million and $5.5 million, before taxes, as of December 31, 2009 and 2008, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2009 and 2008 are as follows:

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

The discount rate represents the Company's estimate of the interest rate at which the Plan's benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated postretirement benefit obligations and the service and interest cost components of net periodic postretirement benefit cost.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 is comprised of the following components (in thousands):

	2009	2008	2007
Net Periodic Benefit Cost:			
Service cost	$ 5,121	$ 5,323	$ 5,071
Interest cost	3,432	2,976	2,982
Return on Plan assets	(2,188)	(2,199)	(2,486)
Settlement of retiree benefit obligations	—	1,571	—
Net amortization and deferral	55	572	714
Net periodic benefit cost	$ 6,420	$ 8,243	$ 6,281

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Discount rate	6.00%	5.25%	5.25%
Rate of compensation increase	5.75%	5.75%	5.73%
Expected long term rate of return on Plan assets	5.25%	5.25%	5.50%

The accumulated benefit obligation for the Plan is $49.6 million and $45.4 million as of the December 31, 2009 and 2008 measurement dates, respectively.

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

Year	Amount
2010	$ 2,650
2011	1,000
2012	2,340
2013	2,510
2014	2,660
2015 — 2019	18,350

The Company estimates that it will record a $6.4 million expense related to the net periodic benefit cost during the year ended December 31, 2010. The Company does not expect any refunds of Plan assets during the year ended December 31, 2010.

The Company recorded a one–time pension settlement expense of $1.6 million ($1.0 million after–tax) and a corresponding increase to other comprehensive income, during the second quarter of 2008 related to the settlement of retiree benefit obligations from the defined benefit pension plan. The settlement of the retiree benefit obligations resulted in the immediate recognition of a portion of a previously unrecognized actuarial loss. The settlement of retiree benefit obligations had no effect on total shareholders' equity. Annuities have been purchased for those individuals whose retiree benefit obligations were settled under the defined benefit pension plan. Additionally, as a result of the settlement, the Company's retiree benefit obligations and the fair value of the plan assets decreased by $7.7 million.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Excess Benefit Plans

The Company maintains two non–qualified excess benefit plans (“Excess Plans”) that provide more highly compensated officers and employees with defined retirement benefits in excess of qualified plan limits imposed by federal tax law. The following tables set forth the combined amounts recognized for the Excess Plans in the Company’s consolidated financial statements as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 16,387	$ 16,732
Service cost	733	840
Interest cost	950	894
Actuarial gain	(33)	(1,302)
Benefits paid	(2,261)	(777)
Benefit obligation at end of year	15,776	16,387
Change in Excess Plans’ assets:		
Fair value of Excess Plans’ assets at beginning of year	—	—
Actual contributions during the year	2,261	777
Benefits paid	(2,261)	(777)
Fair value of Excess Plans’ assets at end of year	—	—
Unfunded status and accrued prepaid pension cost	$ (15,776)	$ (16,387)

The net amount recognized in the consolidated balance sheets related to the accrued pension cost of $15.8 million and $16.4 million, as of December 31, 2009 and 2008, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss recognized is $2.1 million and $2.2 million, before taxes, as of December 31, 2009 and 2008, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2009 and 2008 are as follows:

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

The discount rate represents the Company’s estimate of the interest rate at which the Excess Plans’ benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated post retirement benefit obligations and the service and interest cost components of net periodic post retirement benefit cost.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net periodic benefit cost included in the Company's consolidated statement of operations for the years ended December 31, 2009, 2008 and 2007 is comprised of the following components (in thousands):

	2009	2008	2007
Net Periodic Benefit Cost:			
Service cost	$ 733	$ 840	$ 801
Interest cost	950	852	830
Recognized net actuarial loss	126	244	280
Recognized prior service cost	(37)	(37)	(37)
Other	—	—	5
Net periodic benefit cost	$ 1,772	$ 1,899	$ 1,879

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Discount rate	6.00%	5.25%	5.25%
Rate of compensation increase	5.75%	5.75%	5.73%

The accumulated benefit obligation for the Excess Plans is $11.2 million and $11.7 million as of December 31, 2009 and 2008, respectively.

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

Year	Amount
2010	$1,080
2011	1,020
2012	1,170
2013	920
2014	990
2015 — 2019	4,870

A trust fund, which was established related to the Excess Plans, is included in other invested assets, and had a fair value of $3.8 million and $5.6 million as of December 31, 2009 and 2008, respectively. During 2009, the trust fund reallocated its invested assets from U.S. government securities to money market accounts. Plan benefits are paid by the Company as they are incurred by the participants, accordingly, there are no assets held directly by the Excess Plans.

The Company expects to contribute $1.1 million to the Excess Plans during the year ended December 31, 2010, which represents the amount necessary to fund the 2010 expected benefit payments.

The Company estimates that it will record a $1.7 million expense related to the net periodic benefit cost during the year ended December 31, 2010.

Postretirement Benefit Plan

The Company provides certain health care and life insurance (“postretirement”) benefits for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while working for the Company. The Company’s cost for providing postretirement benefits other than pensions is accounted for in accordance with ASC 715, “Compensation — Retirement Benefits.” The following tables set forth the amounts recognized for the postretirement benefit plan, which has a measurement date of December 31, in the Company’s consolidated financial statements as of December 31, 2009 and 2008 (in thousands):

	2009	2008
Change in projected benefit obligation:		
Benefit obligation at beginning of year	$ 14,151	$ 14,222
Service cost	1,743	1,787
Interest cost	1,052	879
Actuarial loss (gain)	7,934	(2,429)
Benefits paid	(474)	(357)
Other	65	49
Benefit obligation at end of year	24,471	14,151
Unfunded status and accrued prepaid pension cost	$ (24,471)	$ (14,151)

The net amount recognized in the consolidated balance sheets related to the accrued benefit cost of $24.5 million and $14.2 million, as of December 31, 2009 and 2008, respectively, is included in other liabilities. The net amount of accumulated other comprehensive loss, before taxes, recognized is $5.7 million as of December 31, 2009 and accumulated other comprehensive income, before taxes, of $2.3 million as of December 31, 2008.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2009 and 2008 are as follows:

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

The discount rate represents the Company’s estimate of the interest rate at which the postretirement benefit plan benefits could be effectively settled. The discount rates are used in the measurement of the expected and accumulated post retirement benefit obligations and the service and interest cost components of net periodic post retirement benefit cost.

Net periodic benefit cost included in the Company’s consolidated statements of operations for the years ended December 31, 2009, 2008 and 2007 is comprised of the following components (in thousands):

	2009	2008	2007
Net Periodic Benefit Cost:			
Service cost	$ 1,743	$ 1,787	$ 1,792
Interest cost	1,052	879	681
Net amortization and deferral.	(131)	(104)	(104)
Net periodic benefit cost.	$ 2,664	$ 2,562	$ 2,369

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Discount rate	7.34%	6.25%	5.50%
Rate of compensation increase	4.00%	4.00%	4.00%

The accumulated benefit obligation for the postretirement plan was $24.5 million and $14.2 million as of December 31, 2009 and 2008, respectively.

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

Year	Amount
2010	$ 445
2011	539
2012	649
2013	801
2014	951
2015 — 2019	8,049

The annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 8.75% in 2009, decreasing to 5.00% in 2015 and remaining constant thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation by $4.1 million (16.9% of the benefit obligation as of December 31, 2009) and the service and interest cost components of net periodic postretirement benefit costs by $0.5 million for 2009. 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 2009 by $3.4 million and $0.4 million, respectively.

The Company estimates that it will record $4.6 million in benefit costs relating to this plan during the year ended December 31, 2010.

Other Plans

The Company also maintains a defined contribution profit sharing plan for all eligible employees. Each year, the Board of Directors may authorize payment of an amount equal to a percentage of each participant's basic annual earnings based on the experience of the Company for that year. These amounts are credited to the employee's account maintained by a third party, which has contracted to provide benefits under the plan. No contributions were authorized in 2009, 2008 or 2007.

The Company maintains a qualified deferred compensation plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute up to 50% of base salary on a pre−tax basis, subject to annual maximum contributions set by law ($16,500 in 2009). 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% of annual base salary, with certain government−mandated restrictions on contributions to highly compensated employees. The Company also maintains a non−qualified deferred compensation plan to allow for contributions in excess of qualified plan limitations. The Company's contributions to these plans of $2.0 million in 2009, and $1.8 million in both 2008 and 2007, are included in other underwriting expenses in the consolidated statements of operations.

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20. Restricted Equity Value Rights and Stock−Based Compensation Plans

The Company had previously established three stock−based compensation plans (the "Stock−Based Compensation Plans"): the Odyssey Re Holdings Corp. 2002 Stock Incentive Plan (the "2002 Option Plan"), the Odyssey Re Holdings Corp. Stock Option Plan (the "2001 Option Plan") and the Odyssey Re Holdings Corp. Restricted Share Plan (the "Restricted Share Plan"). The Stock−Based Compensation Plans generally provided officers, key employees and directors who were employed by or provided services to the Company, with stock options and/or restricted share awards. As a result of the Merger (see Note 1), the Stock−Based Compensation Plans were amended to allow for the conversion, substitution and issuance of restricted equity value rights ("REVRs"). Specifically, the Restricted Share Plan was amended and restated, as of October 28, 2009, as the "Odyssey Re Holdings Corp. Restricted Share and Equity Value Plan" (the "REVR Plan").

REVR Plan

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

In connection with the Merger, each unvested restricted share under the Restricted Share Plan (a "Restricted Share") was cancelled and converted into a right to acquire $65.00 in cash, without interest (a "Restricted Cash Unit"), subject to the same vesting, transfer and other restrictions that applied to the Restricted Shares. Following the amendment and restatement of the REVR Plan, certain holders of Restricted Cash Units elected to convert each of their Restricted Cash Units into 1.2524 REVRs, which REVRs are subject to the same vesting, transfer and other restrictions that applied to the Restricted Cash Units.

Under the terms of the REVR Plan, each REVR has a value (the "REVR Value") equal to the most recently reported common shareholders' equity of the Company, as adjusted in accordance with the REVR Plan, divided by 58,443,149, which was the number of Company common shares outstanding as of September 30, 2009. Upon vesting of a REVR, a participant will receive a single sum cash payment equal to the REVR value as of the applicable vesting date, less any applicable withholding of taxes. The REVRs will be subject to the terms and conditions of the REVR Plan, including vesting and termination of employment provisions, and will not be paid until a participant satisfies the applicable vesting requirements.

The following table summarizes activity for the Restricted Cash Units and REVR Plan for the year ended December 31, 2009:

	Restricted Cash Units	REVR
Converted from Stock−Based Compensation Plans	751,628	160,837
Converted to REVRs	(724,093)	906,860
Vested	—	(5,589)
Forfeited	—	(3,113)
Outstanding as of December 31, 2009	27,535	1,058,995

As of December 31, 2009, the Company recorded a liability of $21.2 million for the REVRs and Restricted Cash Units. For the period October 21, 2009, the effective date of issuance of the Restricted Cash Units and REVRs, through December 31, 2009, the Company recognized an expense related to the REVRs and Restricted Cash Units of $15.0 million. The total tax benefit recognized for the year ended December 31, 2009 was $5.3 million.

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Employee Share Purchase Plan

In 2001, the Company established the Employee Share Purchase Plan (the "ESPP"). Under the terms of the ESPP, eligible employees were given the election to purchase Company common shares in an amount up to 10% of their annual base salary. The Company issued, or purchased on the employee's behalf, a number of the Company's common shares equal in value to 30% of the employee's contribution. In the event that the Company achieved a return on equity of at least 15% in any calendar year, additional shares were issued, or purchased by the Company for the employee's benefit, in an amount equal in value to 20% of the employee's contribution during that year. As a result of the Merger (see Note 1), the Company suspended issuances, purchases and contributions made for the ESPP. During the years ended December 31, 2009, 2008 and 2007, the Company purchased 58,699 shares, 75,757 shares and 68,542 shares, respectively, on behalf of employees pursuant to the ESPP, at average purchase prices of $43.23, $38.46 and $38.67, respectively. The compensation expense recognized by the Company for purchases of the Company's common shares under the ESPP was $0.8 million for the year ended December 31, 2009 and $0.9 million for each of the years ended December 31, 2008 and 2007.

General

For the years ended December 31, 2009, 2008 and 2007, the Company received $0.9 million, $3.6 million and $2.5 million, respectively, in cash from employees for the exercise of stock options. For the years ended December 31, 2009, 2008 and 2007, the Company recognized an expense related to all stock−based compensation of $11.9 million, $9.5 million and $6.7 million, respectively. The total tax benefits recognized for the years ended December 31, 2009, 2008 and 2007 were $4.2 million, $3.3 million and $2.3 million, respectively.

The following tables summarize the activity for the Stock−Based Compensation Plans for the year ended December 31, 2009:

	2002 Option Plan	2001 Option Plan
Outstanding as of December 31 ,2008	177,399	172,645
Granted	—	52,496
Exercised	(176,149)	(92,562)
Forfeited	—	(5,407)
Replaced with REVRs	(1,250)	(127,172)
Outstanding as of December 31, 2009	—	—

	Restricted Share Plan
Outstanding as of December 31 ,2008	833,915
Granted	371,543
Vested	(424,009)
Forfeited	(29,821)
Converted to REVRs and Restricted Cash Units	(751,628)
Outstanding as of December 31, 2009	—

21. Financial Guaranty Reinsurance

The Company previously underwrote assumed financial guaranty reinsurance. The maximum exposure to loss related to this business, in the event of nonperformance by the underlying insured and assuming that the

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

underlying collateral proved to be of no value, was $9.7 million and $10.0 million as of December 31, 2009 and 2008, respectively. It is the responsibility of the ceding insurer to collect and maintain collateral under financial guaranty reinsurance. The Company ceased writing financial guaranty business in 1992.

As of December 31, 2009, financial guaranty reinsurance in force had a remaining maturity term of one (1) to 19 years. The approximate distribution of the estimated debt service (principal and interest) of bonds, by type, for the years ended December 31, 2009 and 2008 is as follows (in thousands):

	2009	2008
Municipal obligations:		
General obligation bonds	$ 7,418	$ 7,671
Special revenue bonds	2,271	2,352
Total	$ 9,689	$ 10,023

The Company has been provided with a geographic distribution of the debt service from all of its cedants. The following table summarizes the information which has been received by the Company from its cedants (in thousands):

State	2009 Debt Service
Mississippi	$ 2,984
Florida	2,521
Subtotal	5,505
States less than $1.5 million exposure per state	4,184
Total	$ 9,689

22. Quarterly Financial Information (Unaudited)

A summary of selected quarterly financial information follows for each of the quarters in the years ended December 31, 2009 and 2008 (in thousands, except share amounts):

	Quarters Ended				
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009	Year
Gross premiums written	$554,920	$511,388	$ 630,891	$ 497,836	$2,195,035
Net premiums written	478,979	459,807	524,028	430,999	1,893,813
Net premiums earned	470,018	480,471	493,896	483,027	1,927,412
Net realized investment income	67,461	92,966	76,655	80,812	317,894
Total net realized investment (losses) gains	(99,363)	55,199	144,156	85,959	185,951
Total revenues	438,116	628,636	714,707	649,798	2,431,257
Total expenses	465,987	456,134	531,871	484,407	1,938,399
(Loss) income before income taxes	(27,871)	172,502	182,836	165,391	492,858
Net income available to common shareholders	870	121,797	128,159	124,252	375,078
Net income per common share:					
Basic	$ 0.01	$ 2.04	$ 2.19	$ N/A	$ N/A
Diluted	$ 0.01	$ 2.03	$ 2.18	$ N/A	$ N/A

ODYSSEY RE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Quarters Ended				
	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	Year
Gross premiums written	$577,554	$566,158	$ 656,744	$ 494,086	$2,294,542
Net premiums written	517,820	503,482	571,807	437,712	2,030,821
Net premiums earned	511,428	515,538	545,393	504,005	2,076,364
Net investment income	73,128	64,696	62,505	54,870	255,199
Total net realized investment gains	322,994	45,631	196,743	126,891	692,259
Total revenues	907,550	625,865	804,641	685,766	3,023,822
Total expenses	523,311	525,228	618,739	529,064	2,196,342
Income before income taxes	384,239	100,637	185,902	156,702	827,480
Net income available to common shareholders	249,032	65,166	121,471	107,415	543,084
Net income per common share:					
Basic	$ 3.62	$ 0.99	$ 1.95	$ 1.79	$ 8.46
Diluted	$ 3.61	$ 0.99	$ 1.95	$ 1.78	$ 8.43

Due to changes in the number of weighted average common shares outstanding during 2009 and 2008, the sum of quarterly earnings per common share amounts will not equal the total for the year. As a result of the Merger (see Note 1), the Company has not presented net income per share for the quarter and year ended December 31, 2009.

SCHEDULE I
ODYSSEY RE HOLDINGS CORP.
SUMMARY OF INVESTMENTS
OTHER THAN INVESTMENTS IN RELATED PARTIES

Type of Investment	December 31, 2009		
	Cost or Amortized Cost	Fair Value	Amount at Which Shown in the Balance Sheet
		(In thousands)	
Fixed income securities, available for sale:			
United States government, government agencies and authorities	$ 138,033	$ 141,037	$ 141,037
States, municipalities and political subdivisions	2,808,873	3,087,556	3,087,556
Foreign governments	748,680	796,611	796,611
Corporate	275,553	348,761	348,761
Total fixed income securities, available for sale	3,971,139	4,373,965	4,373,965
Fixed income securities, held as trading securities:			
Foreign governments	78,665	99,399	99,399
Mortgage back securities	76,449	70,344	70,344
Corporate	443,804	362,975	362,975
Total fixed income securities, held as trading securities	598,918	532,718	532,718
Total fixed income securities	4,570,057	4,906,683	4,906,683
Redeemable preferred stock, at fair value	108	108	108
Convertible preferred stock, held as trading securities, at fair value	75,000	82,470	82,470
Common stocks, at fair value	1,679,748	2,071,037	2,071,037
Short–term investments, at fair value	125,100	125,100	125,100
Short–term investments, held as trading securities, at fair value	238,419	238,403	238,403
Other invested assets	146,728	146,728	146,728
Total	$ 6,835,160	$ 7,570,529	$ 7,570,529

SCHEDULE II
ODYSSEY RE HOLDINGS CORP.
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY)
CONDENSED BALANCE SHEETS

	December 31,	
	2009	2008
	(In thousands, except share amounts)	
ASSETS		
Investment and cash:		
Fixed income securities, available for sale, at fair value (amortized cost $46,815)	$ 50,063	$ —
Investment in subsidiary, at equity	3,994,614	3,313,534
Cash and cash equivalents	32,986	23,944
Total investments and cash	4,077,663	3,337,478
Accrued investment income	434	5
Other assets	385	3,561
Total assets	$ 4,078,482	$ 3,341,044
LIABILITIES		
Debt obligations	$ 489,402	$ 489,278
Federal and foreign income taxes payable	1,524	13,443
Interest payable	4,387	4,479
Other liabilities	27,935	6,109
Total liabilities	523,248	513,309
SHAREHOLDERS' EQUITY		
Preferred shares, $0.01 par value; 200,000,000 shares authorized; 2,000,000 and 2,000,000 Series A shares issued and outstanding, respectively; and 1,167,263 and 1,872,000 Series B shares issued and outstanding, respectively	32	39
Common shares, $0.01 par value; 500,000,000 shares authorized; 56,604,650 and 60,264,270 shares issued, respectively	567	603
Additional paid–in capital	515,066	614,203
Treasury shares, at cost (21,321 shares in 2008)	—	(795)
Accumulated other comprehensive income, net of deferred income taxes	546,580	82,421
Retained earnings	2,492,989	2,131,264
Total shareholders' equity	3,555,234	2,827,735
Total liabilities and shareholders' equity	$ 4,078,482	$ 3,341,044

The condensed financial statements should be read in conjunction with the accompanying note and with the consolidated financial statements and notes thereto.

SCHEDULE II
ODYSSEY RE HOLDINGS CORP.
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY)
CONDENSED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
REVENUES			
Net investment (loss) income	$ (465)	$ 895	$ 2,541
Equity in net income of subsidiary	427,375	579,731	626,717
Net realized investment (losses) gains	(4,798)	245	—
Total revenues	422,112	580,871	629,258
EXPENSES			
Other expense, net	37,302	13,179	12,284
Interest expense	31,040	34,180	37,665
Total expenses	68,342	47,359	49,949
Income before income taxes	353,770	533,512	579,309
Federal and foreign income tax (benefit) provision:			
Current	(37,566)	—	—
Deferred	19,022	(15,496)	(16,266)
Total federal and foreign income tax benefit	(18,544)	(15,496)	(16,266)
Net income	372,314	549,008	595,575
Preferred dividends	(5,233)	(7,380)	(8,345)
Gain on purchase of Series B preferred shares	7,997	1,456	—
Net income available to common shareholders	$ 375,078	$ 543,084	$ 587,230
Retained earnings, beginning of year	$ 2,131,264	$ 1,605,170	$ 1,030,677
Adjustment to the beginning balance due to a change in accounting	—	—	(11,170)
Adjusted beginning balance	2,131,264	1,605,170	1,019,507
Net income	372,314	549,008	595,575
Gain on purchase of Series B preferred shares	7,997	1,456	—
Dividends to preferred shareholders	(5,233)	(7,380)	(8,345)
Dividends to common shareholders	(13,353)	(17,357)	(17,757)
Cumulative effect of changes in accounting	—	367	16,190
Retained earnings, end of year	$ 2,492,989	$ 2,131,264	$ 1,605,170

The condensed financial statements should be read in conjunction with the accompanying note and with the consolidated financial statements and notes thereto.

SCHEDULE II
ODYSSEY RE HOLDINGS CORP.
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2009	2008	2007
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 372,314	$ 549,008	$ 595,575
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in net income of subsidiary	(428,210)	(579,731)	(626,717)
Current and deferred federal and foreign income taxes, net	(9,240)	(30,202)	4,307
Other assets and liabilities, net	5,297	1,671	(3,292)
Net realized investment losses (gains)	4,798	(245)	—
Bond premium (discount) amortization	4	15	(141)
Amortization of compensation plans	20,794	4,864	4,330
Dividend from subsidiary	200,000	410,000	155,000
Net cash provided by operating activities	165,757	355,380	129,062
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in short–term investments	—	12,436	(12,205)
Maturities of fixed income securities, available for sale	—	22,500	58
Purchases of fixed income securities, available for sale	(49,543)	—	—
Purchases of other invested assets	(2,030)	—	—
Net cash (used in) provided by investing activities	(51,573)	34,936	(12,147)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Common shares repurchased and retired	(72,573)	(354,076)	(92,165)
Purchase of treasury shares	(18,001)	(14,048)	(17,259)
Dividends paid to preferred shareholders	(5,882)	(7,526)	(8,369)
Dividends paid to common shareholders	(13,353)	(17,356)	(17,757)
Proceeds from exercise of stock options	851	3,527	2,530
Excess tax benefit from compensation plans	3,816	1,300	1,503
Net cash used in financing activities	(105,142)	(388,179)	(131,517)
Increase (decrease) in cash and cash equivalents	9,042	2,137	(14,602)
Cash and cash equivalents, beginning of year	23,944	21,807	36,409
Cash and cash equivalents, end of year	$ 32,986	$ 23,944	$ 21,807
Supplemental disclosures of cash flow information:			
Interest paid	$ 30,555	$ 33,779	$ 36,985
Income taxes (received) paid	$ (9,303)	$ 14,706	$ (19,887)
Non–cash activity (see Note 13):			
Conversion of 4.375% convertible debentures	$ —	$ —	$ (23,474)
Issuance of common stock	$ —	$ —	$ 23,474

The condensed financial statements should be read in conjunction with the accompanying note and with the consolidated financial statements and notes thereto.

ODYSSEY RE HOLDINGS CORP.
NOTE TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT — PARENT ONLY

(1) The registrant's investment in Odyssey America is accounted for under the equity method of accounting.

SCHEDULE III
ODYSSEY RE HOLDINGS CORP.
SUPPLEMENTAL INSURANCE INFORMATION
AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

Segment	Deferred policy acquisition costs	Net Unpaid losses and loss adjustment expenses	Gross unearned premiums	Net premiums written	Net premiums earned	Net investment income	Net losses and loss adjustment expenses	Amortization of net deferred policy acquisition costs	Net underwriting expenses
					(In thousands)				
Year Ended December 31, 2009									
Americas	$ 48,692	$ 2,427,246	$ 127,502	$ 731,228	$ 775,000	$ 237,829	$ 548,686	$ 165,046	$ 80,857
EuroAsia	35,466	874,878	134,743	532,981	542,777	16,840	392,709	112,069	23,708
London Market	16,651	844,475	137,668	254,462	251,596	40,111	140,807	40,205	31,385
U.S. Insurance	25,657	519,681	291,300	375,142	358,039	23,579	219,794	57,939	49,738
Holding Company	—	—	—	—	—	(465)	—	—	—
Totals	$ 126,466	$ 4,666,280	$ 691,213	$1,893,813	$1,927,412	$ 317,894	$ 1,301,996	$ 375,259	$ 185,688
Year Ended December 31, 2008									
Americas	$ 59,336	$ 2,459,930	$ 190,526	$ 760,696	$ 780,027	$ 175,771	$ 645,550	$ 171,521	$ 82,021
EuroAsia	40,189	785,001	145,299	569,289	566,517	12,666	397,203	122,218	24,873
London Market	16,458	786,877	122,979	306,526	314,616	50,697	188,566	48,731	32,941
U.S. Insurance	23,086	528,505	243,151	394,310	415,204	15,170	277,406	75,535	35,178
Holding Company	—	—	—	—	—	895	—	—	—
Totals	$ 139,069	$ 4,560,313	$ 701,955	$2,030,821	$2,076,364	$ 255,199	$ 1,508,725	$ 418,005	$ 175,013
Year Ended December 31, 2007									
Americas	$ 65,086	$ 2,467,304	$ 252,221	$ 817,849	$ 841,869	$ 239,276	$ 661,429	$ 183,086	$ 87,726
EuroAsia	40,005	656,482	141,433	542,058	543,141	13,266	348,593	126,194	23,230
London Market	15,964	906,888	124,824	305,601	306,799	56,377	150,413	47,867	32,769
U.S. Insurance	29,745	444,902	205,794	423,935	428,728	17,962	247,929	80,110	34,830
Holding Company	—	—	—	—	—	2,541	—	—	—
Totals	$ 150,800	$ 4,475,576	$ 724,272	$2,089,443	$2,120,537	$ 329,422	$ 1,408,364	$ 437,257	$ 178,555

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SCHEDULE IV
ODYSSEY RE HOLDINGS CORP.
REINSURANCE

	Direct	Assumed from other companies	Ceded to other companies	Net amount	Percentage of amount assumed to net
			(In thousands)		
Year Ended December 31, 2009:					
Premiums written:					
Life insurance	$ —	$ —	$ —	$ —	—%
Accident and health insurance	—	—	—	—	—
Property and casualty insurance	780,467	1,414,468	301,222	1,893,713	74.7
Title insurance	—	—	—	—	—
Total premiums written	$780,467	$ 1,414,468	$ 301,222	$ 1,893,713	74.7%
Year Ended December 31, 2008:					
Premiums written:					
Life insurance	$ —	$ —	$ —	$ —	—%
Accident and health insurance	—	—	—	—	—
Property and casualty insurance	792,351	1,502,191	263,721	2,030,821	74.0
Title insurance	—	—	—	—	—
Total premiums written	$792,351	$ 1,502,191	$ 263,721	$ 2,030,821	74.0%
Year Ended December 31, 2007:					
Premiums written:					
Life insurance	$ —	$ —	$ —	$ —	—%
Accident and health insurance	—	—	—	—	—
Property and casualty insurance	736,822	1,545,860	193,239	2,089,443	74.0
Title insurance	—	—	—	—	—
Total premiums written	$736,822	$ 1,545,860	$ 193,239	$ 2,089,443	74.0%

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SCHEDULE VI
ODYSSEY RE HOLDINGS CORP.
SUPPLEMENTAL INFORMATION (FOR PROPERTY–CASUALTY INSURANCE UNDERWRITERS)

Affiliation with Registrant	Deferred policy acquisition costs	Gross reserves for unpaid losses and loss adjustment expenses	Discount, if any deducted in previous column	Gross unearned premiums	Net premiums written	Net premiums earned	Net investment income	Net losses and loss adjustment expenses incurred related to: Current year	Prior year	Amortization of net deferred policy acquisition costs	Net paid losses and loss adjustment expenses
						(In thousands)					
Year Ended December 31, 2009:											
(a) Consolidated property–casualty insurance entities	$ 126,466	$ 5,507,766	$ 76,326	$ 691,213	$1,893,813	$1,927,412	$ 317,894	$1,313,319	$(11,323)	$ 375,259	$ 1,254,792
Unconsolidated property–casualty insurance entities	—	—	—	—	—	—	—	—	—	—	—
Year Ended December 31, 2008:											
(a) Consolidated property–casualty insurance entities	$ 139,069	$ 5,250,484	$ 79,600	$ 701,955	$2,030,821	$2,076,364	$ 255,199	$1,518,780	$(10,055)	$ 418,005	$ 1,280,792
Unconsolidated property–casualty insurance entities	—	—	—	—	—	—	—	—	—	—	—
Year Ended December 31, 2007:											
(a) Consolidated property–casualty insurance entities	$ 150,800	$ 5,119,085	$ 89,408	$ 724,272	$2,089,443	$2,120,537	$ 329,422	$1,367,857	$ 40,507	$ 437,257	$ 1,362,512
Unconsolidated property–casualty insurance entities	—	—	—	—	—	—	—	—	—	—	—

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosures***

None.

Item 9A. ***Controls and Procedures***

(a) *Evaluation of Disclosure Controls and Procedures*

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, completed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a–15(e) and 15d–15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's ("SEC") rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this Form 10–K, the Company's disclosure controls and procedures were effective.

(b) *Management's Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a–15(f) and 15d–15(f) of the Exchange Act and for assessing the effectiveness of internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making its assessment of internal control over financial reporting, management used the criteria established in *Internal Control — Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls. Based on the results of this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2009, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

(c) *Changes in Internal Controls over Financial Reporting*

During the quarter ended December 31, 2009, there were no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. ***Other Information***

No information required to be disclosed in a current report on Form 8–K during the three months ended December 31, 2009 was not so reported.

PART III

Item 10. ***Directors, Executive Officers and Corporate Governance***

Election of Directors

The following table sets forth information regarding our directors and executive officers as of February 15, 2010.

Name	Age	Position
V. Prem Watsa	59	Chairman of the Board of Directors
James F. Dowd	68	Vice Chairman of the Board of Directors
Andrew A. Barnard	54	Director, President and Chief Executive Officer
Anthony F. Griffiths	79	Director
Alan D. Horn	58	Director
Brandon W. Sweitzer	67	Director
R. Scott Donovan	52	Executive Vice President and Chief Financial Officer
Brian D. Young	45	Executive Vice President and Chief Operating Officer
Michael G. Wacek	54	Executive Vice President and Chief Risk Officer
Peter H. Lovell	51	Senior Vice President, General Counsel and Corporate Secretary

Information Concerning Directors and Executive Officers

V. Prem Watsa is the Chairman of our board of directors. Mr. Watsa has served as Chairman and Chief Executive Officer of Fairfax Financial Holdings Limited since 1985, and as Vice President of Hamblin Watsa Investment Counsel Ltd. since 1985. He has served as Chairman of Crum & Forster Holdings Corp. and Northbridge Financial Corporation since 2003. Mr. Watsa currently serves on the boards of the OdysseyRe Foundation and ICICI Bank Limited. He formerly served as Vice President of GW Asset Management from 1983 to 1984, and Vice President of Confederation Life Investment Counsel from 1974 to 1983. Mr. Watsa is a resident of Toronto, Ontario, Canada.

James F. Dowd is the Vice Chairman of our board of directors. Mr. Dowd has served as President and Chief Executive Officer of Fairfax Inc., and Chairman of FFHL Group Ltd., each a holding company subsidiary of Fairfax Financial Holdings Limited, since January 1998. Mr. Dowd serves as the Chairman of the Supervisory Board of Polish Reinsurance Company since April 2009. Mr. Dowd has served on the board of Alltrust Insurance Company of China Limited since January 2010. Mr. Dowd served as the Chairman and Chief Executive Officer of Fairfax Asia Limited from 2002 to 2009. Mr. Dowd served as a member of the board of directors of ICICI Lombard General Insurance Company Limited from November 2001 to 2009. He served as a member of the board of directors of First Capital Insurance Limited from August 2006 to 2009. Mr. Dowd served as a member of the board of directors of Falcon Insurance Company (Hong Kong) Limited from 2003 to 2009. Mr. Dowd currently serves on the boards of St. John's University School of Risk Management and the International Insurance Society. Mr. Dowd served as the Chairman of Cunningham Lindsey Group, Inc., a publicly–traded affiliate of OdysseyRe, from November 2001 to April 2006. Mr. Dowd served as Chairman of the Board and Chief Executive Officer of Odyssey Reinsurance Corporation (now known as Clearwater Insurance Company) from July 1996 to December 1997, and as President, Chairman and Chief Executive Officer from August 1995 to September 1996. Mr. Dowd served as Chairman of the Board and Chief Executive Officer of Willis Faber North America, Inc. from February 1993 to May 1995. He also served in various executive positions, including Chairman of the Board, President and Chief Executive Officer of Skandia America Corporation and Skandia America Reinsurance Corporation from December 1971 to October 1992. Mr. Dowd has over 39 years of experience in the insurance business. Mr. Dowd is a resident of New Canaan, Connecticut.

Andrew A. Barnard is our President and Chief Executive Officer and one of our directors. Mr. Barnard currently serves as Chairman of the Board, Chief Executive Officer and President of Odyssey America Reinsurance Corporation. Mr. Barnard also serves as Chairman of the Board and Chief Executive Officer of Clearwater Insurance Company and Clearwater Select Insurance Company. He is also Chairman of the Board and a director of Newline Underwriting Management Limited and Newline Insurance Company Limited. Mr. Barnard currently serves on the boards of the OdysseyRe Foundation, St. John's University School of Risk Management and the U.S. Chamber Institute for Legal Reform. Mr. Barnard served as President, Chief Executive Officer and director of Odyssey Re Group Ltd. (now known as FFHL Group Ltd.), one of our parent companies, from January 1998 to June 2001. He also served as President and Chief Executive Officer of Odyssey Reinsurance Corporation (now known as Clearwater Insurance Company) from January 1998 to April 1999 and as President and Chief Operating Officer from July 1996 to December 1997. Before joining us, Mr. Barnard served as Executive Vice President, Chief Underwriting Officer and a director of Transatlantic Holdings from 1989 to 1996; Vice President of Reliance Reinsurance from 1985 to 1989; and Assistant Vice President of Skandia Group from 1977 to 1985. Mr. Barnard has 33 years of experience in the reinsurance business. Mr. Barnard is a resident of New York, New York.

Anthony F. Griffiths is a member of our board of directors. Mr. Griffiths is currently an independent business consultant and corporate director. He is a director of Fairfax Financial Holdings Limited ("Fairfax"), and of various operating subsidiaries of Fairfax, including Crum & Forster Holdings Corp. and Northbridge Financial Corporation. He is also a director of Abitibibowater Inc., Bronco Energy Ltd., Vitran Corporation, Jaguar Mining Inc., Novadaq Technologies Inc., Gedex Inc. and Russel Metals Inc. Mr. Griffiths serves on the Audit Committees of Fairfax, Crum & Forster Holdings Corp., Northbridge Financial Corporation, Russel Metals Inc., and Jaguar Mining Inc. Mr. Griffiths was formerly with Mitel Corporation, a telecommunications company, from 1985 to 1993, and served in the positions of President, Chairman and Chief Executive Officer. Mr. Griffiths currently serves on our Audit and Compensation Committees. Mr. Griffiths is a resident of Toronto, Ontario, Canada.

Alan D. Horn is a member of our board of directors. Mr. Horn is Chairman of Rogers Communications Inc. and has been since March 2006. Mr. Horn has been President and Chief Executive Officer of Rogers Telecommunications Limited since March 2006. Mr. Horn served as Vice President, Finance and Chief Financial Officer of Rogers Communications Inc. from September 1996 to March 2006 and was President and Chief Operating Officer of Rogers Telecommunications Limited from 1990 to 1996. Mr. Horn is a director of Fairfax Financial Holdings Limited ("Fairfax") and Crum & Forster Holdings Corp. ("Crum & Forster"). Mr. Horn serves on the Audit Committees of Fairfax and Crum & Forster, and the Compensation Committee of Crum & Forster. Mr. Horn is a Chartered Accountant and a director of March Networks Corporation and CCL Industries Inc. Mr. Horn currently serves on our Audit Committee. Mr. Horn is a resident of Toronto, Ontario, Canada.

Brandon W. Sweitzer is a member of our board of directors. Mr. Sweitzer is a member and a Senior Fellow of the Chamber of Commerce of the United States. Mr. Sweitzer currently serves on the boards of the OdysseyRe Foundation, Fairfax Financial Holdings Limited, Falcon Insurance Company (Hong Kong) Limited, First Capital Insurance Limited, United Educators and St. John's University School of Risk Management. Mr. Sweitzer became Chief Financial Officer of Marsh Inc. in 1981, and was its President from 1999 through 2000. Mr. Sweitzer also served as President and Chief Executive Officer of Guy Carpenter & Company from 1996 to 1999. Mr. Sweitzer currently serves on our Audit and Compensation Committees. Mr. Sweitzer is a resident of New Canaan, Connecticut.

R. Scott Donovan is Executive Vice President and Chief Financial Officer. Since August 15, 2006, Mr. Donovan has served as Executive Vice President and Chief Financial Officer of OdysseyRe. Mr. Donovan serves as a director of Odyssey America Reinsurance Corporation, Clearwater Insurance Company, Hudson Insurance Company, Clearwater Select Insurance Company, Hudson Specialty Insurance Company and Newline Insurance Company Limited. Previously, Mr. Donovan was President and Chief Operating Officer of TIG Insurance Group after serving as Chief Financial Officer for three years. Before joining TIG, Mr. Donovan was Senior Vice President and Chief Financial Officer for Coregis Insurance Group, a wholly owned subsidiary of GE Capital, from 1996 to 1999. Mr. Donovan had previously been Vice President and Treasurer of Crum & Forster Insurance Company where he began his career in 1979. Mr. Donovan is a resident of Southlake, Texas.

Brian D. Young is Executive Vice President and Chief Operating Officer. Since May 1, 2009, Mr. Young has served as Executive Vice President and Chief Operating Officer of OdysseyRe. Mr. Young serves as director of Odyssey America Reinsurance Corporation, Clearwater Insurance Company, Hudson Insurance Company, Clearwater Select Insurance Company, Hudson Specialty Insurance Company, Newline Underwriting Management Limited and Newline Insurance Company. Mr. Young has held a number of senior underwriting and management positions since joining OdysseyRe in 1996, most recently as Chief Executive Officer of Global Insurance and London Market Operations for Odyssey America Reinsurance Corporation. Prior to joining OdysseyRe, Mr. Young worked for nine years with Transatlantic Re in both New York and London. Mr. Young is a resident of New York, New York.

Michael G. Wacek is Executive Vice President and Chief Risk Officer. Mr. Wacek served as President of Odyssey America Reinsurance Corporation ("Odyssey America") between September 2001 and December 2009. Before that time, he was President and Chief Executive Officer of Odyssey America since February 1998, and of Clearwater Insurance Company, formerly known as Odyssey Reinsurance Corporation ("Clearwater") since April 1999. He currently serves as a director of Odyssey America, Clearwater, Hudson Insurance Company, Hudson Specialty Insurance Company and Clearwater Select Insurance Company. Mr. Wacek is a Fellow of the Casualty Actuarial Society (FCAS) and is currently a director of the Casualty Actuarial Society. Mr. Wacek began his career in the insurance and reinsurance industry in 1978. Before joining us, Mr. Wacek was employed by St. Paul Reinsurance Company Ltd., most recently as the Managing Director, from 1989 to 1998. Prior to that, he served with E.W. Blanch Company from 1984 to 1988, most recently as Senior Vice President, and at St. Paul Fire & Marine Insurance from 1978 to 1984, most recently as Assistant Actuary. Mr. Wacek is a resident of Greenwich, Connecticut.

Peter H. Lovell is Senior Vice President, General Counsel and Corporate Secretary. Mr. Lovell has served in his current capacity since December 18, 2009 for OdysseyRe, Odyssey America Reinsurance Corporation, Clearwater Insurance Company and Clearwater Select Insurance Company. Since 2003 Mr. Lovell has served OdysseyRe in various capacities, including Vice President, Assistant General Counsel and Assistant Corporate Secretary of Odyssey America Reinsurance Corporation and, since 2004, as Senior Vice President, General Counsel and director of Hudson Specialty Insurance Company and Senior Vice President and General Counsel of Hudson Insurance Company. Prior to joining OdysseyRe, Mr. Lovell served in various corporate counsel roles at Royal and SunAlliance, John Deere Insurance Group and the Orion Capital Companies dating back to 1990. He began his legal career as a criminal prosecutor and also spent three years in private practice. A graduate of New England School of Law, Mr. Lovell is a member of the Connecticut and Massachusetts bars and holds a Chartered Property and Casualty Underwriter designation. Mr. Lovell is a resident of Glastonbury, Connecticut.

Board of Directors' Committees and Meetings

Our board of directors met five times and acted by unanimous written consent six times during fiscal year 2009. During fiscal year 2009, none of our current directors attended fewer than 75 percent of the aggregate of the total number of meetings held by our board of directors and the total number of meetings held by all committees of the board of directors on which each such director served. Our board of directors has an audit committee and a compensation committee. Our board of directors does not have a nominating committee. Our non−management directors designate a director from among their number to preside at all executive sessions of the non−management directors. All of our directors attended our annual meeting of stockholders held on April 22, 2009.

Audit Committee

Our board of directors has established an audit committee comprised of directors who are independent of our management and are free of any relationship that, in the opinion of the board of directors, would interfere with their exercise of independent judgment as audit committee members. Our audit committee met seven times during fiscal year 2009. The audit committee's primary responsibilities include: engaging independent accountants; appointing the chief internal auditor; approving independent audit fees; reviewing quarterly and annual financial statements, audit results and reports, including management comments and recommendations thereto; reviewing our system of controls and related policies, including those covering conflicts of interest and

business ethics; evaluating reports of actual or threatened litigation; considering significant changes in accounting practices; and examining improprieties or suspected improprieties, with the authority to retain outside counsel or experts. Our audit committee is currently comprised of Mr. Sweitzer (Chairman), Mr. Griffiths, and Mr. Horn. The members of the audit committee are independent, as independence is defined in the listing standards of the NYSE. Mr. Griffiths serves on the audit committee of more than three public companies. Our board of directors has determined that such simultaneous service would not impair his ability to effectively serve on our audit committee. The board of directors has adopted a written charter setting out the audit related functions the audit committee is to perform. A copy of the audit committee's charter is available on our website, www.odysseyre.com.

Audit Committee Financial Expert

Our board of directors has determined that Mr. Sweitzer, who serves as Chairman of our audit committee, is an audit committee financial expert within the meaning of Item 407 of Regulation S−K under the Securities Act of 1933. Mr. Sweitzer is independent, as independence is defined in the listing standards of the NYSE.

Compensation Committee

Our board of directors has established a compensation committee comprised of directors who are independent of our management and are free of any relationship that, in the opinion of the board of directors, would interfere with their exercise of independent judgment as committee members. Our compensation committee met one time and acted by unanimous written consent three times during fiscal year 2009. The compensation committee's primary responsibilities include administering, reviewing and making recommendations to our board of directors regarding our 2002 stock incentive plan, restricted share and equity value plan, stock option plan, long–term incentive plan and compensation to our executive officers, ensuring that they meet corporate, financial and strategic objectives. The compensation committee also establishes and reviews general policies relating to compensation of and benefits for our employees. Our compensation committee is currently comprised of Mr. Griffiths (Chairman) and Mr. Sweitzer. A copy of the compensation committee's charter is available on our website, www.odysseyre.com.

Our board of directors may, from time to time, establish certain other committees to facilitate the management of OdysseyRe.

Code of Ethics for Senior Financial Officers

We have adopted a code of ethics that applies to our Chief Executive Officer and our Chief Financial Officer and senior financial officers of all of our subsidiaries. Our Code of Ethics for Senior Financial Officers, our Code of Business Conduct and Ethics for Directors, Officers and Employees, our Corporate Governance Guidelines, the Charter of our Audit Committee and the Charter of our Compensation Committee have been posted on our website, www.odysseyre.com.

PART III

Item 11. ***Executive Compensation***

Compensation Discussion and Analysis

Overview and Significant 2009 Event

The responsibilities of the Company's Compensation Committee (the "Committee"), discussed in detail in the Committee's charter, include overseeing the total compensation package for the Company's named executive officers; administering the Company's equity compensation plans; approving all executive officer employment and severance contracts; and evaluating the performance of the Company's Chief Executive Officer, and determining and approving the Chief Executive Officer's compensation level in light of that evaluation.

On September 18, 2009, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Fairfax Financial Holdings Limited (“Fairfax”), our primary shareholder, and Fairfax Investments USA Corp. (“Merger Sub”), an indirect wholly−owned subsidiary of Fairfax. Pursuant to the Merger Agreement, Merger Sub offered to acquire all of the publicly held shares of our common stock for $65.00 per share. On October 21, 2009, Fairfax announced that Merger Sub accepted for payment all of the shares of common stock of the Company validly tendered in response to the tender offer. On October 28, 2009, Merger Sub merged with and into the Company, with the Company continuing as the surviving corporation (the “Merger”). As a result of the Merger, all of the shares of our common stock held by our shareholders, other than shares held by Fairfax and its subsidiaries, were cancelled and, subject to appraisal rights under Delaware law, converted into the right to receive $65.00 per share in cash, without interest and subject to any applicable withholding of taxes. As a result of the Merger, Fairfax and its subsidiaries became the owner of 100% of the outstanding shares of the Company’s common stock. The Company subsequently withdrew its shares of common stock from listing on the NYSE and terminated registration of the shares under the Securities Exchange Act of 1934.

Objectives of Compensation Program

OdysseyRe’s compensation practices are intended to attract and retain highly competent executives in a competitive marketplace. The program is intended to provide our named executive officers with compensation that is industry competitive, internally equitable and commensurate with their skills, knowledge, experience and responsibilities.

The primary objective of the program, however, is to firmly align total executive compensation with the attainment of OdysseyRe’s annual performance goals, particularly the Company’s underwriting combined ratio target. The combined ratio target, which is set at the beginning of each year, is the Company’s paramount business objective, and is the key driver of executive compensation for the Company. Another important financial performance measure that affects executive compensation includes return on common shareholders’ equity. The Company does not maintain any pre−established allocation or targeted mix of annual equity and non−equity awards. The Committee expects that the mix of these elements will generally be 50/50; however, the actual mix of short and long term incentive awards may vary, based on achievement of performance metrics and the Committee’s discretion to adjust amounts awarded.

There are three major components of our compensation program: annual base salary; annual cash bonus; and restricted equity awards.

Base Salary

As noted above, the Committee annually evaluates the performance of the Company’s Chief Executive Officer, and determines and approves the Chief Executive Officer’s compensation level in light of that evaluation and other factors considered.

Base salaries of executives other than the Chief Executive Officer are approved by the Committee after consultation with, and upon the recommendation of, the Chief Executive Officer. The Chief Executive Officer’s recommendations regarding executive officer base salary and base salary adjustments are based upon his personal knowledge and assessment of each officer’s performance during the relevant year or portion thereof, including accomplishments, areas of strength and long−term potential. As it is intended that year−to−year variations in the compensation of executive officers will be driven largely by the Company’s success in achieving its business objectives, executive officers earning an annual base salary of $300,000 or more generally do not receive annual salary increases; these executives may receive salary adjustments at 24 or 36 month intervals. Even so, after evaluating each executive officer’s performance over the year in light of (i) the Company’s success in achieving its annual underwriting combined ratio goal; (ii) the Company’s overall financial performance; and (iii) other relevant factors (including but not limited to market conditions, increased responsibilities and development and execution of strategic initiatives), the Chief Executive Officer may deem it appropriate to recommend executive officer base salary adjustments to the Committee.

The Committee considers a number of factors when evaluating the Chief Executive Officer's recommendations regarding executive officer base salary and base salary adjustments. The Company participates annually in the Watson Wyatt Property & Casualty Reinsurance Industry Compensation Survey, which provides detailed information regarding the compensation practices of industry peers and competitors. In addition, the Company compiles compensation data contained in the most recent publicly available Supplemental Compensation Exhibits filed with state insurance departments, as well as compensation information that is disclosed in the proxy statements and Form 4 filings of peer companies. The peer group utilized for this purpose is determined by assessing a number of factors, including geographic location, market capitalization, position within relevant markets and competitiveness with the Company in recruiting executive talent, and is presently comprised of Everest Re Group Ltd., Transatlantic Holdings, Inc., Partner Re Ltd. and Axis Reinsurance Company. Data from these sources is evaluated and summarized in tabular form by the Company's Human Resources Department, and is provided to the Committee to assist it in evaluating the Chief Executive Officer's recommendations regarding base salary and base salary adjustments for our executive officers. This peer group data is used by the Committee in establishing the appropriate amount and mix of compensation by guiding the Committee towards a targeted total compensation and actual total compensation that is competitive with the Company's industry peers. In addition to this information, the Committee may consider such other factors that it deems relevant (including, but not limited to general business trends, the competitiveness of the markets in which we operate and unusual circumstances) in evaluating the Chief Executive Officer's recommendations. The Committee engages in a similar process in evaluating the performance of the Chief Executive Officer, and determining and approving each of the named executive officer's total compensation level and mix of compensation, including annual cash bonus and equity compensation, in light of that evaluation. See "— Annual Cash Bonus Incentives" and "— Equity Compensation."

We presently do not engage any compensation consultants, nor have we engaged any in the past.

Base Salaries of OdysseyRe's Executive Officers

Our Chief Executive Officer, Mr. Barnard, our Chief Financial Officer, Mr. Donovan, our Executive Vice President, Mr. Wacek, and our Chief Operating Officer, Mr. Young, are each party to an employment agreement with the Company that provides for a fixed base salary of $1,000,000, $600,000, $600,000 and $750,000, respectively. (See "— Employment Agreements.") Mr. Donovan received an increase in base salary from $500,000 to $600,000 upon entering into his new employment agreement, effective July 31, 2009, in recognition of his significant contributions over the last three years and to more closely align his salary with that of similarly situated executives at our industry peers. His former employment agreement was scheduled to terminate on August 15, 2009. In recognition of his appointment as Executive Vice President and Chief Operating Officer, Mr. Young's salary, as provided for in his employment agreement, was increased from $625,000 to $750,000, effective May 1, 2009. Mr. Lovell, our Senior Vice President, General Counsel and Corporate Secretary received an increase in his base salary from $250,000 to $325,000, effective December 21, 2009, in connection with his appointment as Senior Vice President, General Counsel and Corporate Secretary. In October 2009, prior to his resignation from service with the Company and commencement of his position as a Senior Vice President of one of our subsidiaries, our former Senior Vice President, General Counsel and Corporate Secretary, Donald L. Smith, received an increase in base salary from $327,817 to $337,652 in conjunction with the Company's annual review of executive compensation, which was intended to more closely align his salary with that of similarly situated executives at our industry peers. All salary increases and employment agreements were approved by the Committee.

Annual Cash Bonus Incentives

The second element of our compensation program is an annual cash bonus, awarded under the Company's Amended and Restated Long–Term Incentive Plan (the "Incentive Plan"), which was initially approved by our stockholders in 2001 and amended by stockholder vote in 2006. All executive officers participate in the Incentive Plan, which provides significant cash bonus opportunities that are based on corporate and individual performance, and plays a key role in enabling the Company to attract, retain and motivate the highest caliber employees.

The Incentive Plan permits the Committee broad discretion in approving annual cash awards to our executive officers. Within 90 days after the beginning of each year, the Committee approves the Company's performance goals for that year. As noted above, a key financial performance measure is the underwriting combined ratio, which is a combination of the underwriting expense ratio and the claims/claims adjustment expense ratio. Better performance is reflected by a lower combined ratio, i.e., a combined ratio of 98.0% reflects better performance than a combined ratio of 99.0%. In addition to combined ratio, the Company also targets performance goals for return on shareholders' equity. In 2009, the Committee established the following financial performance measures as performance targets: 95.0% combined ratio; and 15% annual return on common shareholders' equity. At the end of the fiscal year, the Committee reviews the Company's performance for that year generally, and its success in achieving the combined ratio and return on equity targets in particular. The Committee then evaluates the performance of our Chief Executive Officer and determines the annual Incentive Plan cash award for the Chief Executive Officer. The Committee then considers the Chief Executive Officer's recommendations in determining (i) the cash awards for the Company's other named executive officers, and (ii) the aggregate amount of the cash awards for all other employees of the Company, based on a percentage of our annual payroll expense. Our Chief Executive Officer's recommendations are guided by his evaluation of the Company's actual financial performance compared with our targeted combined ratio and other targeted financial performance measures, such as growth in book value per share, and his assessment of the effectiveness of the individual and collective efforts of our executive officers in achieving the Company's business objectives in light of prevailing market conditions.

Achieving the targeted financial performance measures for any given year requires underwriting discipline and adherence to our annual business plan. Ultimately, however, OdysseyRe's performance as a property casualty reinsurance and insurance underwriter is subject to the impact of catastrophic forces beyond our control, namely, natural disasters. Incentive Plan awards in any given year are intended to reflect that reality, as the Company's overall financial performance is intended to be the key driver in determining the amount of any individual executive officer's bonus compensation. For example, our Chief Executive Officer received no Incentive Plan cash bonus award for 2005, a year that was marked by unprecedented catastrophic storm activity. On the other hand, if the Company successfully meets or exceeds its financial objectives, the Committee may elect to provide cash bonus awards to our executive officers, including our Chief Executive Officer, that reflect that performance and equal or exceed the targeted base salary percentages. Based upon the Company's success in achieving its corporate objectives, Incentive Plan awards to our named executive officers over the past five years generally have ranged from 0% to 125% of base salary, with target amounts set by the Committee at levels that both reflect the officer's responsibilities and are consistent (taking into account the targeted equity award values as discussed below under "—Equity Compensation") with the targeted total compensation data for the Company's peer group (100% of base salary for Mr. Barnard, Mr. Donovan, Mr. Wacek, and Mr. Young, and 50% of base salary for Mr. Smith and Mr. Lovell).

Incentive Bonus Awards to OdysseyRe's Executive Officers for 2009

The Committee met on February 15, 2010 to determine annual Incentive Plan cash awards for 2009. In evaluating the Company's financial performance during 2009, the Committee noted the following:

- Combined ratio of 96.7% for the year; and
- Underwriting profit of $64.5 million, compared to an underwriting loss of $24.5 million in 2008.

Although the Company's combined ratio for 2009 was 1.7% above the targeted 95.0%, the Committee noted that it was 4.5% less than in 2008, and that 3.5% of that amount was attributable to reserve strengthening relating to pre–1996 exposures that occurred before OdysseyRe became a public company. The Committee also considered a number of other financial benchmarks during its evaluation of the Company's overall financial performance for 2009. In particular, the Committee noted (i) after–tax net income for the year of $372.3 million; and (ii) 31.2% growth in book value per share over the course of the year, excluding the reduction in outstanding shares that occurred after the successful completion of the tender offer by Fairfax. The Committee evaluated Mr. Barnard's contribution to the Company's 2009 financial results, favorably noting Mr. Barnard's strong and focused leadership of our management team and his skillful direction of our underwriting efforts in a continuously challenging marketplace. After due consideration, the Committee approved an incentive cash award of $1,250,000 for Mr. Barnard, which is 25% greater than Mr. Barnard received for his efforts in 2008,

and the same amount he received for his efforts in 2007. Mr. Barnard's cash awards are materially greater than those of our other named executive officers, as he is responsible for underwriting and operational management of our global enterprise.

After consideration of the Chief Executive Officer's recommendations, the Committee approved an Incentive Plan cash award of $400,000 for Mr. Wacek, which represents 66% of his base salary and the same amount he received for his efforts in 2007, a year financially comparable to 2009; an Incentive Plan cash award of $675,000 for Mr. Young, which represents 90% of his base salary and is in consideration of his contributions in managing the operations of four divisions of the Company; and an Incentive Plan cash award of $200,000 for Mr. Lovell, which represents 62% of his base salary and is in consideration of his work during 2009 and his new responsibilities.

Mr. Donovan did not receive an Incentive Plan cash award in light of his pending resignation as Executive Vice President, Chief Financial Officer, effective April 1, 2010. Mr. Smith resigned his position as Senior Vice President, General Counsel and Corporate Secretary of Odyssey Re Holdings Corp., as of December 18, 2009, and did not receive an Incentive Plan cash award.

Equity Compensation

The third element of OdysseyRe's compensation program is equity compensation. Equity compensation is intended to more closely align annual incentive compensation, as well as total compensation, with the financial performance of the Company. In 2002 and 2003, the Company granted non–qualified stock options under the Company's 2002 Stock Incentive Plan to our named executive officers at that time. The Company decided in 2004 to discontinue such awards as restricted stock grants are a more predictable and flexible equity incentive than stock option awards, and are more meaningful to our employees, as they are less volatile than option grants.

In 2004, the Company began providing its executive officers restricted stock awards, pursuant to the terms of the Odyssey Re Holdings Corp. Restricted Share Plan, (the "Restricted Share Plan"), in conjunction with the annual cash bonus awards issued under our Incentive Plan. Generally, one third of each restricted stock grant vested annually, beginning on the first anniversary of the grant, subject to continued employment with the Company through the vesting date. Such grants aligned the financial interests of the executives with those of our stockholders, by providing the executive an opportunity to realize additional value, at vesting, based on appreciation in our stock price from the date of grant.

In 2009, in connection with the Merger and as a result of the Company's common stock ceasing to be publicly traded, the Company amended and restated the Restricted Share Plan as the Odyssey Re Holdings Corp. Restricted Share and Equity Plan (the "Restricted Share and Equity Plan"), effective as of October 28, 2009. Pursuant to the Merger, and in accordance with the terms of the Restricted Share and Equity Plan, each restricted share of our common stock that was outstanding immediately prior to the completion of the Merger was cancelled and converted into a Restricted Cash Unit ("RCU") with a value of $65, the price paid by Fairfax for all outstanding common shares in its tender offer. In connection with the adoption of the Restricted Share and Equity Plan, the executive officers of the Company, including our named executive officers, were provided the opportunity to retain their RCUs, or elect to convert their unvested RCUs into Restricted Equity Value Rights ("REVRs"), effective October 28, 2009. Each named executive officer elected to convert his RCUs into REVRs. The number of REVRs that each named executive officer received was determined by dividing the aggregate dollar value of the RCUs (that is, $65 multiplied by the number of RCUs) by $51.90, which was the Company's book value per share at June 30, 2009, yielding 1.2540 REVRs for each RCU, with each REVR having an initial value of $51.90. The original vesting schedules applicable to the restricted shares continued to apply to the REVRs. The terms of the REVRs provide that upon vesting, the named executive officer will receive a cash payment equal to the value of the vested REVR. The actual monetary value of each REVR at vesting (the "REVR Value") will be determined by dividing the total shareholders' equity of the Company attributed to common shareholders equity as of the end of the preceding fiscal quarter for which our financial results are released, as adjusted for dividends, capital contributions or extraordinary events (in each case, as determined by the Board or the Committee in its sole discretion), by 58,443,149, which represents the number of outstanding shares at September 30, 2009.

The Restricted Share and Equity Plan permits the Company to make future grants of REVRs. The Company believes that REVRs, align the financial interests of the executives with those of the Company in a

fashion similar to restricted shares granted under the Restricted Share Plan, by providing the executive an opportunity to realize additional value, at vesting, based on appreciation in shareholders' equity.

In 2009, in connection with the Merger, the Company became a wholly owned subsidiary of Fairfax, and a participant in the Fairfax Financial Holdings Limited 1999 Restricted Share Plan (the "Fairfax Share Plan"), an equity compensation plan under which stock−related awards may be made to senior officers of Fairfax and its subsidiaries. For participating U.S. subsidiaries, such as the Company, the Fairfax Share Plan is structured as a restricted share plan, providing grants of subordinate voting shares of Fairfax ("Fairfax restricted stock") that vest at future dates. As awards are comprised of outstanding shares of Fairfax stock, they involve no unissued Fairfax treasury stock and, consequently, no dilution. Any awards granted are expected to be held, not traded, and generally vest on the fourth anniversary of the date of grant, subject to continued employment with the Company through the vesting dates. Such grants are intended to align the financial interests of our executives with those of Fairfax stockholders, by providing an opportunity to realize additional value upon vesting, commensurate with any appreciation in the price of Fairfax stock from the date of grant.

The Committee has broad discretion in providing non−equity and equity incentive awards. While awards are predominately determined by our financial results, when granting such awards, the Committee may consider other factors it considers to be relevant, including non−financial performance measures. We cannot predict the amounts of future awards due to the underlying uncertainty of our business

Restricted Stock Awards to Named Executive Officers for 2009

The Restricted Share and Equity Plan permits the Committee broad discretion in approving annual equity awards to our executive officers. Further, the Fairfax Share Plan permits the Committee similarly broad discretion in providing restricted stock awards of Fairfax restricted stock.

Based on the financial performance of the Company in 2009, the Committee, at its February 15, 2010 meeting, authorized the dollar amount of restricted equity awards to be granted to our named executive officers on March 5, 2010. The restricted equity awards shall be divided equally between REVRs and Fairfax restricted stock. The actual number of REVRs comprising each grant will be determined by dividing the designated dollar amount of each award by the REVRs Value as of December 31, 2009 ($59.51), and the awards will vest equally in three annual installments, commencing on the first anniversary of the grant date. The actual number of shares of Fairfax restricted stock comprising each grant will be determined by dividing the designated dollar amount of each award by the closing price of Fairfax subordinate voting shares on the grant date, March 5, 2010, and the awards will vest on the fourth anniversary of the grant date. The details of the awards are as follows:

- Mr. Barnard will be granted 10,503 REVRs, with an aggregate REVR Value of $625,034, based on the REVR Value at December 31, 2009 ($59.51), on March 5, 2010. Mr. Barnard will be granted a value of $625,000 of Fairfax restricted stock on March 5, 2010. The value of these equity incentive awards is 11% more than the restricted stock award Mr. Barnard received for 2008. Mr. Barnard's awards are materially greater than those of our other named executive officers, as he is responsible for underwriting and operational management of our global enterprise.

- Mr. Wacek will be granted 3,361 REVRs, with an aggregate REVR Value of $200,013, based on the REVR Value at December 31, 2009 ($59.51), on March 5, 2010. Mr. Wacek will be granted a value of $200,000 of Fairfax restricted stock on March 5, 2010. The value of these equity incentive awards is 11% more than the restricted stock award Mr. Wacek received for 2008.

- Mr. Young will be granted 5,546 REVRs, with an aggregate REVR Value of $330,042, based on the REVR Value at December 31, 2009 ($59.51), on March 5, 2010. Mr. Young will be granted a value of $330,000 of Fairfax restricted stock on March 5, 2010.

- Mr. Lovell will be granted 1,681 REVRs, with an aggregate REVR Value of $100,036, based on the REVR Value at December 31, 2009 ($59.51), on March 5, 2010. Mr. Lovell will be granted a value of $100,000 of shares of Fairfax restricted stock on March 5, 2010.

Mr. Donovan, Executive Vice President and Chief Financial Officer, and Mr. Smith, our former Senior Vice President, General Counsel and Corporate Secretary, will not receive equity incentive awards for 2009.

The Committee has broad discretion in providing non−equity and equity incentive awards. While awards are predominately determined by our financial results, when granting such awards, the Committee may consider other factors it considers to be relevant, including non−financial performance measures. We cannot predict the amounts of future awards due to the underlying uncertainty of our business.

Restricted Stock Awards to Named Executive Officers in 2009

As set forth in the 2009 Grants of Plan−Based Awards Table (and previously disclosed in last year's proxy statement in connection with our annual shareholders meeting), Mr. Barnard and our other named executive officers received restricted stock awards in 2009 under the Restricted Share Plan that were based on the financial performance of the Company in 2008. The dollar amounts of these restricted stock awards were authorized by the Committee, after due consideration, at its February 13, 2009 meeting, at which time a grant date of March 9, 2009 was established. The awards vest equally in three annual installments, commencing on the first anniversary of the grant date. The actual number of shares of restricted stock comprising each grant was determined by dividing the designated dollar amount of each award by the closing price of our common stock on March 9, 2009 ($38.08). Mr. Barnard, Mr. Donovan, and Mr. Young also received restricted stock awards on May 1, 2009, August 3, 2009 and May 1, 2009 respectively, in connection with entering into new employment agreements. As discussed above, in connection with the adoption of the Restricted Share and Equity Plan, each named executive officer converted these restricted stock awards into REVRs that are subject to the original vesting schedule of the restricted stock. The details of the restricted stock awards and their subsequent conversion to REVRs are as follows:

- Mr. Barnard was granted 29,544 shares of restricted stock, with a value of $1,125,036, on March 9, 2009. Mr. Barnard's awards are materially greater than those of our other named executive officers, as he is responsible for the overall management of our global enterprise. In addition, under the terms of his new employment agreement, Mr. Barnard was granted 127,232 shares of restricted stock, with a value of $5,000,027, on May 1, 2009. Effective October 28, 2009, the 29,544 shares of restricted stock were converted into 37,001.15604 REVRs, and the 127,232 shares of restricted stock were converted into 159,346.43545 REVRs.

- Mr. Donovan was granted 8,273 shares of restricted stock, with a value of $315,036, on March 9, 2009. In addition, under the terms of his new employment agreement, Mr. Donovan was granted 23,715 shares of restricted stock, with a value of $1,000,038, on August 3, 2009. Effective October 28, 2009, the 8,273 shares of restricted stock were converted into 10,361.17533 REVRs, and the 23,715 shares of restricted stock were converted into 29,700.86705 REVRs.

- Mr. Wacek was granted 9,454 shares of restricted stock, with a value of $360,008, on March 9, 2009. Effective October 28, 2009, the 9,454 shares of restricted stock were converted into 11,840.26974 REVRs.

- Mr. Young was granted 9,454 shares of restricted stock, with a value of $360,008, on March 9, 2009. In addition, under the terms of his new employment agreement, Mr. Young was granted 38,170 shares of restricted stock, with a value of $1,500,024, on May 1, 2009. Effective October 28, 2009, the 9,454 shares of restricted stock were converted into 11,840.26974 REVRs, and the 38,170 shares of restricted stock were converted into 47,804.43159 REVRs.

- Mr. Smith was granted 5,909 shares of restricted stock, with a value of $225,015, on March 9, 2009. Effective October 28, 2009, the 5,909 shares of restricted stock were converted into 7,400.48169 REVRs.

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- Mr. Lovell, as a Senior Vice President of one of our subsidiaries, was granted 1,419 shares of restricted stock, with a value of $54,036, on March 9, 2009. Effective October 28, 2009, the 1,419 shares of restricted stock were converted into 1,777.16763 REVRs.

The Committee has broad discretion in providing non−equity and equity incentive awards. While awards are predominately determined by our financial results, when granting such awards, the Committee may consider other factors it considers to be relevant, including non−financial performance measures. We cannot predict the amounts of future awards due to the underlying uncertainty of our business. In this regard, the Committee considered the financial results of the Company in 2008, and determined that for purposes of determining the amount of restricted stock awards to grant to named executive officers in 2009 (with respect to 2008 performance), it was appropriate to apply a 10% reduction in the value of restricted stock awards from the value of restricted stock awards granted in 2008 (with respect to 2007 performance). Accordingly, the 2009 restricted stock awards to each of Mr. Barnard, Mr. Donovan, Mr. Wacek and Mr. Smith reflected this 10% reduction. Although Mr. Young and Mr. Lovell were not named executive officers for purposes of last year's proxy statement, their restricted stock awards in 2009 also reflected the 10% reduction from their 2008 restricted stock awards. The 10% reduction in equity award values granted in 2009 was less of a reduction (on a percentage basis) than the reductions in 2009 annual cash bonuses from 2008 (a reduction of 20% for each of Mr. Barnard, Mr. Wacek and Mr. Smith, and 14.2% for Mr. Donovan (with smaller reductions for Mr. Young and Mr. Lovell who were not named executive officers in 2008)). As noted under "— Objectives of Compensation Program", while the Committee expects that the mix of equity and non−equity awards will generally be 50/50, the actual mix can vary. In this regard, although the Committee determined that an aggregate reduction in cash and equity awards was appropriate based on the financial results in 2008 compared to 2007, it determined that the reduction in value of equity awards should be smaller than the reduction in cash bonus, given the equity award's purpose as both a retention device and as an incentive to the executive to strive to increase the long−term appreciation in the shareholders' equity of the Company.

Employment Agreements

Consistent with our goal of attracting and retaining highly competent executives in a competitive marketplace, we entered into employment agreements with Mr. Barnard, Mr. Donovan, Mr. Wacek and Mr. Young, in 2009, 2009, 2008 and 2009, respectively, each of which was duly approved and authorized by the Committee prior to execution. The agreements provide these named executive officers with an appropriate base salary and other incentives that relate to the achievement of our financial targets. These employment agreements are described in detail under "— Employment Agreements" and "— Potential Payments Upon Termination or Change in Control."

As Mr. Barnard's employment agreement was scheduled to expire in 2010, the directors of the Company determined that it was in the best interest of the Company to amend his employment agreement, extending the term of agreement until May 1, 2016. Similarly, we entered into an amended employment agreement with Mr. Donovan on July 31, 2009, just prior to the scheduled expiration of his employment agreement on August 15, 2009. We entered into a new employment agreement with Mr. Young on May 1, 2009, in connection with his appointment as Chief Operating Officer.

Stock Ownership Guidelines

The Company has never had a formal policy regarding minimum stock ownership requirements for our named executive officers. Previously, we encouraged ownership through annual restricted stock grants and participation in the Odyssey Re Holdings Corp. Employee Share Purchase Plan ("ESPP"). The ESPP enabled employees, including our named executive officers, to purchase stock, on an after−tax basis, through bi−weekly payroll deductions. Participants contributed up to ten percent of their base salary to the ESPP, and the Company provided matching contributions in an amount equal to 30% of participant contributions. If we achieved a return on equity of 15% or greater in any year, the Company provided an additional contribution in an amount equal to 20% of participant contributions during that year. As previously noted, upon the successful completion of Fairfax's tender offer, our common shares are no longer publicly traded.

Retirement Plans

We provide retirement benefits to all employees, regardless of position, responsibilities or title. Our named executive officers do not participate in any special or separate executive retirement plans that are not made available to other employees. The Company maintains a tax−qualified defined benefit pension plan, and a 401(k) plan. We also provide a non−qualified supplemental retirement plan and a non−qualified 401(k) excess plan.

We consider our retirement plans to be an important factor in our ability to hire, retain and motivate our employees. In particular, the defined benefit pension plan is a traditional employee non−contributory plan, and provides an added measure of financial security for our long−term employees without any risk of investment loss. This serves to promote loyalty to the Company and is a tangible reward for that loyalty.

Information regarding our retirement plans is described under "— Pension Benefits."

Perquisites

The Company has no formal perquisites program. Personal benefits are provided to our named executive officers from time to time under employment agreements when we determine such personal benefits are a useful part of a compensation package. Specifically, Mr. Barnard is provided with a company automobile, country club membership and a $1,000,000 life insurance supplement. Mr. Donovan is provided with a living allowance of $3,000 per each bi−weekly payroll period, which is grossed up for all tax withholdings to provide the net payment. No perquisites are provided to our other named executive officers.

Tax Deductibility of Compensation

Awards of annual bonuses to our named executive officers under the Incentive Plan are intended to qualify as "performance−based compensation" under Section 162(m) of the Internal Revenue Code. Section 162(m) generally precludes a public corporation from taking a deduction for compensation in excess of $1,000,000 for its chief executive officer or any of its three other highest paid executive officers, (other than the Chief Financial Officer) unless, in addition to other requirements, the compensation qualifies as performance based compensation. It is the policy of the Committee to consider Section 162(m) implications in making compensation recommendations and in designing compensation programs for our named executive officers. However, the Committee reserves the right to pay non−deductible compensation if it determines that to be in the Company's best interests and in the best interests of our shareholders. The Company ceased to be subject to Section 162(m) during 2009, because as of the end of fiscal 2009, it did not have any class of common equity securities that were required to be registered under Section 12 of the Exchange Act.

Report of the Compensation Committee of the Board on Executive Compensation

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by item 402(b) of Regulation S−K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10−K.

Anthony F. Griffiths
Brandon W. Sweitzer

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Executive Compensation Summary Table

The following table presents information concerning total compensation paid to (1) our Chief Executive Officer, (2) our Chief Financial Officer, (3) our three next most highly compensated executive officers who served in such capacities on December 31, 2009 and (4) a former executive officer who would have been included in the group described in clause (3) above if he had remained an executive officer on December 31, 2009 (collectively, our "named executive officers").

Summary Compensation Table

Name and principal position	Year	Salary ($)	Stock Awards (1) ($)	Option Awards (2) ($)	Non–Equity Incentive Plan Compensation ($)	Change in Pension Value and Deferred Compensation Earnings (3) ($)	All Other Compensation (4) ($)	Total ($)
Andrew A. Barnard	2009	$1,000,000	$ 4,893,666	$ —	$ 1,250,000	$ 427,100	$ 150,274(5)	$7,721,040
President and Chief	2008	$1,000,000	$ 2,292,135	$ —	$ 1,000,000	$ —	$ 167,898	$4,460,033
Executive Officer	2007	$1,000,000	$ 1,743,060	$ 57,353	$ 1,250,000	$ 191,001	$ 207,308	$4,448,722
Richard S. Donovan *Executive Vice*	2009	$ 540,769	$ 1,345,420	$ —	$ —	$ 82,590	$ 173,644(6)	$2,142,423
President	2008	$ 500,000	$ 334,143	$ —	$ 300,000	$ 32,195	$ 83,728	$1,250,066
and Chief Financial Officer	2007	$ 500,000	$ 237,216	$ —	$ 350,000	$ 74,526	$ 185,641	$1,347,383
Michael G. Wacek *Executive Vice*	2009	$ 600,000	$ 1,449,447	$ —	$ 400,000	$ 189,469	$ 66,902(7)	$2,705,818
President	2008	$ 574,615	$ 511,903	$ —	$ 320,000	$ —	$ 69,495	$1,476,013
	2007	$ 500,000	$ 325,752	$ 7,751	$ 400,000	$ 81,445	$ 62,934	$1,377,882
Brian D. Young *Executive Vice President, Chief Operating Officer*	2009	$ 706,731	$ 3,485,555	$ —	$ 675,000	$ 106,053	$ 867,148(8)	$5,840,487
Donald L. Smith (9) *Former Senior Vice*	2009	$ 330,087	$ 617,218	$ —	$ —	$ 251,242	$ 33,405(10)	$1,231,952
President, General Counsel	2008	$ 321,068	$ 228,497	$ —	$ 200,000	$ —	$ 34,009	$ 783,574
and Corporate Secretary	2007	$ 312,252	$ 166,894	$ 5,167	$ 250,000	$ 119,755	$ 28,636	$ 882,704
Peter H. Lovell (11) *Senior Vice President, General Counsel and Corporate Secretary*	2009	$ 245,903	$ 187,948	$ —	$ 200,000	$ 46,110	$ 16,236(12)	$ 696,197

(1) Amounts represent the value of restricted stock awards recognized for financial statement reporting purposes for the applicable fiscal year, as computed in accordance with FASB ASC Topic 718, disregarding estimates of forfeitures related to service–based vesting conditions. Some of the amounts were calculated based on the closing price of our common stock on the grant dates, March 9, 2007 ($37.86), March 10, 2008 ($36.02), and March 9, 2009 ($38.08). These awards vest equally on the first, second and third anniversaries of the date of grant, assuming continued employment. Amounts with respect to other grants were calculated based on the simple average of the closing price of our common stock for the preceding twenty days of the grant dates: September 15, 2008, for the grant to Mr. Wacek; May 1, 2009, for the grant to Mr. Barnard; May 1, 2009 for the grant to Mr. Young; and August 3, 2009, for the grant to Mr. Donovan. Mr. Wacek's award vests equally on each of the first, second, third, fourth and fifth anniversaries of the date of the grant. Mr. Barnard's award vests on May 1, 2016. Mr. Young's award vests on May 1, 2016. Mr. Donovan's award vests on August 15, 2012. Vesting of these awards is subject to continued employment through the vesting date.

(2) Amounts represent the fair value of stock options with respect to our common stock recognized for financial statement reporting purposes for the applicable fiscal year, as computed in accordance with FASB ASC Topic 718, disregarding estimates of forfeitures related to service–based vesting conditions. To determine the expense related to the granting of stock options, the Company uses the Black–Scholes Option–Pricing Model ("Black–Scholes"). The Black–Scholes expense per share is

expensed for each stock option granted over the vesting terms of the grant. Black–Scholes assumptions include volatility, dividend yield, risk free rate, and expected term. For the April 1, 2002 grant: expected volatility of 30.0%; risk–free interest rates ranging from 2.7% to 5.1%; annual dividend yield of 0.6%; and the expected term of five years for each grant. For the May 20, 2003 grant: expected volatility of 31.0%; risk–free interest rates ranging from 2.4% to 5.1%; annual dividend yield of 0.6%; and the expected term of five years for each grant.

(3) This amount represents the annual aggregate changes during the applicable fiscal year in the actuarial present value of accumulated pension benefits under the Company's defined benefit pension plans. See "—Pension Benefits" and the table "— 2009 Pension

Benefits" for additional information regarding these benefits. The named executive officers did not receive any above–market or preferential earnings on compensation deferred on a basis that is not tax qualified.

(4) Dividends were paid on shares of restricted stock when dividends were paid on all other outstanding shares of our common stock, prior to the delisting of our common stock. In 2009, the declared annual dividend was $0.30 per share, paid on March 31, 2009, June 30, 2009, and September 30, 2009.

(5) Mr. Barnard received the following: Odyssey America Reinsurance Corporation Profit Sharing Plan ("401(k) Plan") Company matching contributions of $9,800; Odyssey America Reinsurance Corporation 401(k) Excess Plan ("Excess Plan") Company matching contributions of $30,200; ESPP Company matching contributions of $769; premiums paid on life and death and dismemberment insurance of $5,102; and OdysseyRe restricted stock dividends of $46,244. Mr. Barnard also received an automobile allowance of $22,750, club membership fees of $6,061, and $29,348 in payment of related taxes, each pursuant to his employment agreement.

(6) Mr. Donovan received the following: 401(k) Plan Company matching contributions of $9,800; Excess Plan Company matching contributions of $10,200; ESPP Company matching contributions of $3,846; premiums paid on life and death and dismemberment insurance of $1,956; and OdysseyRe restricted stock dividends of $8,690. Mr. Donovan also received a housing allowance of $78,000, and $61,152 in payment of related taxes, pursuant to his employment agreement.

(7) Mr. Wacek received the following: 401(k) Plan Company matching contributions of $9,800; Excess Plan Company matching contributions of $14,200; ESPP Company matching contributions of $25,339; premiums paid on life and death and dismemberment insurance of $2,934; and OdysseyRe restricted stock dividends of $14,629.

(8) Mr. Young received the following: 401(k) Plan Company matching contributions of $9,800; Excess Plan Company matching contributions of $15,200; ESPP Company matching contribution of $14,254; premiums paid on life and death and dismemberment insurance of $2,506; and OdysseyRe restricted stock dividends of $34,565. Mr. Young also received a housing allowance of $56,000, a tax equalization payment made on his behalf of $352,799 for his prior service in London and $382,024 in payment of related taxes.

(9) Mr. Smith resigned from his position as Senior Vice President, General Counsel and Corporate Secretary, effective December 18, 2009. He presently serves as a Senior Vice President of Odyssey America Reinsurance Corporation, a subsidiary of the Company.

(10) Mr. Smith received the following: 401(k) Plan Company matching contributions of $9,800; Excess Plan Company matching contributions of $3,313; ESPP Company matching contribution of $13,986; premiums paid on life and death and dismemberment insurance of $1,932; and OdysseyRe restricted stock dividends of $4,374.

(11) Mr. Lovell became our Senior Vice President, General Counsel and Corporate Secretary, effective December 18, 2009.

(12) Mr. Lovell received the following: 401(k) Plan Company matching contributions of $9,800; ESPP Company matching contributions of $3,108; premiums paid on life and death and dismemberment insurance of $1,558; and OdysseyRe restricted stock dividends of $1,770.

Grants of Plan–Based Awards in 2009

The following table presents information with respect to each plan–based compensation award to each named executive officer in 2009.

2009 Grants of Plan–Based Awards

Name	Grant Date	Approval Date(2)	Estimated Future Payouts Under Non–Equity Incentive Plan Awards(1)			All Other Stock Awards: # of Shares of Stock(3)	All Other Options Awards: # of Securities Underlying Options	Grant Date Fair Value of Stock Award
			Threshold ($)	Target ($)	Maximum ($)			
Andrew A. Barnard(4)			—	$ 1,000,000	—			
	3/9/2009	2/13/2009				29,544	—	$ 1,125,036
	5/1/2009	5/29/2009				127,232		$ 5,000,027
Richard S. Donovan(5)			—	$ 500,000	—			
	3/9/2009	2/13/2009				8,273	—	$ 315,036
	8/3/2009	8/3/2009				23,715		$ 1,000,038
Michael G. Wacek(6)			—	$ 600,000	—			
	3/9/2009	2/13/2009				9,454		$ 360,008
Brian D. Young(7)			—	$ 625,000	—			
	3/9/2009	2/13/2009				9,454	—	$ 360,008
	5/1/2009	5/1/2009				38,170		$ 1,500,024
Donald L. Smith(8)			—	$ 163,909	—			
	3/9/2009	2/13/2009				5,909	—	$ 225,015
Peter H. Lovell(9)			—	$ 121,399	—			
	3/9/2009	2/13/2009				1,419	—	$ 54,036

(1) The Company does not have set formulas for maximum or threshold payouts under its Incentive Plan.

(2) In connection with the March 9, 2009 grants, the date of approval is the date on which the Compensation Committee reviewed and approved the dollar amounts of restricted stock grants to be made on a selected future date that was after the issuance of OdysseyRe’s earnings release for the 2008 fiscal year and was not during a trading “blackout period”.

(3) All awards reflect the number of our common shares originally subject to grants made under the Restricted Share Plan, which were subsequently converted to REVRs pursuant to the Restricted Share and Equity Plan. The conversion of restricted stock to REVRs is more fully described in “Equity Compensation”.

(4) Mr. Barnard was granted 29,544 shares of restricted stock, with a value of $1,125,036, on March 9, 2009. In addition, Mr. Barnard was granted 127,232 shares of restricted stock, with a value of $5,000,027, on May 1, 2009. Effective October 28, 2009, the 156,776 shares of restricted stock granted for the year were converted into 196,347.59149 REVRs, of which 12,333.71868 REVRs will vest on March 9, 2010, 12,333.71868 REVRs will vest on March 9, 2011, 12,333.71868 REVRs will vest on March 9, 2012, and 159,346.43545 REVRs will vest on May 1, 2016, subject to Mr. Barnard’s continued employment with the Company on each such date.

(5) Mr. Donovan was granted 8,273 shares of restricted stock, with a value of $315,036, on March 9, 2009. In addition, Mr., Donovan was granted 23,715 shares of restricted stock, with a value of $1,000,038, on August 3, 2009. Effective October 28, 2009, the 31,988 shares of restricted stock granted for the year were converted into 40,062.04238 REVRs, of which 3,454.14258 REVRs will vest on March 9, 2010, 3,454.14258 REVRs will vest on March 9, 2011, 3,452.89017 REVRs will vest on March 9, 2012, and 29,700.86705 REVRs will vest on August 3, 2012, subject to Mr. Donovan’s continued employment with the Company on each such date.

(6) Mr. Wacek was granted 9,454 shares of restricted stock, with a value of $360,008, on March 9, 2009. Effective October 28, 2009, the 9,454 shares of restricted stock were converted into 11,840.26974 REVRs, of which 3,947.59152 REVRs will vest on March 9, 2010, 3,946.33911 REVRs will vest on March 9, 2011, and 3,946.33911 REVRs will vest on March 9, 2012, subject to Mr. Wacek’s continued employment with the Company on each such date.

(7) Mr. Young was granted 9,454 shares of restricted stock, with a value of $360,008, on March 9, 2009. In addition, Mr. Young was granted 38,170 shares of restricted stock, with a value of $1,500,024, on May 1, 2009. Effective October 28, 2009, the 47,624 shares of restricted stock granted for the year were converted into 59,644.70133 REVRs, of which 3,947.59152 REVRs will vest on March 9, 2010, 3,946.33911 REVRs will vest on March 9, 2011, 3,946.33911 REVRs will vest on March 9, 2012, and 47,804.43159 REVRs will vest on May 1, 2014, subject to Mr. Young's continued employment with the Company on each such date.

(8) Mr. Smith was granted 5,909 shares of restricted stock, with a value of $225,015, on March 9, 2009. Effective October 28, 2009, the

5,909 shares of restricted stock were converted into 7,400.48169 REVRs, of which 2,467.24470 REVRs will vest on March 9, 2010, 2,467.24470 REVRs will vest on March 9, 2011, and 2,465.99229 REVRs will vest on March 9, 2012, subject to Mr. Smith's continued employment with the Company or its subsidiaries on each such date.

(9) Mr. Lovell was granted 1,419 shares of restricted stock, with a value of $54,036, on March 9, 2009. Effective October 28, 2009, the 1,419 shares of restricted stock were converted into 1,777.16 REVRs, of which 592.38921 REVRs will vest on March 9, 2010, 592.38921 REVRs will vest on March 9, 2011, and 592.38921 REVRs will vest on March 9, 2012, subject to Mr. Lovell's continued employment with the Company on each such date.

Employment Agreements

The following is a description of the material terms of the compensation provided to our named executive officers during the term of their employment pursuant to employment agreements with us. See "— Potential Payments Upon Termination or Change in Control" for a description of the payments and benefits that would be provided to each named executive officer in connection with a termination of their employment or a change in control.

Mr. Barnard

On May 29, 2009, we entered into a new employment agreement with Mr. Barnard, which was amended and restated effective as of October 1, 2009. The agreement provides that Mr. Barnard will serve as our President and Chief Executive Officer until May 1, 2016, or until such later time as is mutually agreed in writing. We agreed that we or our operating subsidiaries will compensate Mr. Barnard with an annual base salary of $1,000,000, provide for his participation in the bonus pool, consisting of a designated portion of the underwriting profit in each underwriting year assuming certain pre–established performance criteria are satisfied, and provide an award of restricted shares with a value of $5,000,000 that will become vested on May 1, 2016. Vesting of restricted shares is subject to continued service through the vesting date. We further agreed to: accelerate the vesting of 62,432 restricted shares scheduled to vest on June 30, 2010; accelerate the vesting of 6,500 Fairfax Financial Holdings Limited restricted shares scheduled to vest on June 30, 2010; accelerate the vesting of 27,778 restricted shares scheduled to vest on June 14, 2011; and accelerate the vesting of 80,854 restricted shares scheduled to vest equally on June 30, 2010 and June 30, 2011. As noted in "Outstanding Equity Awards at December 31, 2009", restricted shares of our common stock granted in connection with Mr. Barnard's employment agreement were converted into REVRs effective October 28, 2009.

Mr. Donovan

On August 3, 2009, we entered into a new employment agreement with Mr. Donovan, effective as of July 31, 2009, which was amended and restated effective as of October 1, 2009. The agreement provides that Mr. Donovan will serve as our Executive Vice President and Chief Financial Officer until August 15, 2012, or until such later time as is mutually agreed in writing. We have agreed that we or our operating subsidiaries will compensate Mr. Donovan with an annual base salary of $600,000 and provide for his participation in the bonus pool, consisting of a designated portion of the underwriting profit in each underwriting year assuming certain pre–established performance criteria are satisfied. We further agreed to provide an award of restricted shares with a value of $1,000,000 that will become vested on August 15, 2012, and to accelerate the vesting of the remaining 21,972 outstanding and unvested restricted shares granted under Mr. Donovan's original employment agreement. All vesting of restricted shares is subject to continued service through the applicable vesting date. Additionally, we have agreed to continue to provide a living allowance in the form of a $3,000 bi–weekly net payment during Mr. Donovan's employment term, which will be grossed up for all tax withholdings to provide for the net payment. As noted in "Outstanding Equity Awards at December 31, 2009", restricted shares of our common stock granted in connection with Mr. Donovan's employment agreement were converted into REVRs effective October 28, 2009.

Mr. Wacek

On September 15, 2008, we entered into a new employment agreement with Mr. Wacek, effective as of April 1, 2008, which was amended and restated effective as of October 1, 2009. The agreement provides that Mr. Wacek will serve as our Executive Vice President until April 1, 2011 (the 'Term"), provided, however, that

the Term shall automatically be extended for additional twelve month periods unless either party gives 60 days' advance written notice to the other party prior to the expiration of the then–effective term. We have agreed that we or our operating subsidiaries will compensate Mr. Wacek with an annual base salary of $600,000 and provide for his participation in the bonus pool, consisting of a designated portion of the underwriting profit in each underwriting year, assuming certain pre–established performance criteria are satisfied. The agreement provides for an additional payment in the event that bonus compensation to Mr. Wacek violates special tax rules related to deferred compensation, to make Mr. Wacek whole for any penalty taxes incurred in relation thereto. We further agreed to provide an award of restricted shares with a value of $1,000,000 that vested on April 1, 2009 with respect to 20% of the restricted shares and on each anniversary thereafter with respect to an additional 20% of the restricted shares such that on April 1, 2013 all restrictions on the restricted shares will lapse. All vesting of restricted shares is subject to continued service through the applicable vesting date. As noted in "Outstanding Equity Awards at December 31, 2009", restricted shares of our common stock granted in connection with Mr. Wacek's employment agreement were converted into REVRs effective October 28, 2009.

Mr. Young

On May 29, 2009, we entered into an employment agreement with Mr. Young, which was amended and restated effective October 1, 2009. The agreement provides that Mr. Young will serve as our Executive Vice President and Chief Operating Officer until May 1, 2014 or until such later time as is mutually agreed in writing. We have agreed that we or our operating subsidiaries will compensate Mr. Young with an annual base salary of $750,000 and provide for his participation in the bonus pool, consisting of a designated portion of the underwriting profit in each underwriting year assuming certain pre–established performance criteria are satisfied. We further agreed to provide an award of restricted shares with a value of $1,500,000 that will become vested on May 1, 2014. Vesting of restricted shares is subject to continued service through the vesting date. As noted in "Outstanding Equity Awards at December 31, 2009", restricted shares of our common stock granted in connection with Mr. Young's employment agreement were converted into REVRs effective October 28, 2009.

Mr. Smith

Mr. Smith is not a party to an employment agreement with us. Mr. Smith resigned as Senior Vice President, General Counsel and Corporate Secretary, effective December 18, 2009, and presently serves as a Senior Vice President of Odyssey America Reinsurance Corporation, a subsidiary of the Company. He received $330,087 in base salary in 2009. His base salary was adjusted to $337,652 in October of 2009.

Mr. Lovell

Mr. Lovell is not a party to an employment agreement with us. He currently earns a base salary of $325,000 per year and he is eligible to receive, under the provisions of our Incentive Plan, a target award of 50% of his base salary, based on corporate and individual performance. Mr. Lovell is also eligible to receive an equity based award, in conjunction with his award provided under the Incentive Plan.

Outstanding Equity Awards at December 31, 2009

The following table sets forth information about each of the outstanding aggregate Restricted Equity Value Rights (REVRs) held by each named executive officer as of December 31, 2009. See "Compensation Discussion and Analysis — Equity Compensation" for a discussion of how the value of each REVR is determined.

Outstanding Equity Awards at 2009 Fiscal Year End

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price	Option Expiration Date	Number of Shares of Stock That Have Not Vested (#)	Market Value of Shares of Stock That Have Not Vested ($)
Andrew A. Barnard(1)	—	—	—	—	239,104.81691	$ 14,229,128
Richard S. Donovan(2)	—	—	—	—	49,828.32367	$ 2,965,284
Michael G. Wacek(3)	—	—	—	—	65,708.86313	$ 3,910,334
Brian D. Young(4)	—	—	—	—	199,294.50860	$ 11,860,016
Donald L. Smith(5)	—	—	—	—	20,619.65314	$ 1,227,076
Peter H. Lovell(6)	—	—	—	—	8,307.22539	$ 494,363

(1) Mr. Barnard held 239,104.81691 REVRs granted under the Restricted Share and Equity Plan, with a value of $14,229,128, as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51), of which 26,116.47397 REVRs will vest on March 9, 2010, 14,487.86127 REVRs will vest on March 10, 2010, 12,333.71868 REVRs will vest on March 9, 2011, 14,486.60886 REVRs will vest on March 10, 2011, 12,333.71868 REVRs will vest on March 9, 2012, and 159,346.43545 REVRs will vest on May 1, 2016, subject to Mr. Barnard's continued employment with the Company on each such date.

(2) Mr. Donovan held 49,828.32367 REVRs granted under the Restricted Share and Equity Plan, with a value of $2,965,284, as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51), of which 5,107.32177 REVRs will vest on March 9, 2010, 4,056.55105 REVRs will vest on March 10, 2010, 3,454.14258 REVRs will vest on March 9, 2011, 4,056.55105 REVRs will vest on March 10, 2011, 3,452.89017 REVRs will vest on March 9, 2012, and 29,700.86705 REVRs will vest on August 15, 2012, subject to Mr. Donovan's continued employment with the Company on each such date.

(3) Mr. Wacek held 65,708.86313 REVRs granted under the Restricted Share and Equity Plan, with a value of $3,910,334, as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51), of which 8,358.57417 REVRs will vest on March 9, 2010, 4,636.41618 REVRs will vest on March 10, 2010, 6,567.63005 REVRs will vest on April 1, 2010, 3,946.33911 REVRs will vest on March 9, 2011, 4,635.16377 REVRs will vest on March 10, 2011, 6,567.63005 REVRs will vest on April 1, 2011, 13,915.51059 REVRs will vest on June 14, 2011, 3,946.33911 REVRs will vest on March 9, 2012, 6,567.363005 REVRs will vest on April 1, 2012, and 6,567.63005 REVRs will vest on April 1, 2013, subject to Mr. Wacek's continued employment with the Company on each such date.

(4) Mr. Young held 199,294.50860 REVRs granted under the Restricted Share and Equity Plan, with a value of $11,860,016, as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51), of which 8,358.57417 REVRs will vest on March 9, 2010, 4,636.41618 REVRs will vest on March 10, 2010, 6,809.34489 REVRs will vest on April 1, 2010, 10,148.26589 REVRs will vest on June 30, 2010, 3,946.33911 REVRs will vest on March 9, 2011, 4,635.16377 REVRs will vest on March 10, 2011, 6,809.34489 REVRs will vest on April 1, 2011, 3,479.19075 REVRs will vest on June 14, 2011, 3,946.33911 REVRs will vest on March 9, 2012, 6,809.34489 REVRs will vest on April 1, 2012, 91,911.75336 REVRs will vest on April 1, 2013, and 47,804.43159 REVRs will vest on May 1, 2014, subject to Mr. Young's continued employment with the Company on each such date.

(5) Mr. Smith held 20,619.65314 REVRs granted under the Restricted Share and Equity Plan, with a value of $1,227,076, as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51), of which 4,672.73602 REVRs will vest on March 9, 2010, 2,898.07321 REVRs will vest on March 10, 2010, 2,467.24470 REVRs will vest on March 9, 2011, 2,896.82080 REVRs will vest on March 10, 2011, 5,218.78612 REVRs will vest on June 14, 2011, and

2,465.99229 REVRs will vest on March 9, 2012, subject to Mr. Smith's continued employment with the Company or its subsidiaries on each such date.

(6) Mr. Lovell held 8,307.22539 REVRs granted under the Restricted Share and Equity Plan, with a value of $494,363, as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51), of which 1,088.34296 REVRs will vest on March 9, 2010, 702.60115 REVRs will vest on March 10, 2010, 1,105.87668 REVRs will vest on August 29, 2010, 806.55105 REVRs will vest on November 15, 2010, 592.38921 REVRs will vest on March 9, 2011, 702.60115 REVRs will vest on March 10, 2011, 1,105.87668 REVRs will vest on August 29, 2011, 805.29865 REVRs will vest on November 15, 2011, 592.38921 REVRs will vest on March 9, 2012, and 805.29865 REVRs will vest on November 15, 2012, subject to Mr. Lovell's continued employment with the Company on each such date.

Option Exercises and Stock Vesting in 2009

The following table sets forth information on exercises of stock options and the vesting of restricted stock during 2009 for each named executive officer.

2009 Option Exercises and Stock Vested

	Option Awards		Stock Awards(1)	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Andrew A. Barnard(2) (3)	—	$ —	200,837	$ 7,926,917
			6,500	$ 1,682,493
Richard S. Donovan(4)	—	$ —	26,532	$ 1,191,570
Michael G. Wacek(5)	—	$ —	46,324	$ 1,769,834
Brian D. Young(6)	22,500	$ 1,041,000	22,205	$ 866,218
Donald L. Smith(7)	—	$ —	9,664	$ 424,351
Peter H. Lovell (8) (9)	—	$ —	1,840	$ 81,015
			806.55106	$ 48,167

(1) Except as described below in footnotes (3) and (9), the chart contains the number of shares of our common stock that vested during 2009, and the value realized at vesting is calculated based on the average of the low and high stock price on the date of vesting.

(2) Mr. Barnard vested in 200,837 restricted shares in 2009, of which 11,006 shares vested on March 9, 2009, at a share price of $38.28, 18,767 shares vested on March 10, 2009, of which 7,199 shares vested at a share price of $38.29 and 11,568 shares vested at a share price of $38.40, and 171,064 shares vested on May 29, 2009, at a share price of $39.67.

(3) Mr. Barnard vested in 6,500 restricted shares of Fairfax stock on May 29, 2009, at a share price of $260.00

(4) Mr. Donovan vested in 26,532 restricted shares in 2009, of which 1,321 shares vested on March 9, 2009, at a share price of $38.28, 3,239 shares vested on March 10, 2009, at a share price of $38.29, and 21,972 restricted shares on August 3, 2009, at a share price of $46.28.

(5) Mr. Wacek vested in 46,324 restricted shares in 2009, of which 3,522 shares vested on March 9, 2009, at a share price of $38.28, 5,142 shares vested on March 10, 2009, of which 1,440 shares vested at a share price of $38.29 and 3,702 shares vested at a share price of $38.40, 32,416 shares vested on March 26, 2009, at a share price of $38.16, and 5,244 shares vested on April 1, 2009, at a share price of $38.32.

(6) Mr. Young vested in 22,205 restricted shares in 2009, of which 3,522 shares vested on March 9, 2009, at a share price of $38.28, 5,142 shares vested on March 10, 2009, of which 1,440 shares vested at a share price of $38.29 and 3,702 shares vested at a share price of $38.40, 5,437 shares vested on April 1, 2009, at a share price of $38.32, and 8,104 restricted shares on June 30, 2009, at a share price of $40.24. Mr. Young exercised 22,500 options on October 23, 2009 at a share price of $65.00.

(7) Mr. Smith vested in 9,664 restricted shares in 2009, of which 1,761 shares vested on March 9, 2009, at a share price of $38.28, 2,674 shares vested on March 10, 2009 of which 360 shares vested at a share price of $38.29 and 2,314 shares vested at a share price of $38.40, 3,379 shares vested on June 15, 2009, at a share price of $39.84, and 1,850 shares vested on October 1, 2009, at a share price of $64.81.

(8) Mr. Lovell vested in 1,840 restricted shares in 2009, of which 396 shares vested on March 9, 2009, at a share price of $38.28, 561 shares vested on March 10, 2009, at a share price of $38.29, and 883 shares vested on August 29, 2009, at a share price of $50.25.

(9) Mr. Lovell vested in 806.55106 REVRs on November 15, 2009, at a REVR Value of $59.72.

Pension Benefits

The Company maintains the Odyssey America Reinsurance Corporation Employees Retirement Plan ("Retirement Plan"), which is a defined benefit pension plan intended to qualify under Section 401(a) and Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"). All benefits are funded solely through employer contributions. Employees of the Company are eligible to participate in the Retirement Plan when they have completed one year of service and attain age 21, and become 100% vested in their benefits under the Retirement Plan when they complete five years of service with the Company. The Retirement Plan provides a benefit upon retirement at normal retirement age of 65 which, when expressed as a single life annuity with ten

years certain payment, equals 1.9% of Average Final Compensation multiplied by the number of the participant's years of service up to a maximum of 30. Average Final Compensation is the participant's average monthly compensation (excluding overtime pay, commissions, bonuses or special pay) for the 60 highest consecutive calendar months in the last 120 months of participation in the Retirement Plan. A participant may elect to commence benefits under the Retirement Plan when such participant attains age 55 and completes ten years of participation in the Retirement Plan. For each year that benefits commence prior to a participant's attaining age 65, the age 65 benefit is reduced by 3%. Benefits under the Retirement Plan are normally payable in the form of a single life annuity with a ten year certain payment in the case of unmarried participants and in the form of an actuarially equivalent 50% joint and survivor annuity in the case of married participants. After retirement, benefits accrued prior to January 1, 2000 are increased in accordance with increases in the Consumer Price Index, but not by more than 4% in any calendar year. The Retirement Plan has no Social Security offset.

The Company also maintains the Odyssey America Reinsurance Corporation Supplemental Employees Retirement Plan ("SERP"), which provides benefits at retirement that would have been payable under the Retirement Plan but for limitations on benefits and includable compensation imposed by Sections 401(a)(17) and 415 of the Code. The SERP also provides employees who had been covered by a predecessor to the Retirement Plan with the benefits they would have accrued under such predecessor plan if such predecessor plan had remained in effect, but only to the extent that such benefits exceed those payable under the Retirement Plan. None of our named executive officers are covered by the predecessor plan. The SERP is not tax qualified under the Code, and is funded by means of a grantor trust, the assets of which would be available to creditors of the Company in the event of its insolvency.

The Company generally does not provide any extra years of credited service to employees at retirement or termination. No provisions for additional credited service under any termination of employment, voluntary or involuntary, apply to any named executive officer.

2009 Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)(1)(2)	Payments During Last Fiscal Year ($)
Andrew A. Barnard(3)	Retirement Plan	21.81	$ 555,794	—
	SERP	13.44	$ 1,221,232	
Richard S. Donovan	Retirement Plan	3.38	$ 97,318	—
	SERP	3.38	$ 91,993	
Michael G. Wacek	Retirement Plan	10.00	$ 262,707	—
	SERP	10.00	$ 356,282	
Brian D. Young	Retirement Plan	13.29	$ 189,018	—
	SERP	13.29	$ 305,853	
Donald L. Smith	Retirement Plan	14.49	$ 669,631	—
	SERP	14.49	$ 233,739	
Peter H. Lovell	Retirement Plan	6.58	$ 141,581	—
	SERP	6.58	$ 1,887	

(1) All assumptions used are from the Retirement Plan and SERP Accounting Disclosure Reports as of the December 31, 2009 fiscal year end. This includes a 6.00% discount rate. The Accumulated Benefit Obligation ("ABO") is based on the accrued benefit as of December 31, 2009, using updated accrual service and compensation as of that date. All participants shown are assumed to have earned one full year of accrual service. The ABO shown for the Retirement Plan recognizes a fixed $245,000 IRS compensation limit. The ABO for the SERP recognizes compensation without regard to any compensation limit.

(2) The present values shown in the 2009 Pension Benefits Table reflect the accumulated benefit each named executive officer would receive at retirement (age 65) based on service through December 31, 2009.

(3) Mr. Barnard has earned 21.81 years of service in the Retirement Plan. This includes his prior service from July 11, 1977 through November 21, 1985 and his current service period, which commenced on July 23, 1996. The accrued value of his accumulated benefit in the Retirement Plan is determined based on his total service, reduced by the distribution amount he received pertaining to his prior service. The accrued value of his accumulated benefit in the SERP is based on his current service period of 13.44 years.

Deferred Compensation

The Company maintains the Excess Plan, which is a non–qualified deferred compensation plan. The Excess Plan allows participants, including our named executive officers and all employees at the Vice President level and above, earning over $185,000 in base salary, to defer up to 50% of their base salary, less any deferral they make to the 401(k) Plan, up to the applicable IRS compensation limitation. The Excess Plan allows this same opportunity to those employees restricted from doing so by the IRS limitation in the 401(k) Plan.

The 401(k) Plan provides Company matching contributions of up to 4% of base salary, provided that the participant defers 5% of base salary. The Excess Plan allows our named executive officers, and other participants, who are restricted by IRS limitations from deferring 5% (and receiving the 4% of base salary Company matching contribution) in the 401(k) Plan, to receive the maximum 4% Company matching contribution.

Base salary is the only component of compensation that may be deferred in the Excess Plan. Participant deferral contributions and Company matching contributions are funded on each bi–weekly pay period. Participants select the investment direction of their deferrals and Company matching contributions from a selection of mutual funds that had the following rate of return on investment for 2009:

AIM FINANCIAL SERVICES FUND	27.34%
AIM LARGE CAP GROWTH FUND	25.85%
AIM SMALL CAP GROWTH FUND	35.16%
AIM TECHNOLOGY FUND	59.18%
ALLIANZ CCM MID CAP FUND	25.70%
AMERICAN BALANCED FUND	21.08%
AMERICAN EUROPACIFIC GROWTH FUND	39.55%
AMERICAN FUNDAMENTAL INVESTORS FUND	33.75%
AMERICAN GROWTH FUND OF AMERICA	34.91%
DODGE & COX STOCK FUND	31.27%
DREYFUS SMALL CAP VALUE FUND	16.35%
DWS EQUITY 500 INDEX FUND	26.44%
FIDELITY ADVISOR EQUITY GROWTH FUND	27.91%
FRANKLIN SMALL CAP GROWTH FUND	45.88%
JANUS OVERSEAS FUND*	28.57%
JANUS GROWTH & INCOME FUND	38.64%
JP MORGAN MARKET EXP INDEX	34.28%
LORD ABBETT MID CAP VALUE FUND	26.67%
FII TREASURY FUND	0.03%
NEUBERGER & BERMAN GENESIS FUND	26.25%
PIMCO TOTAL RETURN FUND	13.58%
TEMPLETON FOREIGN FUND	50.18%

* Funds effective as of July 6, 2009.

Investment gains or losses are directly attributable to participant elections and no limit is imposed on the frequency of change of investment direction.

No withdrawals of deferrals or Company matching contributions are permitted until a participant's retirement or separation from service. Payouts from the plan occur after retirement or separation from service, in three annual installments, in a manner intended to comply with Section 409A of the Code.

The Excess Plan is funded by means of a grantor trust, the assets of which would be available to creditors of the Company in the event of its insolvency.

2009 Nonqualified Deferred Compensation

Name	Executive Contributions in 2009 ($)(1)	Registrant Contributions in 2009 ($)(1)	Aggregate Earnings in 2009 ($)(2)	Aggregate Withdrawals/ Distributions	Aggregate Balance at December 31, 2009 ($)(3)
Andrew A. Barnard	$ 79,500	$ 30,200	$ 175,676	$ —	$ 1,567,428
Richard S. Donovan	$ 100,000	$ 10,200	$ 26,918	$ —	$ 283,291
Michael G. Wacek	$ 31,200	$ 14,200	$ 171,044	$ —	$ 794,065
Brian D. Young	$ 62,500	$ 15,200	$ 172,273	$ —	$ 601,593
Donald L. Smith	$ 8,000	$ 3,313	$ 20,774	$ —	$ 86,184
Peter H. Lovell	$ 3,000	$ —	$ 15	$ —	$ 48,109

(1) These amounts are reported as compensation for fiscal year 2009 in the Summary Compensation Table.

(2) None of the amounts reported in this column are required to be reported as compensation for fiscal year 2009 in the Summary

Compensation Table.

(3) The following aggregate amounts were previously reported in the Summary Compensation Table for 2006 through 2009: Mr. Barnard, $441,700; Mr. Donovan, $261,615; Mr. Wacek, $153,077; and Mr. Smith, $36,387.

Potential Payments Upon Termination or Change in Control

The following summaries set forth the potential payments and benefits that would be provided to each of our named executive officers upon termination of their employment or a change in control of the Company under the executive's employment agreement, if any, and our other compensation plans and programs. See "— Pension Benefits" and "— Deferred Compensation" for a description of the named executive officers' entitlements under our Pension Plans and the Excess Plan. In determining the benefits payable upon certain terminations of employment, we have assumed in all cases that (i) the executive's employment terminates on December 31, 2009, and (ii) he does not become employed by a new employer or return to work for us.

Mr. Barnard

In the event Mr. Barnard is terminated without cause, or he resigns following a constructive termination, or he resigns within one year following a change in control, he will be entitled to receive a lump sum payment in an amount equal to his base salary for the month in which his termination of employment occurs and an amount equal to $83,333 multiplied by the number of months otherwise remaining in the employment term. Mr. Barnard would also be entitled to receive any amounts he has accrued in the bonus pool, a pro–rated portion of the cash bonus from the bonus pool with respect to the year in which termination occurs, and full vesting of all restricted equity grants (including REVRs).

For purposes of Mr. Barnard's employment agreement, "constructive termination" means: (i) loss of position, or material alteration in Mr. Barnard's position and responsibilities; (ii) breach by the Company of any of its material obligations; (iii) any failure of a successor to the Company to assume Mr. Barnard's obligations under the terms of the contract; or (iv) relocation of his place of employment outside the New York Metropolitan area.

For purposes of Mr. Barnard's employment agreement, "change in control" means: (i) when Mr. Barnard or Fairfax, first determines that any person and all other persons who constitute a group have, at a time when no other person or group directly or indirectly beneficially owns securities carrying more than forty–five percent (45%) of the votes attached to all outstanding securities of the Company or Fairfax, acquired direct or indirect beneficial ownership of 20% of the outstanding securities of the Company or Fairfax, unless a majority of the continuing directors approves the acquisition not later than ten (10) business days after Mr. Barnard or Fairfax makes that determination; or (ii) the first day on which a majority of the members of the Company's or Fairfax's board of directors are not continuing directors; or (iii) the time that the controlling shareholder of the Company or Fairfax, as of the date we entered into the employment agreement with Mr. Barnard, no longer is the controlling shareholder, or (iv) the arm's length sale of a majority interest in the Company by Fairfax.

If Mr. Barnard dies, the Company shall pay to his estate his base salary for the period ending three months following the month in which he dies. Also, his estate would receive all amounts accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which his death occurs and the pro rated bonus payable with respect to the year in which his death occurs. In addition, Mr. Barnard would fully vest in all restricted equity grants (including REVRs).

In the event Mr. Barnard's employment terminates due to disability the Company would pay his base salary, less any benefits paid to him under our disability insurance policies, until his actual termination on account of disability. Mr. Barnard would also receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which termination due to disability occurs and the pro rated bonus payable with respect to the year in which termination due to disability occurs. In addition, Mr. Barnard would fully vest in all restricted equity grants (including REVRs).

In the event Mr. Barnard is terminated for cause, defined as (i) a willful failure by him in bad faith to substantially perform his duties with the Company resulting in material harm to the Company; or (ii) his conviction of a felony involving moral turpitude, he will be entitled to his base salary through his termination date and will forfeit all rights to any other payments and benefits.

Mr. Barnard may voluntarily terminate his employment by giving no less than two years written notice to the Company. He will be entitled to his base salary through the date of termination of employment and shall be paid, when the same would ordinarily be paid, all amounts accrued in the bonus pool, and a pro–rated portion of the cash bonus from the bonus pool with respect to the year in which termination occurs.

Summary of Potential Payments for Mr. Barnard upon Termination or Change in Control

The following represents the payments the Company would provide, assuming Mr. Barnard's employment had been terminated on December 31, 2009 under various circumstances set forth below.

	Severance	Pro Rata Bonus	REVRs*
Termination without cause; constructive termination; or change in control	$6,416,667	$1,250,000	$14,229,128
Death	$ 250,000	$1,250,000	$14,229,128
Disability	$ —	$1,250,000	$14,229,128
Termination for cause	$ —	$ —	$ —
Voluntary resignation	$ —	$1,250,000	$ —

* Amount represents the value as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51) of all outstanding REVRs that would vest under certain circumstances upon termination of employment.

Additional Provisions

Mr. Barnard's employment agreement provides that if any payments or benefits otherwise payable to him would be subject to the "golden parachute" excise tax under Section 4999 of the Code, such payments and benefits will be reduced to the extent necessary to avoid imposition of the excise tax, but only if Mr. Barnard would be placed in a better economic position after tax than he would be if the payments or benefits were not so reduced. We have assumed for this purpose that no such reduction would be required.

Mr. Donovan

In the event Mr. Donovan is terminated without cause, or he resigns following a constructive termination, he will be entitled to receive a lump sum payment based on his monthly base salary, at the rate in effect on the date of such termination, for the greater of twelve months following his termination of employment or the remainder of the employment term. Mr. Donovan will also be entitled to receive his living allowance through the date of termination (or, if longer, the end of the lease term for his temporary living quarters); provided, however, that he shall use reasonable efforts to sublease the premises or assign the lease agreement, and in such event the living allowance shall not be paid to the extent his obligations under the lease are relieved. Mr. Donovan will also be entitled to receive any amounts he has accrued in the bonus pool and the pro–rated portion of the cash bonus from the bonus pool with respect to the year in which termination occurs, and full vesting of all restricted equity grants (including REVRs).

Mr. Donovan's medical and dental coverage shall cease upon the termination date and the Company will pay on Mr. Donovan's behalf, for the entire COBRA continuation period, the full premium less the amount of premium charged by the Company to employees electing family medical and dental coverage, which Mr. Donovan shall be required to pay. In the event Mr. Donovan is terminated upon a change in control, defined as the termination of his employment by the Company or the successor company (otherwise than for Cause) or by him in a constructive termination, in either case within one year following a change in control, he shall be entitled to receive the same payments and benefits described under termination without cause, listed above, except the minimum severance payment relating to base salary shall be not less than two years' salary.

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For purposes of Mr. Donovan's employment agreement, "constructive termination" means (i) the loss of Mr. Donovan's position or a material alteration in Mr. Donovan's position or responsibility; or (ii) a breach by the Company of any of its material obligations set forth in the employment agreement; or (iii) any failure by a successor to the Company to assume the Company's obligations under the employment agreement, or if the Company sells all or substantially all of its assets, or as a result of a sale by Fairfax of all of the Company or a controlling interest in the company, and in either case the failure of the purchaser to assume the Company's obligations under the employment agreement; or (iv) relocation of his place of employment outside the New York Metropolitan area. Mr. Donovan must give written notice to the Company if he intends to terminate his employment on the basis of constructive termination.

For purposes of Mr. Donovan's employment agreement, "change in control" means (i) the time that the Company or Fairfax first determines that any person and all other persons who constitute a group have, at a time when no other person or group directly or indirectly beneficially owns securities of the Company or Fairfax, acquired direct or indirect beneficial ownership of outstanding securities of the Company or Fairfax carrying more than twenty percent (20%) of the votes attached to all outstanding securities carrying more than forty–five percent (45%) of the votes attached to all outstanding securities of the Company or Fairfax, unless a majority of continuing directors approves the acquisition no later than ten business days after the Company or Fairfax makes that determination; or (ii) the first day on which a majority of the members of the Company's or Fairfax's board of directors are not continuing directors; or (iii) the time that the controlling shareholder of either the Company or Fairfax, as of the date we entered into the employment agreement with Mr. Donovan, no longer is the controlling shareholder; or (iv) the arm's length sale of a majority interest in the Company by Fairfax; or (v) a sale of substantially all of the assets of the Company or Fairfax.

In the event of Mr. Donovan's death, the Company shall pay to his estate his base salary and living allowance, if applicable, for the period ending one year following the month in which he dies. Mr. Donovan's estate would also receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which the death occurs and the pro rated bonus payable with respect to the year in which his death occurs. In addition, Mr. Donovan will fully vest in all restricted equity grants (including REVRs).

In the event Mr. Donovan's employment terminates due to disability, the Company would pay his base salary (for not less than one year), less any benefits paid to him under our disability insurance policies, plus payment of his living allowance, until his actual termination on account of disability. Mr. Donovan would also receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which termination due to disability occurs and the pro rated bonus payable with respect to the year in which termination due to disability occurs. Mr. Donovan would fully vest in all restricted equity grants (including REVRs).

In the event Mr. Donovan is terminated for cause, (i) defined as a willful failure by him in bad faith to substantially perform his duties with the Company resulting in material harm to the Company; or (ii) his conviction of a felony involving moral turpitude, he will be entitled to his base salary and living allowance through the date of termination of employment and he shall forfeit all rights to payments from the bonus pool.

Mr. Donovan may terminate his employment voluntarily by giving no less than sixty (60) days written notice to the Company. Upon such event, he would be entitled to his base salary and living allowance through the date of termination of employment and shall be paid, when the same would ordinarily be paid, all amounts accrued in the bonus pool with respect to years preceding the year in which the voluntary termination occurs and the prorated bonus payable with respect to the year in which termination occurs.

If Mr. Donovan's employment terminates as a result of the Company's electing not to renew the term of employment, the Company will continue to pay Mr. Donovan his base salary for 12 months. Mr. Donovan's medical and dental coverage shall cease upon the termination date and the Company will pay on Mr. Donovan's behalf, for the entire COBRA continuation period, the full premium less the amount of premium charged by the Company to employees electing family medical and dental coverage, which Mr. Donovan shall be required to pay. Mr. Donovan would receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which the death occurs and the pro rated bonus payable with respect to the year in which his termination occurs. In addition, Mr. Donovan will fully vest in all restricted equity grants

(including REVRs). Mr. Donovan will not receive payments under this paragraph if he is entitled to receive payments under the provisions above relating to termination without cause or constructive termination.

Summary of Potential Payments for Mr. Donovan upon Termination or Change in Control

The following represents the payments the Company would provide, assuming Mr. Donovan's employment had been terminated on December 31, 2009 under various circumstances set forth below:

	Severance	Pro rata Bonus	REVRs*	Living Allowance	Medical
Termination without cause or constructive termination (other than change in control)	$1,575,000	$ —	$2,965,284	$ 79,022	$ 25,978
Termination without cause or constructive termination (after change in control)	$1,575,000	$ —	$2,965,284	$ 79,022	$ 25,978
Death or disability	$ 600,000	$ —	$2,965,284	$ 79,022	$ —
Termination for cause	$ —	$ —	$ —	$ —	$ —
Voluntary resignation	$ —	$ —	$ —	$ —	$ —

* Amount represents the value as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51) of all outstanding REVRs that would vest under certain circumstances upon termination of employment.

Additional Provisions

Mr. Donovan's employment agreement provides that if any payments or benefits otherwise payable to him would be subject to the "golden parachute" excise tax under Section 4999 of the Code, such payments and benefits will be reduced to the extent necessary to avoid imposition of the excise tax, but only if Mr. Donovan would be placed in a better economic position after tax than he would be if the payments or benefits were not so reduced.

Mr. Wacek

In the event Mr. Wacek is terminated without cause, or he resigns following a constructive termination, he will be entitled to receive a lump sum payment based on his monthly base salary, at the rate in effect on the date of such termination, for the greater of twelve months following his termination of employment or the remainder of the employment term. Mr. Wacek will also be entitled to receive any amounts he has accrued in the bonus pool, the pro–rated portion of the cash bonus from the bonus pool with respect to the year in which termination occurs, and full vesting of all restricted equity grants (including REVRs).

Mr. Wacek's medical and dental coverage shall cease upon the termination date and the Company will pay on Mr. Wacek's behalf, for the entire COBRA continuation period, the full premium less the amount of premium charged by the Company to employees electing family medical and dental coverage, which Mr. Wacek shall be required to pay. In the event Mr. Wacek is terminated upon a change in control, defined as the termination of his employment by the Company or the successor company (other than for Cause) or by him in a constructive termination, in either case within one year following a change in control, he shall be entitled to receive the same payments and benefits described under termination without cause, listed above, except the minimum severance payment relating to base salary shall be not less than two years' salary.

For purposes of Mr. Wacek's employment agreement, "constructive termination" means (i) the loss of Mr. Wacek's position or a material alteration in Mr. Wacek's position or responsibility; or (ii) a breach by the Company of any of its material obligations set forth in the employment agreement; or (iii) any failure by a successor to the Company to assume the Company's obligations under the employment agreement, or if the Company sells all or substantially all of its assets, or as a result of a sale by Fairfax of all of the Company or a controlling interest in the company, and in either case the failure of the purchaser to assume the Company's obligations under the employment agreement; or (iv) relocation of his place of employment to a location that is

not within a radius of thirty miles by major thoroughfare from Mr. Wacek's current place of employment in Stamford, Connecticut. Mr. Wacek must give written notice to the Company if he intends to terminate his employment on the basis of constructive termination.

For purposes of Mr. Wacek's employment agreement, "change in control" means (i) the time that the Company or Fairfax first determines that any person and all other persons who constitute a group have, at a time when no other person or group directly or indirectly beneficially owns securities of the Company or Fairfax, acquired direct or indirect beneficial ownership of outstanding securities of the Company or Fairfax carrying more than twenty percent (20%) of the votes attached to all outstanding securities carrying more than forty−five percent (45%) of the votes attached to all outstanding securities of the Company or Fairfax, unless a majority of continuing directors approves the acquisition no later than ten business days after the Company or Fairfax makes that determination; or (ii) the first day on which a majority of the members of the Company's or Fairfax's board of directors are not continuing directors; or (iii) the time that the controlling shareholder of either the Company or Fairfax, as of the date we entered into the employment agreement with Mr. Wacek, no longer is the controlling shareholder; or (iv) the arm's length sale of a majority interest in the Company by Fairfax; or (v) a sale of substantially all of the assets of the Company or Fairfax.

In the event of Mr. Wacek's death or disability, the Company shall pay to his estate his base salary for the period ending one year following the month in which he dies. Mr. Wacek's estate would also receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which the death occurs and the pro rated bonus payable with respect to the year in which his death occurs. In addition, Mr. Wacek would fully vest in his restricted equity grants (including REVRs).

In the event Mr. Wacek is terminated for cause, (i) defined as a willful failure by him in bad faith to substantially perform his duties with the Company resulting in material harm to the Company; or (ii) his conviction of a felony involving moral turpitude, he will be entitled to his base salary through the date of termination of employment and he shall forfeit all rights to payments from the bonus pool.

Mr. Wacek may terminate his employment voluntarily by giving no less than sixty (60) days written notice to the Company. Upon such event, he would be entitled to his base salary through the date of termination of employment and shall be paid, when the same would ordinarily be paid, all amounts accrued in the bonus pool with respect to years preceding the year in which the voluntary termination occurs and the prorated bonus payable with respect to the year in which termination occurs.

If Mr. Wacek's employment terminates as a result of the Company's electing not to renew the term of employment, the Company will continue to pay Mr. Wacek his base salary for 12 months. Mr. Wacek's medical and dental coverage shall cease upon the termination date and the Company will pay on Mr. Wacek's behalf, for the entire COBRA continuation period, the full premium less the amount of premium charged by the Company to employees electing family medical and dental coverage, which Mr. Wacek shall be required to pay. Mr. Wacek would receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which the death occurs and the pro rated bonus payable with respect to the year in which his termination occurs. In addition, Mr. Wacek will fully vest in all restricted equity grants (including REVRs). Mr. Wacek will not receive payments under this paragraph if he is entitled to receive payments under the provisions above relating to termination without cause or constructive termination.

Summary of Potential Payments for Mr. Wacek upon Termination or Change in Control

The following represents the payments the Company would provide, assuming Mr. Wacek's employment had been terminated on December 31, 2009 under various circumstances set forth below:

	Severance	Pro Rata Bonus	REVRs*	Medical
Termination without cause or constructive termination (other than change in control)	$ 750,000	$ 400,000	$ 3,910,334	$ 25,978
Termination without cause or constructive termination (after change in control)	$ 1,200,000	$ 400,000	$ 3,910,334	$ 25,978
Death or disability	$ 600,000	$ 400,000	$ 3,910,334	$ —
Termination for cause	$ —	$ —	$ —	$ —
Voluntary resignation	$ —	$ 400,000	$ —	$ —

* Amount represents the value as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51) of all outstanding Restricted Equity Value Rights that would vest under certain circumstances upon termination of employment.

Additional Provisions

Mr. Wacek's employment agreement provides that if any payments or benefits otherwise payable to him would be subject to the "golden parachute" excise tax under Section 4999 of the Code, such payments and benefits will be reduced to the extent necessary to avoid imposition of the excise tax, but only if Mr. Wacek would be placed in a better economic position after tax than he would be if the payments or benefits were not so reduced; provided however that if the total payments and benefits exceed 110% of the maximum amount that could be received by Mr. Wacek without triggering the excise tax, then no payments or benefits will be reduced, and, if any excise tax would otherwise be payable in the absence of such reduction in payments or benefits, the Company will be obligated to pay Mr. Wacek an additional gross–up payment to place Mr. Wacek in the same after–tax economic position he would have been had no excise tax been imposed. Assuming Mr. Wacek's employment was terminated by the Company without cause on December 31, 2009 in connection with a change in control, no excise tax gross–up would have been required.

Mr. Young

In the event Mr. Young is terminated without cause, or he resigns following a constructive termination, he will be entitled to receive a lump sum payment based on his monthly base salary, at the rate in effect on the date of such termination, for the greater of twelve months following his termination of employment or the remainder of the employment term. Mr. Young will also be entitled to receive any amounts he has accrued in the bonus pool, and the pro–rated portion of the cash bonus from the bonus pool with respect to the year in which termination occurs, and full vesting of all restricted equity grants (including REVRs).

Mr. Young's medical and dental coverage shall cease upon the termination date and the Company will pay on Mr. Young's behalf, for the entire COBRA continuation period, the full premium less the amount of premium charged by the Company to employees electing family medical and dental coverage, which Mr. Young shall be required to pay. In the event Mr. Young is terminated upon a change in control, defined as the termination of his employment by the Company or the successor company (otherwise than for Cause) or by him in a constructive termination, in either case within one year following a change in control, he shall be entitled to receive the same payments and benefits described under termination without cause, listed above, except the minimum severance payment relating to base salary shall be not less than two years' salary.

For purposes of Mr. Young's employment agreement, "constructive termination" means (i) the loss of Mr. Young's position or a material alteration in Mr. Young's position or responsibility; or (ii) a breach by the Company of any of its material obligations set forth in the employment agreement; or (iii) any failure by a successor to the Company to assume the Company's obligations under the employment agreement, or if the

Company sells all or substantially all of it assets, or as a result of a sale by Fairfax of all of the Company or a controlling interest in the company, and in either case the failure of the purchaser to assume the Company's obligations under the employment agreement; or (iv) relocation of his place of employment outside the New York Metropolitan area. Mr. Young must give written notice to the Company if he intends to terminate his employment on the basis of constructive termination.

For purposes of Mr. Young's employment agreement, "change in control" means (i) the time that the Company or Fairfax first determines that any person and all other persons who constitute a group have, at a time when no other person or group directly or indirectly beneficially owns securities of the Company or Fairfax, acquired direct or indirect beneficial ownership of outstanding securities of the Company or Fairfax carrying more than twenty percent (20%) of the votes attached to all outstanding securities carrying more than forty–five percent (45%) of the votes attached to all outstanding securities of the Company or Fairfax, unless a majority of continuing directors approves the acquisition no later than ten business days after the Company or Fairfax makes that determination; or (ii) the first day on which a majority of the members of the Company's or Fairfax's board of directors are not continuing directors; or (iii) the time that the controlling shareholder of either the Company or Fairfax, as of the date we entered into the employment agreement with Mr. Young, no longer is the controlling shareholder; or (iv) the arm's length sale of a majority interest in the Company by Fairfax; or (v) a sale of substantially all of the assets of the Company or Fairfax.

In the event of Mr. Young's death, the Company shall pay to his estate his base salary for the period ending one year following the month in which he dies. Mr. Young's estate would also receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which the death occurs and the pro rated bonus payable with respect to the year in which his death occurs. In addition, Mr. Young would fully vest in all restricted equity grants (including REVRs).

In the event Mr. Young's employment terminates due to disability, the Company would pay his base salary (for not less than one year), less any benefits paid to him under our disability insurance policies, until his actual termination on account of disability. Mr. Young would also receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which termination due to disability occurs and the pro rated bonus payable with respect to the year in which termination due to disability occurs. Mr. Young would fully vest in all restricted equity grants (including REVRs).

In the event Mr. Young is terminated for cause, (i) defined as a willful failure by him in bad faith to substantially perform his duties with the Company resulting in material harm to the Company; or (ii) his conviction of a felony involving moral turpitude, he will be entitled to his base salary and living allowance through the date of termination of employment and he shall forfeit all rights to payments from the bonus pool.

If Mr. Young's employment terminates as a result of the Company's electing not to renew the term of employment, the Company will continue to pay Mr. Young his base salary for 12 months. Mr. Young's medical and dental coverage shall cease upon the termination date and the Company will pay on Mr. Young's behalf, for the entire COBRA continuation period, the full premium less the amount of premium charged by the Company to employees electing family medical and dental coverage, which Mr. Young shall be required to pay. Mr. Young would receive all amounts he accrued in the bonus pool, paid out when normally paid, with respect to years preceding the year in which the death occurs and the pro rated bonus payable with respect to the year in which his termination occurs. In addition, Mr. Young will fully vest in all restricted equity grants (including REVRs). Mr. Young will not receive payments under this paragraph if he is entitled to receive payments under the provisions above relating to termination without cause or constructive termination.

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Summary of Potential Payments for Mr. Young upon Termination or Change in Control

The following represents the payments the Company would provide, assuming Mr. Young's employment had been terminated on December 31, 2009 under various circumstances set forth below

	Severance	Pro Rata Bonus	REVRs*	Medical
Termination without cause or constructive termination (other than change in control)	$3,250,000	$675,000	$11,860,016	$25,978
Termination without cause or constructive termination (after change in control)	$3,250,000	$675,000	$11,860,016	$25,978
Death or disability	$ 750,000	$675,000	$11,860,016	$ —
Termination for cause	$ —	$ —	$ —	$ —

* Amount represents the value as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51) of all outstanding Restricted Equity Value Rights that would vest under certain circumstances upon termination of employment.

Additional Provisions

Mr. Young's employment agreement provides that if any payments or benefits otherwise payable to him would be subject to the "golden parachute" excise tax under Section 4999 of the Code, such payments and benefits will be reduced to the extent necessary to avoid imposition of the excise tax, but only if Mr. Young would be placed in a better economic position after tax than he would be if the payments or benefits were not so reduced; provided however that if the total payments and benefits exceed 110% of the maximum amount that could be received by Mr. Young without triggering the excise tax, then no payments or benefits will be reduced, and, if any excise tax would otherwise be payable in the absence of such reduction in payments or benefits, the Company will be obligated to pay Mr. Young an additional gross–up payment to place Mr. Young in the same after–tax economic position he would have been had no excise tax been imposed. Assuming Mr. Young's employment was terminated by the Company without cause on December 31, 2009 in connection with a change in control, Mr. Young would have been entitled to an excise tax gross–up payment in an approximate amount of $3,575,000.

Mr. Smith and Mr. Lovell

Neither Mr. Smith, our former Senior Vice President, General Counsel and Corporate Secretary, nor Mr. Lovell, has an employment agreement with us. Each would each receive only his base salary through his termination date if terminated for cause. In the event of termination without cause, a constructive termination or termination due to change in control, Mr. Smith and Mr. Lovell would be provided with severance payments, based on their years of service with the Company. In keeping with our general practice of providing three weeks of severance for each year of service, up to a maximum of 52 weeks, Mr. Smith would have received 42 weeks of severance pay and Mr. Lovell would have received 18 weeks of severance pay if a termination without cause, a constructive termination or termination due to change in control had occurred on December 31, 2009. The Company would provide payment, during the severance period, of the full premium for COBRA continuation, less the amount of premium charged by the Company for their elected medical and dental coverage, which they would be required to pay. As a Senior Vice President of a wholly–owned subsidiary of the Company, Mr. Smith will continue to be eligible for such termination benefits if his employment with the subsidiary is terminated due to a termination without cause, a constructive termination or termination due to a change in control.

Summary of Potential Payments for Mr. Smith and Mr. Lovell upon Termination or Change in Control

The following represents the payments the Company would provide, assuming Mr. Smith's or Mr. Lovell's employment had been terminated on December 31, 2009 under the various circumstances set forth below.

	Severance	Medical	REVRs*
Termination without cause, constructive termination or change in control:			
Mr. Smith	$272,719	$13,988	$ —
Mr. Lovell	$112,500	$ 5,995	$ —
Death or disability:			
Mr. Smith	$ —	$ —	$1,227,263
Mr. Lovell	$ —	$ —	$ 494,363

* Amount represents the value as of the end of the 2009 fiscal year, based on the REVR Value at December 31, 2009 ($59.51) of all outstanding Restricted Equity Value Rights that would vest under certain conditions upon termination of employment.

Director Compensation

The Company uses a combination of cash and equity incentive compensation to attract and retain qualified candidates to serve on the Board. The Board of Directors approved changes to the director compensation program, effective on October 1, 2006. The initial compensation program, begun in 2001 at the time of our initial public offering, provided independent directors with an annual retainer of $25,000, paid quarterly, a $750 fee for each board meeting attended, and reimbursement for reasonable expenses associated with attendance at meetings. In addition, independent directors who were members of the Audit or Compensation Committee received a fee of $750 for each committee meeting attended if held separately from a board meeting. Upon election to the Board, a one–time grant of options to purchase 5,000 shares of our common stock was provided, with a grant price equal to the closing price of a share of our common stock on the date of grant. Options vested in equal installments on each of the four anniversaries following the date of the grant.

The program, commencing on October 1, 2006, provided independent directors with an annual retainer of $60,000, paid on a quarterly basis, and reimbursement for reasonable expenses associated with attendance at meetings. No additional fees were paid for attendance at board meetings. In addition, independent directors were entitled to an annual award of $25,000 of restricted stock, pursuant to the Odyssey Re Holdings Corp. Restricted Share Plan, or, in the case of non–US directors, $25,000 of stock options with a grant price of zero, pursuant to the Odyssey Re Holdings Corp. Stock Option Plan, with each award vesting in equal installments on each of the first three anniversaries following the date of grant, subject to continued service through each vesting date. The Audit Committee's Chairman received an annual fee of $10,000, paid on a quarterly basis. No additional compensation was paid to other committee members, nor was a fee paid for the attendance at committee meetings, but members were reimbursed for reasonable expenses associated with attendance at those meetings. The Compensation Committee's Chairman and the Transaction Review Committee's Chairman, if any, received no additional compensation, nor was a fee paid for attendance at committee meetings, but members were reimbursed for reasonable expenses associated with attendance at those meetings. Mr. Dowd, as Vice Chairman of the Board, received an annual award of $25,000 of restricted stock under the same terms as independent directors.

Upon Fairfax acquiring all of the outstanding shares of our common stock, the Board adopted a new program that provides for an annual retainer of $30,000, paid on a quarterly basis, and reimbursement for reasonable expenses associated with attendance at meetings. The Audit Committee's Chairman receives a fee of $10,000 paid on a quarterly basis.

2009 Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	All Other Compensation ($)(3)	Total
V. Prem Watsa(2)	$ —	$ —	$ —	$ —	$ —
James F. Dowd(3)	$ —	$ —	$ —	$ 285	$ 285
Andrew A. Barnard(2)	$ —	$ —	$ —	$ —	$ —
Peter M. Bennett(4)	$ 135,000	$ —	$ —	$ 56	$135,056
Anthony F. Griffiths(5)	$ 60,000	$ —	$ —	$ 56	$ 60,056
Patrick W. Kenny(6)	$ 150,000	$ —	$ —	$ 324	$150,324
Brandon W. Sweitzer(7)	$ 70,000	$ —	$ —	$ 285	$ 70,285
Paul M. Wolff(8)	$ 33,616	$ —	$ —	$ 95	$ 33,711
Alan D. Horn	$ 15,164	$ —	$ —	$ —	$ 15,164
Robert J. Solomon(9)	$ 101,384	$ —	$ —	$ —	$101,384

(1) Dividends were paid on shares of restricted stock when dividends were paid on all other shares of our common stock, prior to the delisting of our common stock. In 2009 the declared annual dividend was $0.30 per share, paid on March 31, 2009, June 30 2009, and September 30, 2009.

(2) Mr. Watsa and Mr. Barnard are each an employee of the Company, or of an affiliate of the Company, and therefore receive no director compensation.

(3) As Vice Chairman of the Board, Mr. Dowd held 518.49710 REVRs that will vest on September 30, 2010, and 237.95761 REVRs that will vest on September 30, 2011 assuming continued service through such date.

(4) Mr. Bennett resigned from the Board on October 29, 2009. As a member of the Special Committee of the Board, established in response to Fairfax's tender offer, Mr. Bennett received a $75,000 fee.

(5) Mr. Griffiths held 518.49710 REVRs that will vest on September 30, 2010, and 237.95761 REVRs that will vest on September 30, 2011 assuming continued service through such date.

(6) Mr. Kenny resigned from the Board on December 31, 2009. As a member of the Special Committee of the Board, established in response to Fairfax's tender offer, Mr. Kenny received a $90,000 fee.

(7) Mr. Sweitzer held 518.49710 REVRs that will vest on September 30, 2010, and 237.95761 REVRs that will vest on September 30, 2011 assuming continued service through such date.

(8) Mr. Wolff did not stand for election at the April 22, 2009 Annual Meeting.

(9) Mr. Solomon resigned from the Board on October 29, 2009. As a member of the Special Committee of the Board, established in response to Fairfax's tender offer, Mr. Solomon received a $75,000 fee.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters*

Common Share Ownership by Directors and Executive Officers and Principal Stockholders

All of Odyssey Re Holdings Corp.'s issued and outstanding common stock is held by Fairfax Financial Holdings Limited and its subsidiaries as set forth in the table below. Fairfax Financial Holdings Limited's principal address is 95 Wellington Street West, Suite 800, Toronto, Canada. None of our directors, other than V. Prem Watsa, and none of our officers, beneficially own any of our common shares.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission that deem shares to be beneficially owned by any person or group who has or shares voting or investment power with respect to such shares. Unless otherwise indicated, the persons named in this table have sole voting and investment control with respect to all shares beneficially owned.

Name	Shares Beneficially Owned	
	Shares	Percent
TIG Insurance Group, Inc.(1)	24,994,816	44.16%
TIG Insurance Company(1)	4,716,841	8.33%
ORH Holdings Inc.(1)	6,166,667	10.89%
United States Fire Insurance Company(1)	4,955,009	8.75%
Fairfax Inc.(1)	15,771,317	27.87%
Total	56,604,650	100.00%

(1) V. Prem Watsa, Chairman of our board of directors, controls The Sixty Two Investment Company Limited ("Sixty Two"), which owns subordinate and multiple voting shares representing 44.7% of the total votes attached to all classes of shares of Fairfax. Mr. Watsa himself beneficially owns and controls additional subordinate voting shares which, together with the shares owned by Sixty Two, represent 45.5% of the total votes attached to all classes of Fairfax's shares. TIG Insurance Group, Inc., TIG Insurance Company, ORH Holdings Inc., United States Fire and Fairfax Inc. are wholly owned subsidiaries of Fairfax. The principal office address of ORH Holdings Inc. and Fairfax Inc. is 300 First Stamford Place, Stamford, CT 06902. The principal office address of TIG Insurance Group, Inc. and TIG Insurance Company is 250 Commercial Street, Suite 5000 Manchester, NH 03101. The principal office address of United States Fire Insurance Company is 305 Madison Avenue, Morristown, NJ 07962.

Item 13. *Certain Relationships and Related Transactions, and Director Independence*

Fairfax Financial Holdings Limited ("Fairfax") beneficially owns 100% of our common stock. We are a "controlled company" within the rules of the NYSE. Three of six current directors are independent, as independence is defined in the listing standards of the NYSE.

Our board of directors does not have a process for interested parties to send communications to the entire board of directors; however, interested parties may communicate with our non–management directors by calling our hotline and selecting the first option. Corporate Governance hotline: (800) 318–4670 (United States), or (678) 999–4580 (International).

From time to time, the Company has engaged in certain transactions, and is party to certain arrangements, with Fairfax and some of its affiliates.

Fairfax Offer and Merger

On September 18, 2009, Fairfax and OdysseyRe announced that they had entered into an agreement and plan of merger (the "Merger Agreement") pursuant to which Fairfax would promptly commence a tender offer to acquire all of the outstanding shares of common stock of OdysseyRe that Fairfax and its subsidiaries did not currently own, for $65.00 in cash per share, representing total cash consideration of approximately $1.1 billion. Pursuant to the Merger Agreement, on September 23, 2009, Fairfax commenced a tender offer for all of the outstanding shares of common stock of OdysseyRe (the "Offer") other than shares owned by Fairfax and its subsidiaries for $65.00 in cash per share. The Board of Directors of OdysseyRe, following the unanimous recommendation of a special committee comprised solely of independent directors which had been formed to review and consider any Fairfax proposal, recommended that OdysseyRe's minority stockholders tender their shares to the Fairfax offer and vote or consent to approve and adopt the Merger Agreement if it were to be submitted for their approval and adoption.

Pursuant to the Offer, which expired on October 21, 2009 at 12:00 midnight, New York City time, Fairfax acquired a total of approximately 14.3 million shares of common stock of OdysseyRe (the "Tendered Shares"). The Tendered Shares, combined with the shares previously owned by Fairfax and its subsidiaries, represented approximately 97.1% of the 58,451,922 shares of common stock of OdysseyRe outstanding. Following the purchase of the Tendered Shares, Fairfax caused a short–form merger pursuant to which Fairfax Investments USA Corp., a newly–formed, wholly–owned subsidiary of Fairfax, merged with and into OdysseyRe (the "Merger").

The Merger was effected on October 28, 2009 pursuant to Section 253 of the General Corporation Law of the State of Delaware (the "DGCL") by the execution and filing of a Certificate of Ownership and Merger with the Secretary of State of the State of Delaware. As a result of the Merger, all of the remaining shares of OdysseyRe's common stock held by the remaining minority shareholders of OdysseyRe (the "Remaining

Shares") were cancelled and, subject to appraisal rights under Delaware law, converted into the right to receive $65.00 per share in cash, without interest, and subject to any applicable withholding of taxes. As a result of the Merger, Fairfax and its subsidiaries became the owner of 100% of the outstanding shares of the Company's common stock. The Company subsequently withdrew its shares of common stock from listing on the New York Stock Exchange and terminated registration of these shares under the Securities Exchange Act of 1934.

Guarantee of CTR

As of July 14, 2000, Odyssey America agreed to guarantee the performance of all the insurance and reinsurance contract obligations, whether incurred before or after the agreement, of Compagnie Transcontinentale de Réassurance ("CTR"), a subsidiary of Fairfax, in the event CTR became insolvent and CTR was not otherwise indemnified under its guarantee agreement with a Fairfax affiliate. The guarantee, which was entered into while Odyssey America and CTR were each 100% owned by Fairfax, was provided by Odyssey America to facilitate the transfer of renewal rights to CTR's business, together with certain CTR employees, to Odyssey America in 2000 in order to further expand the Company's international reinsurance business. The guarantee was terminated effective December 31, 2001. There were no amounts received from CTR under the guarantee, and the Company did not provide any direct consideration for the renewal rights to the business of CTR. CTR was dissolved and its assets and liabilities were assumed by subsidiaries of Fairfax that have the responsibility for the run−off of its liabilities. Although CTR's liabilities were assumed by Fairfax subsidiaries, the guarantee only pertains to those liabilities attaching to the policies written by CTR. Fairfax has agreed to indemnify Odyssey America for all its obligations incurred under its guarantee. The Company's potential exposure in connection with this agreement stems from CTR's remaining gross reserves, which are estimated to be $113.5 million as of December 31, 2009. 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.

Guarantee of Falcon

Odyssey America agreed, as of April 1, 2002, to guarantee the payment of all of the insurance contract obligations (the "Subject Contracts"), whether incurred before or after the agreement, of Falcon Insurance Company (Hong Kong) Limited ("Falcon"), a subsidiary of Fairfax Asia Limited ("Fairfax Asia"), in the event Falcon becomes insolvent. Fairfax Asia is 100% owned by Fairfax, which includes a 26.2% economic interest owned by the Company. The guarantee by Odyssey America was made to assist Falcon in writing business through access to Odyssey America's financial strength ratings and capital resources. Odyssey America is paid a fee for this guarantee of one percent of all gross premiums earned associated with the Subject Contracts on a quarterly basis. For the each of the years ended December 31, 2009 and 2008, Falcon paid $0.3 million to Odyssey America in connection with this guarantee. For the year ended December 31, 2007, Falcon paid $0.5 million to Odyssey America in connection with this guarantee. Odyssey America's potential exposure in connection with this agreement is estimated to be $52.9 million, based on Falcon's loss reserves at December 31, 2009. Falcon's shareholders' equity on a U.S. GAAP basis is estimated to be $58.4 million as of December 31, 2009. Fairfax has agreed to indemnify Odyssey America for any obligation under this guarantee. The Company believes that the financial resources of Falcon provide adequate protection to support its liabilities in the ordinary course of business. The Company anticipates that Falcon will meet all of its obligations in the normal course of business and does not expect to make any payments under this guarantee. The Company does not consider its exposure under this guarantee to be material to its consolidated financial position.

Investment Agreements

The Company's subsidiaries have entered into investment management agreements with Fairfax and its wholly−owned subsidiary, Hamblin Watsa Investment Counsel Ltd. These agreements provide for an annual base fee of 0.20% (20 basis points), calculated and paid quarterly based upon the subsidiary's average invested assets for the preceding three months. The agreements also include incentive fees of 0.10% (10 basis points), which are payable if realized gains exceed 1% of the average investment portfolio in any given year, subject to cumulative realized gains on investments exceeding 1% of the average investment portfolio. Additional incentive fees are paid based upon the performance of the subsidiary's equity portfolio equal to 10% of the return on equities

(subject to an annual maximum) in excess of the Standard & Poor’s 500 index plus 200 basis points, provided that the equity portfolio has achieved such excess on a cumulative basis. If the performance of the equity portfolio does not equal or exceed this benchmark in a given year, the annual base fee, on the equity portion of the portfolio, is reduced to 0.18% (18 basis points). The aggregate annual investment management fee payable by each subsidiary, including incentive fees, is capped at 0.40% (40 basis points) of its investment portfolio, with any excess amounts carried into the following year. These agreements may be terminated by either party on 30 days’ notice. For the years ended December 31, 2009, 2008 and 2007, total fees, including incentive fees, of $28.8 million, $21.4 million and $17.3 million, respectively, are included in the consolidated statements of operations.

Fairfax Insurance Coverage

Fairfax purchases and maintains directors’ and officers’ liability insurance for the directors and officers of Fairfax and its subsidiaries, including us. This insurance forms part of a blended insurance program that provides a combined aggregate limit of liability of $175.0 million.

Tax Sharing Arrangements

The Merger had no effect on the Company’s tax position. For 2007 and 2008, the Company has filed a separate consolidated tax return. The Company is a member of the United States tax group of Fairfax and made payments to Fairfax in accordance with its tax sharing agreements. The Company paid federal and foreign income taxes of $355.9 million, $348.4 million and $224.6 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009, the Company had a current tax payable of $31.5 million, which reflects $21.1 million payable to Fairfax and a net payable of $10.4 million to the U.S. federal government and various foreign governments. As of December 31, 2008, the Company had a current tax payable of $238.1 million, which reflects $9.3 million payable to Fairfax and a net payable of $228.8 million to the U.S. federal government and various foreign governments. The federal income tax provision is allocated to each of the Company’s subsidiaries in the consolidated group pursuant to a written agreement, on the basis of each subsidiary’s separate taxable income.

Tax Services Arrangements

Each of Odyssey America, Clearwater, Clearwater Select, Hudson, Hudson Specialty and OdysseyRe have entered into tax services agreements with Fairfax Inc. Under the agreements, we obtain tax consulting and compliance services from Fairfax. The fees under the agreements are payable quarterly and include a variable fee component that includes third party outside fees incurred on behalf of us. Upon mutual agreement by both parties, the quarterly base fee may be adjusted for changes in services provided or costs incurred. The aggregate fees paid in 2009 were $0.9 million. The agreements are automatically renewed each January 1st for successive one year terms unless terminated earlier as provided for under the agreements. The agreements may be terminated without cause by either party giving the other party 90 days’ written notice. The fees payable under the agreements are approximately equivalent to Fairfax’s cost in providing these services.

Other Related Party Transactions

The OdysseyRe Foundation, a not–for–profit entity through which the Company provides funding to charitable organizations active in the communities in which the Company operates, was formed in February 2007. Prior to the formation of the OdysseyRe Foundation, the Company provided funding to charitable organizations through the Sixty–Four Foundation, a not–for–profit affiliate of Fairfax and the Company. Included in other expense, net for the years ended December 31, 2009, 2008 and 2007, are incurred charitable contributions of $5.0 million, $3.7 million and $2.5 million, respectively, related to these entities.

Due to expense sharing and investment management fee agreements with Fairfax and its affiliates, the Company has accrued, on its consolidated balance sheets, amounts receivable from affiliates of $0.3 million and $1.0 million as of December 31, 2009 and 2008, respectively, and amounts payable to affiliates of $13.3 million and $1.6 million as of December 31, 2009 and 2008, respectively.

The Company organized O.R.E Holdings Limited ("ORE"), a corporation domiciled in Mauritius, on December 30, 2003 to act as a holding company for various investments in India. On January 29, 2004, ORE was capitalized by the Company in the amount of $16.7 million. ORE is consolidated in the Company's consolidated financial statements. During 2004, ORE entered into a joint venture agreement relating to the purchase by ORE of 45% of the shares of Cheran Enterprises Private Limited ("CEPL"). CEPL is a corporation domiciled in India, engaged in the purchase, development and sale of commercial real estate properties. The joint venture agreement governing CEPL contains a provision whereby Odyssey America could have been called upon to provide a guarantee of a credit facility, if such facility had been established by CEPL, in an amount up to $65.0 million for the funding of proposed developments. The credit facility was never established, and the requisite conditions for any future provision of the guarantee no longer exist. ORE's Indian joint venture partner claimed that the guarantee should be available and pursued legal actions against the Company. The Company found this claim without merit and vigorously defended the legal actions. On August 13, 2008, the Company Law Board in Chennai, India ruled in ORE's favor and directed CEPL to return to ORE the full amount of its investment in CEPL, plus 8% interest, within the one−year period commencing November 1, 2008. As of December 31, 2009, the Company had written down the value of its investment in ORE by $9.9 million. The carrying value of the Company's investment in ORE as of both December 31, 2009 and 2008 was $6.7 million. Because no payment of the award has yet been received and collection may require additional legal action on the part of ORE, the Company has taken no steps to reverse the write−downs that have been taken to date. The Company continues to vigorously pursue collection of the award.

OdysseyRe believes that the revenues and expenses related to the transactions with affiliated entities would not be materially different if such transactions were with unaffiliated entities.

Item 14. *Principal Accountant Fees and Services*

Independent Registered Public Accounting Firm

The Audit Committee has appointed PricewaterhouseCoopers LLP as our independent registered accounting firm to audit our consolidated financial statements for the 2009 fiscal year. PricewaterhouseCoopers LLP has served as our independent accountants since our incorporation in March 2001.

Audit Fees

The Company incurred fees of $4,316,196 in 2009 and $3,772,680 in 2008, relating to professional services rendered by PricewaterhouseCoopers LLP, for the audits of our annual financial statements and review of financial statements included in our Quarterly Reports on Form 10−Q, services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements, and attestation of management's assessment of our internal control over financial reporting.

Audit−Related Fees

The Company incurred fees of $24,000 in 2009 and $135,000 in 2008, for professional services rendered by PricewaterhouseCoopers LLP related to the ERISA audit of the financial statements of the Retirement Plan and 401(k) plans.

Tax Fees

The Company incurred fees of $23,000 in 2009 and $5,000 in 2008, in the aggregate, for professional services rendered by PricewaterhouseCoopers LLP for domestic and international tax compliance and assistance with preparation of tax returns, tax advice, and tax planning.

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All Other Fees

The Company incurred fees of $166,000 in 2009 and $231,000 in 2008, in the aggregate, for products and services provided by PricewaterhouseCoopers LLP, other than the services reported above in the sections captioned "Audit Fees," "Audit–Related Fees" and "Tax Fees." These fees for 2009 and 2008 are related principally to providing other actuarial services, and providing information to state insurance department auditors with respect to state insurance examinations.

The Audit Committee has considered whether PricewaterhouseCoopers LLP's provision of services other than audit services is compatible with maintaining the independence of our outside auditors, and has found the provision of such services to be compatible with the auditor independence requirements.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

Financial Statements and Schedules

The Financial Statements and schedules listed in the accompanying index to consolidated financial statements in Item 8 are filed as part of this Report. Schedules not included in the index have been omitted because they are not applicable.

Exhibits

The exhibits listed in the accompanying Exhibit Index are filed as a part of this Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Odyssey Re Holdings Corp.

By: /s/ Andrew A. Barnard
Name: Andrew A. Barnard
Title: President and Chief Executive Officer

Date: February 25, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Andrew A. Barnard Andrew A. Barnard	President, Chief Executive Officer and Director *(Principal Executive Officer)*	February 25, 2010
/s/ R. Scott Donovan R. Scott Donovan	Executive Vice President and Chief Financial Officer *(Principal Financial and Accounting Officer)*	February 25, 2010
* V. Prem Watsa	Director	February 25, 2010
* James F. Dowd	Director	February 25, 2010
* Anthony F. Griffiths	Director	February 25, 2010
* Alan D. Horn	Director	February 25, 2010
* Brandon W. Sweitzer	Director	February 25, 2010

*By: /s/ Andrew A. Barnard
Andrew A. Barnard
Attorney–in–fact

EXHIBIT INDEX

Number	Title of Exhibit
2.1	Agreement and Plan of Merger by and among Odyssey Re Holdings Corp., Fairfax Financial Holdings Limited, and Fairfax Investments USA Corp., dated as of September 18, 2009 (incorporated by reference to Exhibit 2.01 to the Registrant's Current Report on Form 8−K filed with the Securities and Exchange Commission on September 21, 2009).
3.1	Amended and Restated Certificate of Incorporation (incorporated herein by reference to the Registrant's Amendment No. 1 to Registration Statement on Form S−1 (No. 333−57642), filed with the Commission on May 4, 2001). Also see Exhibits 4.8 and 4.9 hereto.
3.2	Amended and Restated By−Laws (incorporated herein by reference to the Registrant's Current Report on Form 8−K, filed with the Commission on December 10, 2007)
4.1	Specimen Certificate representing Common Stock (incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S−1 (No. 333−57642), filed with the Commission on May 29, 2001).
4.4	Indenture dated October 31, 2003 between Odyssey Re Holdings Corp. and The Bank of New York regarding the 6.875% Senior Notes due 2015 and the 7.65% Senior Notes due 2013 (incorporated by reference to Exhibit 4.1 of the Registrant's Quarterly Report on Form 10−Q filed with the Commission on November 3, 2003).
4.5	Global Security dated October 31, 2003 representing $150,000,000 aggregate principal amount of 7.65% Senior Notes due 2013 (incorporated by reference to Exhibit 4.2 of the Registrant's Quarterly Report on Form 10−Q filed with the Commission on November 3, 2003).
4.6	Global Security dated November 18, 2003 representing $75,000,000 aggregate principal amount of 7.65% Senior Notes due 2013 (incorporated by reference to Exhibit 4.6 of the Registrant's Annual Report on Form 10−K filed with the Commission on February 18, 2004).
4.7	Global Security dated May 13, 2005, representing $125,000,000 aggregate principal amount of 6.875% Senior Notes due 2015 (incorporated by reference to Exhibit 4.7 of the Registrant's Quarterly Report on Form 10−Q filed on August 9, 2005).
4.8	Certificate of Designations setting forth the specific rights, preferences, limitations and other terms of the Series A Preferred Shares (incorporated by reference to the Registrant's Current Report on Form 8−K filed with the Securities and Exchange Commission on October 18, 2005).
4.9	Certificate of Designations setting forth the specific rights, preferences, limitations and other terms of the Series B Preferred Shares (incorporated by reference to the Registrant's Current Report on Form 8−K filed with the Securities and Exchange Commission on October 18, 2005).
4.10	Form of Stock Certificate evidencing the Series A Preferred Shares (incorporated by reference to the Registrant's Current Report on Form 8−K filed with the Securities and Exchange Commission on October 18, 2005).
4.11	Form of Stock Certificate evidencing the Series B Preferred Shares (incorporated by reference to the Registrant's Current Report on Form 8−K filed with the Securities and Exchange Commission on October 18, 2005).
4.12	Indenture dated as of February 22, 2006 between Odyssey Re Holdings Corp. and Wilmington Trust Company regarding the Floating Rate Senior Debentures, Series A (incorporated by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 31, 2006).
4.13	Indenture dated as of February 22, 2006 between Odyssey Re Holdings Corp. and Wilmington Trust Company regarding the Floating Rate Senior Debentures, Series B (incorporated by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 31, 2006).
4.14	Indenture dated as of November 28, 2006 between Odyssey Re Holdings Corp. and Wilmington Trust Company regarding the Floating Rate Senior Debentures, Series C (incorporated herein by reference to the Registrant's Current Report on Form 8−K filed with the Commission on November 29, 2006).
10.1	Affiliate Guarantee by Odyssey America Reinsurance Corporation dated as of July 14, 2000 relating

Number	Title of Exhibit
	to Compagnie Transcontinentale de Réassurance (incorporated herein by reference to the Registrant's Registration Statement on Form S−1 (No. 333−57642), filed with the Commission on March 26, 2001).
10.2	Tax Allocation Agreement effective as of June 19, 2001 among Fairfax Inc., Odyssey Re Holdings Corp., Odyssey America Reinsurance Corporation, Odyssey Reinsurance Corporation, and Hudson Insurance Company (incorporated herein by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 6, 2002), Inter−Company Tax Allocation Agreement among TIG Holdings, Inc. and the subsidiary corporations party thereto and Agreement for the Allocation and Settlement of Consolidated Federal Income Tax Liability as amended (each incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S−1 (No. 333−57642), filed with the Commission on May 29, 2001) and Inter−Company Tax Allocation Agreement effective as of March 4, 2003 between Odyssey Re Holdings Corp. and Fairfax Inc. (incorporated herein by reference to the Registrant's Registration Statement on Form S−1 (No. 333−138340), filed with the Commission on October 31, 2006).
10.3	Third Amended and Modified Office Lease Agreement in relation to 300 First Stamford Place, Stamford, Connecticut and guarantee of Odyssey Re Holdings Corp. executed in connection therewith (incorporated herein by reference to the Registrant's Quarterly Report on Form 10−Q filed with the Commission on November 4, 2004) which amends the Lease Agreement between TIG Insurance Company and First Stamford Place Company, as amended (incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S−1 (No. 333−57642), filed with the Commission on May 29, 2001).
10.4	Registration Rights Agreement dated as of June 19, 2001 among Odyssey Re Holdings Corp., TIG Insurance Company and ORH Holdings Inc. (incorporated herein by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 6, 2002).
10.5	Investment Agreement dated as of January 1, 2002 between Hamblin Watsa Investment Counsel Ltd., Fairfax Financial Holdings Limited and Odyssey America Reinsurance Corporation (incorporated herein by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 4, 2003).
10.6	Investment Agreement dated as of January 1, 2003 between Hamblin Watsa Investment Counsel Ltd., Fairfax Financial Holdings Limited and Clearwater Insurance Company (incorporated by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 31, 2006).
10.7	Investment Agreement dated as of January 1, 2003 between Hamblin Watsa Investment Counsel Ltd., Fairfax Financial Holdings Limited and Hudson Insurance Company (incorporated by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 31, 2006).
10.8	Investment Agreement dated as of January 1, 2003 between Hamblin Watsa Investment Counsel Ltd., Fairfax Financial Holdings Limited and Newline Underwriting Management Ltd. (incorporated by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 31, 2006).
10.9	Indemnification Agreements between Odyssey Re Holdings Corp. and each of its directors and officers dated as of March 21, 2001 (incorporated herein by reference to the Registrant's Annual Report on Form 10−K filed with the Commission on March 6, 2002).
10.10	Odyssey America Reinsurance Corporation Restated Employees Retirement Plan, as amended (incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S−1 (No. 333−57642), filed with the Commission on May 29, 2001).**
10.11	Odyssey America Reinsurance Corporation Profit Sharing Plan, as amended (incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S−1 (No. 333−57642), filed with the Commission on May 29, 2001).**
10.12	Odyssey Re Holdings Corp. Restricted Share and Equity Value Plan (incorporated herein by reference to the Registrant's Registration Statement on Form S−8, filed with the Commission on December 4, 2009).**
* 10.13	Odyssey Re Holdings Corp. Stock Option Plan (amended and restated effective as of October 28,

Number	Title of Exhibit
	2009).**
10.14	Odyssey Re Holdings Corp. Long–Term Incentive Plan (incorporated herein by reference to the Registrant's Amendment No. 3 to Registration Statement on Form S–1 (No. 333–57642), filed with the Commission on June 7, 2001).**
* 10.15	Odyssey Re Holdings Corp. Non–Qualified 2010 Employee Share Purchase Plan.**
10.16	Odyssey Re Holdings Corp. Employee Share Purchase Plan (incorporated herein by reference to the Registrant's Amendment No. 3 to Registration Statement on Form S–1 (No. 333–57642), filed with the Commission on June 7, 2001).**
10.17	Odyssey America Reinsurance Corporation Restated Supplemental Retirement Plan, as amended (incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S–1 (No. 333–57642), filed with the Commission on May 29, 2001).**
10.18	Odyssey America Reinsurance Corporation Restated Supplemental Retirement Plan, as amended (incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S–1 (No. 333–57642), filed with the Commission on May 29, 2001).**
10.19	Tax Services Agreement between Fairfax Inc., Odyssey America Reinsurance Corporation, Odyssey Reinsurance Corporation and Hudson Insurance Company dated as of May 10, 2001 (incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S–1 (No. 333–57642), filed with the Commission on May 29, 2001).
10.20	Tax Services Agreement between Fairfax Inc. and Odyssey Re Holdings Corp. dated as of May 10, 2001 (incorporated herein by reference to the Registrant's Amendment No. 2 to Registration Statement on Form S–1 (No. 333–57642), filed with the Commission on May 29, 2001).
10.21	Odyssey Re Holdings Corp. 2002 Stock Incentive Plan (incorporated herein by reference to Appendix A of the Registrant's definitive proxy statement filed on March 21, 2002).**
10.22	Credit Agreement dated as of July 13, 2007 among Odyssey Re Holdings Corp., Wachovia Bank, National Association, KeyBank National Association and the other parties thereto, and the promissory notes executed in connection therewith (incorporated herein by reference to the Registrant's Quarterly Report on Form 10–Q filed with the Commission on August 8, 2007), and First Amendment thereto, dated as of June 17, 2009 (incorporated herein by reference to the Registrant's Quarterly Report on Form 10–Q filed with the Commission on August 6, 2009).
* 10.23	Second Amendment Agreement (to Credit Agreement dated as of July 13, 2007), dated as of February 24, 2010, among Odyssey Re Holdings Corp., Wachovia Bank, National Association, KeyBank National Association, and the other parties thereto.
10.24	Amended and Restated Employment Agreement, dated as of October 1, 2009, by and between Odyssey Re Holdings Corp. and Andrew Barnard, incorporated by reference to the Registrant's Quarterly Report on Form 10–Q filed with the Commission on November 4, 2009.**
10.25	Amended and Restated Employment Agreement, dated as of October 1, 2009, by and between Odyssey Re Holdings Corp. and Brian David Young, incorporated by reference to the Registrant's Quarterly Report on Form 10–Q filed with the Commission on November 4, 2009.**
10.26	Amended and Restated Employment Agreement, dated as of October 1, 2009, by and between Odyssey Re Holdings Corp. and Richard Scott Donovan, incorporated by reference to the Registrant's Quarterly Report on Form 10–Q filed with the Commission on November 4, 2009.**
10.27	Amended and Restated Employment Agreement, dated as of October 1, 2009, by and between Odyssey Re Holdings Corp. and Michael G. Wacek, incorporated by reference to the Registrant's Quarterly Report on Form 10–Q filed with the Commission on November 4, 2009.**
* 21.1	List of the Registrant's Subsidiaries.
* 24	Powers of Attorney.
* 31.1	Certification of President and Chief Executive Officer pursuant to Rule 13a–15(e) or 15d–15(e), as enacted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.
* 31.2	Certification of Executive Vice President and Chief Financial Officer pursuant to Rule 13a–15(e) or

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Number	Title of Exhibit
	15d−15(e), as enacted pursuant to Section 302 of the Sarbanes−Oxley Act of 2002.
* 32.1	Certification of President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.
* 32.2	Certification of Executive Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as enacted pursuant to Section 906 of the Sarbanes−Oxley Act of 2002.

* Filed herewith.

** Management contract or compensatory plan or arrangement

Exhibit 10.13

ODYSSEY RE HOLDINGS CORP.
STOCK OPTION PLAN
(As Amended and Restated Effective as of October 28, 2009)

1. Purposes. The purposes of the ODYSSEY RE HOLDINGS CORP. STOCK OPTION PLAN, as amended from time to time (the "Plan"), are to advance the interests of Odyssey Re Holdings Corp., a Delaware corporation, and any successor thereto (the "Company"), by linking the personal interests of participants to those of the Company's stockholders by providing participants with an incentive for outstanding performance. The Plan is further intended to assist the Company in its ability to motivate, and retain the services of, participants upon whose judgment, interest and special effort the successful conduct of the Company's and its Subsidiaries' (as such term is defined below) operations is largely dependent.

2. Definitions and Rules of Construction.

(a) Definitions. For purposes of the Plan, the following capitalized words shall have the meanings set forth below:

"Award" means an Option granted pursuant to Section 7 of the Prior Plan.

"Award Document" means an agreement, certificate or other type or form of document or documentation approved by the Committee which sets forth the terms and conditions of an Award. An Award Document may be in written, electronic or other media, may be limited to a notation on the books and records of the Company and, unless the Committee requires otherwise, need not be signed by a representative of the Company or a Participant.

"Board" means the Board of Directors of the Company.

"Book Value Per Share" or "BVPS" means the total shareholders' equity of the Company attributable to the common equity as of an applicable Quarter Date, as adjusted for dividends, capital contributions or other extraordinary events (in each case, as determined by the Board or the Committee in its sole discretion), divided by 58,443,149.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and the rules and regulations (including any proposed regulations) promulgated thereunder.

"Committee" means the Compensation Committee of the Board, or such other committee of the Board as may be designated from time to time by the Board to administer the Plan.

"Common Stock" means the common stock of the Company.

"Date of Grant" means the date of grant of an Award as set forth in the applicable Award Document.

"Disability" shall have the meaning set forth in Section 22(e) of the Code.

"Effective Date" means May 23, 2001.

"Effective Time" means October 28, 2009, at 1:19 P.M., the date and time at which the Merger became effective, as set forth in Section 2.03 of the Merger Agreement.

"Employee" means a director or an employee of the Company or of any Subsidiary (including, without limitation, a common law employee and an individual who provides substantial service for the Company or any Subsidiary pursuant to a contractual arrangement entered into by and between the Company or any Subsidiary and an independent entity).

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and the rules and regulations promulgated thereunder.

"Fairfax" means Fairfax Financial Holdings Limited.

"Merger" means the merger of Fairfax Investments USA Corp. with and into the Company as contemplated by the Merger Agreement.

"Merger Agreement" means the Agreement and Plan of Merger, dated as of September 18, 2009, entered into by and among Fairfax, Fairfax Investments USA Corp., and the Company.

"Option" means a nonqualified stock option granted under Section 7, which is not an "incentive stock option" within the meaning of Section 422 of the Code.

"Participant" means an individual who has been granted an Award.

"Prime Rate" means the rate which Citibank, N.A. announces from time to time at its principal office as its prime lending rate for domestic commercial loans, the Prime Rate to change when and as such prime lending rate changes.

"Prior Plan" means the Plan as in effect immediately prior to the Effective Time.

"Pro Rata Portion" means, in respect of a particular Option on a particular date, the portion represented by the fraction A divided by B, where A is the number of days from (but excluding) the date the particular Option was granted until (and including) the particular date and B is the number of days from (but excluding) the date the particular Option was granted until (and including) the date when that Option would have been fully vested.

"Quarter Date" means, with respect to any date, the last day of the most recently completed quarter of the Company for which Fairfax has publicly released its earnings report, or in the event that Fairfax does not intend to publicly release an earnings report, for which financial statements that report the Company's book value are available.

"Retirement Age" means the age regarded by the Company or a Subsidiary as the normal retirement age for its employees in general, based upon the Company's or the Subsidiary's normal employment and related policies and practices.

"REVR" means a restricted equity value right to receive a cash payment based on the REVR Value upon the exercise of an Option in accordance with Section 7 of the Plan and the applicable Award Document.

"REVR Value" means BVPS as of the applicable Quarter Date.

"Shares" means the shares of Common Stock and any shares or other securities into which such Shares have been for whatever reason changed or which have for whatever reason been substituted for, or distributed (as a dividend or otherwise) upon, such Shares.

"Subsidiary" means any (i) corporation if fifty percent (50%) or more of the total combined voting power of all classes of stock is owned, either directly or indirectly, by the Company or another Subsidiary or (ii) limited liability company if fifty percent (50%) or more of the membership interests is owned, either directly or indirectly, by the Company or another Subsidiary.

"Termination of Employment" means a Participant's termination of employment or directorship with the Company or a Subsidiary for any reason whatsoever (including, without limitation, as a result of termination by the Company or a

Subsidiary without cause) at a time when the Participant is not (and is not imminently about to be) an employee or a director of either the Company or any Subsidiary.

(b) Rules of Construction. The masculine pronoun shall be deemed to include the feminine pronoun and the singular form of a word shall be deemed to include the plural form, unless the context requires otherwise. Unless the text indicates otherwise, references to sections are to sections of the Plan.

3. Administration.

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee, which shall have full power and authority, subject to the express provisions hereof:

(i) to select Participants;

(ii) to make Awards in accordance with the Plan;

(iii) to determine the number of REVRs or other securities subject to each Award;

(iv) to determine the terms and conditions of each Award, including, without limitation, those related to transferability, vesting, forfeiture and exercisability and the effect, if any, of a Participant's Termination of Employment, and including the authority to adjust the terms of an Award to comply with the laws of any applicable jurisdiction;

(v) to determine the BVPS and the REVR Value applicable to each Award;

(vi) to amend the terms and conditions of an Award after the granting thereof to a Participant in a manner that either is not prejudicial to the rights of such Participant in such Award or has been consented to in writing by the Participant;

(vii) to specify and approve the provisions of the Award Documents delivered to Participants in connection with their Awards;

(viii) to construe and interpret any Award Document delivered under the Plan;

(ix) to prescribe, amend and rescind rules and procedures relating to the Plan;

(x) subject to the provisions of the Plan and subject to such additional limitations and restrictions as the Committee may impose, to delegate to one or more officers of the Company some or all of its authority under the Plan;

(xi) to adopt, on behalf of the Company, one or more sub–plans applicable to separate classes of Participants who are subject to the laws of jurisdictions outside of the United States;

(xii) to employ such legal counsel, independent auditors and consultants as it deems desirable for the administration of the Plan and to rely upon any opinion or computation received therefrom; and

(xiii) to make all other determinations (including, without limitation, factual determinations) and to formulate such procedures as may be necessary or advisable for the administration of the Plan.

(b) Plan Construction and Interpretation. The Committee shall have full power and authority, subject to the express provisions hereof, to construe and interpret the Plan.

(c) Determinations of Committee Final and Binding. All determinations by the Committee in carrying out and administering the Plan and in construing and interpreting the Plan shall be final, binding and conclusive for all purposes and upon all interested persons. Every action, including an exercise of discretion by the Committee, is wholly without precedent value for any purpose.

4. Common Stock Subject to the Plan. Effective as of the Effective Time, no Common Stock shall be issued under the Plan with respect to any Award.

5. Participation. Effective as of the Effective Time, no additional Awards shall be granted to any Employee or Participant.

6. Award Document. The terms and provisions of each Award may be set forth in an Award Document in a form approved by the Committee, which shall incorporate the Plan by reference. The exercise price, vesting, forfeiture, exercisability conditions and other restrictions applicable to an Award (which may include, without limitation, restrictions on transferability) shall be determined by the Committee and may be set forth in the applicable Award Document.

7. Stock Options.

(a) Awards; Generally. Pursuant to the terms of the Merger Agreement, as of the Effective Time, each share of Common Stock underlying an Option shall be cancelled and converted into a REVR. Each Option shall be subject to the terms and conditions,

including, without limitation, vesting schedule and forfeiture, that were applicable to the Option prior to the Effective Time (other than the right to receive Common Stock) in accordance with this Section 7 and any applicable Award Document. A Participant shall not have any stockholder rights with respect to a REVR, including, without limitation, the right to vote or to receive dividends.

Upon the vesting of an Option, the Participant shall be deemed to have exercised such Option unless such Participant notifies the Company in writing at least fourteen (14) days prior to the applicable vesting date that he or she elects not to exercise the Option. The REVR Value of an Option shall be based on the BVPS as of the applicable vesting date of such Option. In the event a Participant elects not to exercise an Option upon the applicable vesting date, the REVR Value shall not be subject to any future increase or decrease; provided, however, that the REVR Value shall be credited with the Prime Rate, compounded annually, from the applicable vesting date until the date that the Participant exercises such Option. Upon the exercise of an Option, a Participant shall receive, within thirty (30) days of the date of exercise, the difference between (x) the REVR Value of such Option and (y) the exercise price of such Option, in cash, plus any interest accrued on the REVR Value between the applicable vesting date of such Option and the exercise date of such Option. An Option shall be exercisable during such period(s) as shall be determined by the Committee and set forth in the Award Document relating to such Option and the Committee may extend the term of an Option after the Date of Grant. An Option which is not exercised during its period of exercisability shall expire.

(b) Exercise Price. The exercise price of an Option shall be fixed by the Committee on the Date of Grant or, alternatively, shall be determined by a method specified by the Committee on the Date of Grant.

(c) Method of Exercise. Subject to the provisions of the applicable Award Document, the exercise price of an Option (if any) may be paid in cash or pursuant to such procedures as may be established by the Committee from time to time.

(d) Death; Disability; Reaching Retirement Age and Termination of Employment. The following provisions apply to the unvested portion of an Option held by a Participant except to the extent, if any, otherwise provided in the applicable Award Document:

(i) upon a Participant's Termination of Employment, the unvested portion of the Option shall be forfeited and cancelled without any payment to such Participant and shall not be exercisable in whole or in part unless otherwise provided by the Committee, the Plan or the applicable Award Document;

(ii) upon the Participant's Termination of Employment due to death or Disability, the Pro Rata Portion of the unvested portion of an Option shall immediately vest and the remainder of such unvested portion shall immediately expire and shall not be exercisable in whole or in part; and

(iii) upon the Participant reaching Retirement Age, the unvested portion of an Option shall immediately vest in full.

Notwithstanding the foregoing, the Board may in any particular case, in its sole discretion and without precedent value, suspend or vary the operation of the foregoing provisions, upon such terms and to such extent as it may determine, but only in a manner that is not adverse to the Participant and complies with applicable laws and stock exchange rules.

(a) Exercise of Vested Option Following Termination of Employment. Upon a Participant's Termination of Employment (including by reason of death, Disability or reaching Retirement Age), the Participant shall, except to the extent, if any, otherwise provided in the applicable Award Document, retain the right to exercise the vested portion of any Option held by such Participant for the applicable term of the Option.

8. General Provisions.

(a) Non−Transferability of Award. Unless the Committee determines otherwise in its sole discretion, no Award or amount payable under, or interest in, the Plan shall be transferable by a Participant except by will or the laws of descent and distribution or otherwise be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge; provided, however, that the Committee may, in its sole discretion and subject to such terms and conditions as it shall specify, permit the transfer of an Award for no consideration to a Participant's family members or to one or more trusts or partnerships established in whole or in part for the benefit of one or more of such family members (collectively, "Permitted Transferees"). Any Award transferred to a Permitted Transferee shall be further transferable only by will or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Participant. The Committee may, in its sole discretion, permit transfers of Awards other than those contemplated by this Section 8(a). During the lifetime of the Participant, an Option shall be exercisable only by the Participant or by a Permitted Transferee to whom such Option has been transferred in accordance with this Section 8(a).

(b) No Right to Continued Employment. No Employee or Participant shall have any claim or right to receive grants of Awards under the Plan. Nothing in the Plan or in any Award or Award Document shall confer upon any Employee any right to continued employment or directorship with the Company or any Subsidiary or interfere in any way with the right of the Company or any Subsidiary to terminate the employment or directorship of any of its Employees at any time, with or without cause. Each Participant, by accepting an Award, agrees with the Company and its Subsidiaries that he or she will not be entitled to any damages, payment or claim with respect to or as a result of any forfeiture of the Award that occurs as a result of the termination of the Participant's employment or directorship with the Company or any Subsidiary, regardless of the reason for or circumstances of such employment or

directorship termination, or whether such employment or directorship termination was or was not wrongful and of whether or not the period of notice of termination given to the Participant was sufficient.

(c) Consent to Plan. By accepting any Award or other benefit under the Plan, each Participant and each person claiming under or through such Participant shall be conclusively deemed to have indicated his acceptance and ratification of, and consent to, any action taken under the Plan by the Company, the Board or the Committee.

(d) Wage and Tax Withholding. The Company or any Subsidiary is authorized to withhold from any Award or payment in respect of an Award or any compensation or other payment to a Participant amounts of withholding and other taxes due in connection with any Award, and to take such other action as the Committee may deem necessary or advisable to enable the Company and the Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This authority shall include authority for the Company to withhold or receive cash payments or other property and to make cash payments in respect thereof in satisfaction of a Participant’s tax obligations, either on a mandatory or elective basis in the sole discretion of the Committee.

(e) Compliance with Securities Laws. An Award may not be exercised, and no payment may be made in respect of an Award, unless the payment complies with all applicable securities laws.

(f) Unfunded Plan. The Plan is intended to constitute an “unfunded” plan for incentive compensation. Nothing contained in the Plan (or in any Award Documents or other documentation related thereto) shall give any Participant any rights that are greater than those of a general creditor of the Company; provided, however, that the Committee may authorize the creation of trusts and deposit therein cash or other property or make other arrangements to meet the Company’s obligations under the Plan or make payments with respect to Awards Such trusts or other arrangements shall be consistent with the “unfunded” status of the Plan unless the Committee determines otherwise. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee may specify.

(g) Other Employee Benefit Plans. Payments received by a Participant under any Award made pursuant to the Plan shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan or similar arrangement provided by the Company, unless otherwise specifically provided for under the terms of such plan or arrangement or by the Committee.

(h) Compliance with Rule 16b−3. Notwithstanding anything contained in the Plan or in any Award Document to the contrary, if the consummation of any transaction under the Plan would result in the possible imposition of liability on a Participant pursuant to Section 16(b) of the Exchange Act, the Committee shall have the right, in its sole discretion, but shall not be obligated, to defer such

transaction or the effectiveness of such action to the extent necessary to avoid such liability, but in no event for a period longer than six months.

(i) Expenses. The costs and expenses of administering and implementing the Plan shall be borne by the Company.

(ii) Liability and Indemnification.

(iii) Neither the Company nor any Subsidiary shall be responsible in any way for any action or omission of the Committee or any other fiduciaries in the performance of their duties and obligations as set forth in the Plan. Furthermore, neither the Company, any Subsidiary nor the Committee shall be responsible for any act or omission of any of their agents, or with respect to reliance upon the advice of their counsel, provided that the Company, the appropriate Subsidiary or the Committee, as the case may be, relied in good faith upon the action of such agent or the advice of such counsel.

(iv) Neither the Company, any Subsidiary, the Committee, nor any agent, employee, officer, director, stockholder or member of any of them, nor any other person shall have any liability or responsibility to any Participant or otherwise with respect to the Plan, except with respect to fraud, bad faith or willful misconduct on their part or as otherwise expressly provided herein.

(v) Cooperation of Parties. All parties to the Plan and any person claiming any interest hereunder agree to perform any and all acts and execute any and all documents and papers which are necessary or desirable for carrying out the Plan or any of its provisions.

(vi) Notices. Each notice relating to the Plan shall be in writing and delivered by recognized overnight courier or certified mail to the proper address or, optionally, to any individual personally. Except as otherwise provided in any Award Document, all notices to the Company or the Committee shall be addressed to it c/o the Company at its registered office, Attn: Corporate Secretary. All notices to Participants, former Participants, beneficiaries or other persons acting for or on behalf of such persons which are not delivered personally to an individual shall be addressed to such person at the last address for such person maintained in the records of the Committee or the Company.

9. Recapitalization or Reorganization.

(a) Authority of the Company and Stockholders. The existence of the Plan, the Award Documents and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any dividend or other distribution, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the capital stock or the rights thereof which are convertible into or exchangeable for capital stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) Change in Capitalization. Notwithstanding any provision of the Plan or any Award Document, if there is any change in the outstanding Shares by reason of a stock dividend or split, a recapitalization, or a consolidation, combination or exchange of shares, or if there is any other change (including, possibly, an extraordinary dividend) which the Committee in its sole discretion determines is a sufficiently fundamental change to warrant the action hereinafter described, the Committee shall make, subject to any prior approval required of relevant stock exchanges or other applicable regulatory authorities, if any, an appropriate substitution or adjustment in (i) the exercise price of any unexercised Options under the Plan; and/or (ii) the number and kind of REVRs or other securities subject to unexercised Options under the Plan. In the event of the reorganization or the amalgamation, merger or consolidation of the Company with another corporation, the Committee may make such provision for the protection of the rights of Participants as the Committee in its discretion deems appropriate. The determination of the Committee, as to any such substitution or adjustment or as to there being no need for the same, will be final and binding on all parties.

10. Effective Date and Effective Time. The Plan was originally effective on the Effective Date and amended and restated as of the Effective Time and shall remain in effect until it has been terminated pursuant to Section 11.

11. Amendment; Suspension and Termination.

(a) Notwithstanding anything herein to the contrary, the Board or the Committee may, at any time, terminate or, from time to time, amend, modify or suspend the Plan; provided, however, that no amendment or modification which must be approved by stockholders pursuant to applicable rules of an exchange or any requirements or any requirements of the Code and the regulations promulgated thereunder, shall be effective without stockholder approval. However, except as otherwise expressly provided herein, no amendment, modification, suspension or termination of the Plan shall alter the rights of any Participant existing at such time with respect to an Option, except with the express written consent of such Participant. The Plan shall continue until earlier terminated by

the Company pursuant to this Section 11. If the Plan is terminated, the provisions of the Plan, and any administrative guidelines, regulations and other rules adopted by the Committee with respect to the Plan which are in force at the time of such termination, will continue in effect in respect of any Options which are outstanding at such time and any rights pursuant to any such Options. However, notwithstanding the termination of the Plan, the Committee may make any amendments to the Plan or the Options which it would have been entitled to make if the Plan were still in effect.

(b) With the consent of any applicable regulatory authorities, as may be required, the Committee may, in its sole discretion and without precedent value, amend or modify any particular outstanding Option(s) or, in circumstances which the Committee deems appropriate (such a circumstance may, for instance, be a change of control of the Company), all outstanding Options, so as to:

(i) accelerate the Option's vesting or exercisability;

(ii) reduce any restrictions on the transferability, vesting or exercisability of the Option; or

(iii) if the Company ceases to be subject to the terms of the Exchange Act or there is a contemplated transaction which would result in the Company ceasing to be subject to the terms of the Exchange Act, abbreviate the exercise period of all outstanding Options;

upon not less than 30 days' notice to all affected Participants and upon such terms (including the possible reinstatement of Options) as the Committee determines.

12. Six−Monthly Delay for Specified Employees. Notwithstanding anything herein to the contrary, if a Participant is a "specified employee" within the meaning of Section 409A(a)(2)(B)(i) of the Code, as determined under the Company's established methodology for determining specified employees, on the date of the Participant's "separation from service" within the meaning of Section 409A(a)(2)(A)(i) of the Code, any payment hereunder that provides for a "deferral of compensation" within the meaning of Section 409A of the Code shall not be paid or commence to be paid on any date prior to the first business day after the date that is six months following the Participant's termination of employment or service; provided, however, that a payment delayed pursuant to this Section 12 shall commence earlier in the event of the Participant's death prior to the end of the six−month period. Any such delayed payments shall be accumulated and paid on the first day of the seventh calendar month following the date of separation from service.

13. Section 409A Compliance. (i) Notwithstanding any contrary provision in the Plan, an Award Document or an Award, if any provision of the Plan, an Award Document or an Award contravenes any regulations or guidance promulgated under Section

409A of the Code or would cause any person to be subject to additional taxes, interest or penalties under Section 409A of the Code, such provision of the Plan, an Award Document or an Award may be modified by the Committee without notice and consent of any person in any manner the Committee deems reasonable or necessary. In making such modifications, the Committee shall attempt, but shall not be obligated, to maintain, to the maximum extent practicable, the original intent of the applicable provision without contravening the provisions of Section 409A of the Code. Moreover, any discretionary authority that the Committee may have pursuant to the Plan shall not be applicable to an Award that is subject to Section 409A of the Code to the extent such discretionary authority would contravene Section 409A of the Code.

(ii) If any amount owed to a Participant under this Plan is considered for purposes of Section 409A of the Code to be owed to the Participant by virtue of his termination of employment or service, such amount shall be paid if and only if such termination of employment or service constitutes a "separation from service" with the Company, determined using the default provisions set forth in Treasury Regulation §1.409A–1(h) or any successor regulation thereto.

14. <u>Governing Law</u>. The validity, construction and effect of the Plan, any rules and regulations relating to the Plan, and any Award shall be determined in accordance with the laws of the State of Delaware applicable to contracts to be performed entirely within such state and without giving effect to principles of conflicts of laws.

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Exhibit 10.15

ODYSSEY RE HOLDINGS CORP.
(NON–QUALIFIED)
2010 EMPLOYEE SHARE PURCHASE PLAN

1. Purpose. The purpose of the Odyssey Re Holdings Corp. (Non–Qualified) 2010 Employee Share Purchase Plan, as may be amended from time to time (the "*Plan*"), is to provide eligible Employees with an opportunity to purchase Shares (as such terms are defined below) through payroll deductions and employer contributions. Participation in the Plan shall provide eligible Employees who wish to acquire an interest in the long–term performance and success of Fairfax Financial Holdings Limited with a method of doing so that is both convenient and, by virtue of employer contributions, favorable to the Employees. The Plan is not intended to qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code (as such term is defined below).

2. Definitions and Rules of Construction.

(a) Definitions. For purposes of the Plan, the following capitalized words shall have the meanings set forth below:

"*Account*" means a separate account that the Administrator maintains for each Participant under the Plan.

"*Administrator*" means the Board, or such other person(s), committee or entity as may be designated from time to time by the Board to administer the Plan in accordance with the terms herein.

"*Board*" means the Board of Directors of the Company or any committee of the Board of Directors as the Board of Directors may determine from time to time.

"*Code*" means the U.S. Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated thereunder.

"Company" means Odyssey Re Holdings Corp., a Delaware corporation, and its successors and assigns, and includes, except in these definitions, if and to the extent applicable, a Participating Company.

"*Company Contributions*" means the contributions of the Company to the Plan provided for in Section 6.

"*Custodian*" means an independent custodian designated by the Administrator, in its sole discretion.

"*Earnings*" means a Participant's base salary or wages for each payroll period before giving effect to any salary reduction agreement pursuant to a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code or to any similar reduction agreement pursuant to any cafeteria plan (within the meaning of Section 125 of the Code).

"*Earnings Percentage*" means the percentage (which may be any whole number from 1 to 10 inclusive) of a Participant's Earnings that the Company will deduct as Participant Contributions; provided, however, that the Administrator may determine and specify, from time to time, in its sole discretion, (i) the range of permissible percentages of a Participant's Earnings that may be deducted as Participant Contributions and (ii) the maximum amount, if any, of Earnings that may be deducted for a Participant in any Plan Year.

"*Effective Date*" means January 1, 2010.

"*Employee*" means any individual who is employed on a full−time basis by a Participating Company, as determined by the Administrator, in its sole discretion, and any other individual designated by the Administrator who is employed on a regular basis by a Participating Company.

"*Participant*" means an Employee who has (i) elected to participate in the Plan pursuant to the provisions of Section 4, (ii) completed the Probationary Period and (iii) not withdrawn from the Plan.

"*Participant Contributions*" means the contributions of a Participant to the Plan pursuant to the provisions of Section 5.

"*Participating Company*" means and includes the Company and any Subsidiary, and any affiliate of the Company and any Subsidiary that has elected to participate in the Plan with the consent of the Company.

"*Probationary Period*" means, with respect to an Employee, and unless determined otherwise by the Administrator, in its sole discretion, the period commencing on such Employee's date of hire and ending on the six (6)−month anniversary of such Employee's date of hire.

"*Purchase Period*" means, unless otherwise determined by the Administrator, in its sole discretion, the period beginning on the first day of each payroll period applicable to a Participant and continuing through the last day of the applicable payroll period.

"*Restricted Period*" means, with respect to any Shares, the period of time during which a Share is subject to restrictions on transfer as set forth in Section 10.

"*Shares*" means the Subordinate Voting Shares, no par value, of Fairfax Financial Holdings Limited.

"*Subsidiary*" means any (i) corporation if fifty percent (50%) or more of the total combined voting power of all classes of stock is owned, either directly or indirectly, by the Company or another Subsidiary or (ii) limited liability company if fifty percent (50%) or more of the membership interests is owned, either directly or indirectly, by the Company or another Subsidiary.

"*Transfer*" means to sell, assign, transfer, pledge or otherwise dispose of, or encumber, any Share.

"*Year*" or "*Plan Year*" means the calendar year.

(b) Rules of Construction. The masculine pronoun shall be deemed to include the feminine pronoun and the singular form of a word shall be deemed to include the plural form, unless the context requires otherwise. Unless the text indicates otherwise, references to "Sections" are to sections of the Plan.

3. Eligibility. Each Employee who remains an Employee following the expiration of the Probationary Period shall be eligible to participate in the Plan. Subject to the satisfaction of Section 4, an Employee shall be eligible to participate in the Plan commencing in the first payroll period that falls entirely outside the Probationary Period. An Employee who has met the requirements of this Section 3 and who subsequently ceases to be an Employee shall again be eligible to participate in the Plan when he again becomes eligible under this Section 3.

4. Participation.

(a) An Employee may elect to participate in the Plan by satisfying all requirements of a Company−specified enrollment procedure, which shall include indicating the Employee's desired Earnings Percentage. Such election shall not be effective with respect to any payroll period unless the Administrator determines, in its sole discretion, that the Company−specified enrollment procedure has been completed. Any such election shall remain in effect until it is changed or revoked by the Participant, or the Participant ceases to be eligible to participate in the Plan in accordance with the procedures as may be established from time to time by the Administrator, in its sole discretion.

(b) Unless otherwise determined by the Administrator, in its sole discretion, upon a Participant's termination of employment with a Participating Company for any reason (the date of a Participant's termination of employment shall be determined by the Administrator, in its sole discretion), such Participant shall be deemed to have withdrawn from the Plan.

5. Contributions by Participants.

(a) Participants shall make Participant Contributions by means of regular payroll deductions in an amount, as regards each Participant, equal to that Participant's then elected Earnings Percentage. Such payroll deductions shall be made during each payroll period. No interest shall accrue or be paid on Participant Contributions credited to a Participant's Account.

(b) A Participant may, at any time and for any reason, elect to adjust the Participant's Earnings Percentage, terminate the Participant's Participant Contributions or withdraw from the Plan by satisfying all requirements of a Company−specified enrollment procedure; provided, however, that, unless otherwise determined by the Administrator, in its sole discretion, such Participant may elect such procedure only once in any thirty (30)−day period. Such request shall be effective as of the first day of the payroll period commencing after the date of providing such notice to which it may be practically applied.

(c) Unless otherwise determined by the Administrator, in its sole discretion, if a Participant terminates Participant Contributions or withdraws from the Plan, such Participant shall not be permitted to recommence Participant Contributions or re−enroll in the Plan for ninety (90) days following such termination or withdrawal.

Contributions by the Company.

(d) Unless otherwise determined by the Administrator, in its sole discretion, the Company shall, as soon as practicable, following the completion of each Purchase Period, allocate a Company Contribution to the Account of each Participant in an amount equal to thirty percent (30%) of the aggregate amount of Participant Contributions made by the Participant during such Purchase Period. No interest shall accrue or be paid on Company Contributions credited to a Participant's Account.

(e) The Company shall, within ninety (90) days after the end of each Plan Year in which the total shareholders' equity of the Company attributable to the common equity as adjusted for dividends, capital contributions or other extraordinary events (the "Book Value") (in each case, as determined by the Administrator, in its sole discretion, in accordance with generally accepted accounting principles) as of the last day of such Plan Year (the "Measurement Plan Year") has increased by at least fifteen percent (15%) over the Book Value as of the last day of the immediately preceding Plan Year, allocate an additional Company Contribution to

the Account of each Participant on the date of the allocation in an amount equal to twenty percent (20%) of the aggregate amount of Participant Contributions made by the Participant during the Measurement Plan Year.

6. Accounts and Allocations to Participants.

(a) The Administrator shall establish and maintain a separate Account in respect of each Participant showing all Participant Contributions and Company Contributions, the total number of whole Shares (and fractional Shares), and the amount of cash dividends, if any, allocated to a Participant's Account.

(b) All Participant Contributions and Company Contributions shall be forwarded by the Administrator to the Custodian in a timely manner, consistent with the terms herein.

7. Vesting. All Participant Contributions and Company Contributions allocated to a Participant's Account shall be fully and immediately vested upon being allocated to the Participant's Account.

8. Purchase of Shares.

(a) The Administrator shall designate a Custodian that shall acquire Shares as the agent for the Participants. The Custodian shall use the Participant Contributions and the Company Contributions (and cash dividends, if any) forwarded to it to purchase on the open market in a timely manner as many Shares as may be acquired with such contributions at the market price of a Share at the time of such purchase. All cash dividends paid with respect to Shares held in a Participant's Account shall be invested automatically in Shares in a timely manner. No interest shall accrue or be paid on dividends credited to a Participant's Account.

(b) Upon any such purchase of Shares, the Custodian shall allocate to each Participant's Account the number of whole or fractional Shares to which such Participant is entitled. All Shares purchased pursuant to the provisions of this Section 9 shall be subject to a Restricted Period and such Shares shall be held by the Custodian in escrow on behalf of the applicable Participant until the expiration of the Restricted Period.

(c) During the Restricted Period, all shareholder rights with respect to Shares allocated to a Participant's Account (including the right to vote) shall be exercisable by the Participant, except as expressly provided otherwise herein.

9. Restricted Period.

(a) A Participant may not Transfer any Share allocated to the Participant's Account in any Plan Year during the period commencing on the date such Share is so allocated and expiring on the last day of February of the immediately following Plan Year (the "Restricted Period").

(b) Subject to the terms of this Plan, until the expiration of the Restricted Period, a Participant shall not be entitled to delivery of any Share that is subject to the restrictions on transferability set forth in Section 10(a).

(c) Any cash dividends and stock dividends with respect to Shares subject to a Restricted Period shall be subject to the same restrictions as the underlying Shares.

10. Distributions from the Plan.

(a) Upon the expiration of the Restricted Period with respect to any Share, the restrictions set forth in Section 10 shall be of no further force or effect with respect to such Share. A Participant may, at any time, elect to complete a Company–specified procedure notifying the Company that the Participant wishes to withdraw some or all of the Shares allocated to the Participant's Account for which the applicable Restricted Period has expired, in which event the Custodian shall promptly issue and deliver to the Participant, without charge, the number of whole Shares requested, subject to the terms herein, together with a cash payment in lieu of fractional Shares, if any. Any such distribution shall reduce accordingly the number of Shares allocated to such Participant's Account.

(b) A Participant whose employment with a Participating Company has terminated for any reason shall receive a refund of the uninvested balance of his Participant Contributions, Company Contributions and cash dividends, if any, as soon as practicable following the date of such termination of employment. Within a reasonable time after the termination of a Participant's employment with a Participating Company for any reason, the Custodian and/or the Administrator shall issue and deliver to the Participant, without charge, the whole Shares credited to the Participant's Account, together with a cash payment in lieu of fractional Shares (if any) credited to the Participant's Account, in the amount determined by the Administrator, and with any other assets then credited to the Participant's Account.

(c) Subject to the terms of the Plan, a Participant may, at any time and from time to time, request receipt of an immediate distribution of part or all of the Shares or other assets credited to the Participant's Account, or to otherwise reduce any Restricted Period. The decision upon any such application shall be at the sole discretion of the Administrator, and no such decision, or any other

determination permitted on a discretionary basis hereunder to the Administrator or the Company, shall have any precedent value. Any such distribution shall reduce accordingly the number of Shares allocated to such Participant's Account.

11. Administration.

(a) The Administrator may make, amend and repeal at any time and from time to time such procedures not inconsistent herewith as it may deem necessary or advisable for the proper administration and operation of the Plan. In connection herewith, the Board may delegate to any committee, person(s), or entity, such administrative duties and powers as it may see fit. Any such delegation shall be subject to the restrictions and limitations that the Board specifies at the time of such delegation.

(b) Notwithstanding the foregoing, the Administrator shall have full power and authority, subject to the express provisions hereof, to (i) make any legal or factual determinations, (ii) construe and interpret the provisions of the Plan, (iii) formulate administrative rules and procedures, (iv) make such changes in the administration of the Plan and in the administrative rules and procedures and (v) make all other determinations as the Administrator, from time to time, deems necessary or appropriate. All decisions and interpretations of the Administrator respecting the Plan and all rules and procedures made from time to time pursuant hereto shall be final, binding and conclusive for all purposes and upon all persons interested.

12. Participant's Eligibility and Interests Not Transferable. Except as otherwise provided herein, and except for transfers by will or under the laws of descent and distribution, no Participant shall have the right to Transfer either the Participant's eligibility to participate in the Plan or the Participant's interest in the Shares or other assets credited to the Participant's Account, and no such attempted Transfer shall be effective.

13. Liability. No member of the Board or any of its committees or the Administrator shall have any liability or responsibility to any Employee, Participant or otherwise with respect to the Plan, and the Company or a Participating Company (if applicable) shall indemnify and hold harmless each such person from any liability arising from or in connection with the Plan, except with respect to fraud, bad faith or willful misconduct. In the performance of their functions with respect to the Plan, the Board and the Administrator shall be entitled to rely upon information and advice furnished by the Company's officers, accountants, legal counsel and any other party that the Board or the Administrator deems necessary or appropriate, and no member of the Board or the Administrator shall be liable for any action taken or not taken in reliance upon any such advice.

14. Amendment; Termination. Notwithstanding anything herein to the contrary, the Board may, at any time, amend, modify, terminate or suspend the Plan; provided, however, that no amendment or modification that otherwise must be approved by

shareholders, pursuant to applicable rules of a stock exchange or any requirements under the Code, shall be effective without shareholder approval; and, provided, further, that, except as otherwise expressly provided herein, no such action shall, without the express written consent of a Participant, impair or adversely affect a Participant's rights existing at such time with respect to any Shares or other assets credited to a Participant's Account.

15. Distribution upon Termination of Plan. Upon termination of the Plan, all assets credited to all Accounts shall, within a reasonable time after such termination, be distributed to the respective Participants in a manner similar to the distributions provided for in Section 11(b).

16. Costs. The Company shall pay all costs of administering the Plan, including brokerage fees with respect to the purchase of Shares pursuant to the Plan.

17. No Right to Continued Employment. Participation in the Plan shall be entirely voluntary and shall not be construed to give any Participant the right to be employed or to continue to be employed by the Company or any Subsidiary.

18. Issuance and Delivery of Shares. Shares shall not be issued to a Participant unless the issuance and delivery of the Shares comply with all applicable provisions of law, domestic or foreign, including, without limitation, applicable securities laws, and the rules of any other stock exchange or market upon which the Shares are then listed or traded and any rules and regulations promulgated under any of the foregoing, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

19. Awards to Individuals Subject to Laws of a Jurisdiction Outside of the United States. To the extent the Administrator, in its sole discretion, deems it necessary, appropriate or desirable to comply with the laws of any relevant jurisdiction or practice and to further the purposes of the Plan and the interests of the Company, the Administrator may, without amending the Plan, adopt, on behalf of the Company or any Participating Company, one or more sub–plans applicable to separate classes of Employees who are subject to laws of jurisdictions outside of the United States, including, without limitation, establishing a trust in connection with the Plan.

20. Offsets. To the extent permitted by applicable law, the Company shall have the absolute right to withhold any amounts payable to any Participant under the terms of the Plan to the extent of any amount owed for any reason by such Participant to the Company or any Subsidiary and to set off and apply the amounts so withheld to payment of any such amount owed to the Company or any Subsidiary, whether or not such amount shall then be immediately due and payable and in such order or priority as among such amounts owed as the Company, in its sole discretion, shall determine.

21. Wage and Tax Withholding. A Participating Company is authorized to withhold from any Shares or any compensation or other payment to a Participant amounts of income and employment tax withholding and other tax withholdings due in connection with any Shares or with any Company Contributions (or with dividends, if any), and to take such other action as the Administrator, in its sole discretion, may deem necessary or advisable to enable the Company and the Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating thereto. This authority shall include authority for the Company to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis, in the sole discretion of the Company.

22. Effective Date. The Plan shall become effective on the Effective Date, and shall remain in effect until it has been terminated pursuant to Section 15.

23. Applicable Law. The Plan shall be subject to and construed in accordance with the laws of the State of Delaware (without giving effect to principles of conflicts of laws)

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Exhibit 10.23

SECOND AMENDMENT AGREEMENT

THIS SECOND AMENDMENT AGREEMENT, dated as of the 24th day of February, 2010 (this "Second Amendment"), is entered into among **ODYSSEY RE HOLDINGS CORP.**, a Delaware corporation (the "Borrower"), various Subsidiary Credit Parties (as defined in the hereinafter defined Credit Agreement) party hereto, the Lenders (as defined in the hereinafter defined Credit Agreement) party hereto, and **WACHOVIA BANK, NATIONAL ASSOCIATION**, as administrative agent for the Lenders (the "Administrative Agent").

RECITALS

A. The Borrower, the Subsidiary Credit Parties, the Lenders and the Administrative Agent are parties to that certain Credit Agreement dated as of July 13, 2007, as amended by the First Amendment Agreement, dated as of June 17, 2009 (as further amended, restated, supplemented or otherwise modified from time to time, the "Credit Agreement"). Capitalized terms used herein without definition shall have the meanings given to them in the Credit Agreement as they may be amended pursuant to this Second Amendment.

B. The Borrower, the Administrative Agent and the Required Lenders have agreed to make certain amendments to the Credit Documents on the terms and conditions set forth herein.

STATEMENT OF AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
AMENDMENTS TO CREDIT AGREEMENT

1.1 Amendments to Section 1.1 Consisting of New Definitions. The following definitions are hereby added to Section 1.1 of the Credit Agreement in appropriate alphabetical order:

"'Second Amendment' shall mean the Second Amendment Agreement, dated as of February 24, 2010, among the Borrower, the Subsidiary Credit Parties party thereto, the Lenders party thereto, and the Administrative Agent."

"'Second Amendment Effective Date' has the meaning given to such term in Article III to the Second Amendment."

"'Watsa Controlled Affiliates" means V. Prem Watsa, trusts established by or for the benefit of V. Prem Watsa, and other Persons Controlled by V. Prem Watsa."

1.2 Amendments to Section 1.1 Consisting of Modifying Existing Definitions. The following definition in Section 1.1 of the Credit Agreement is hereby amended and restated in its entirety as follows:

"Change of Control" means an event or series of events by which:

(a) Watsa Controlled Affiliates shall collectively cease to be the "beneficial owner" (as defined in Rules 13d–3 and 13d–5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have "beneficial ownership" of all Equity Interests that such person or group has the right to acquire (such right, an "option right"), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 35% or more of the Equity Interests of Fairfax entitled to vote for members of the board of directors or equivalent governing body of Fairfax on a fully–diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right); or

(b) both (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan and any Watsa Controlled Affiliate) becomes the beneficial owner (as defined in clause (a) above), directly or indirectly, of 35% or more of the Equity Interests of Fairfax entitled to vote for members of the board of directors or equivalent governing body of Fairfax on a fully–diluted basis (and taking into account all such securities that such person or group has the right to acquire pursuant to any option right) and (ii) Watsa Controlled Affiliates shall collectively cease to be the "beneficial owner" (as defined in clause (a) above), directly or indirectly, of Equity Interests of Fairfax entitled to vote for members of the board of directors or equivalent governing body of Fairfax on a fully–diluted basis (and

taking into account all such securities that such person or group has the right to acquire pursuant to any option right) in an amount greater than such person or group described in clause (i) above; or

(c) Fairfax shall fail to own 75% or more of the Equity Interests of the Borrower; or

(d) any Change of Control (as defined in any other Indebtedness of the Borrower or any of its Subsidiaries) shall occur.

1.3 Amendments to Section 2.9 (Fees). Sections 2.9(e) and (f) of the Credit Agreement are hereby amended and restated in their entirety as follows:

"(e) To the Administrative Agent, for the account of each Tranche 2 Lender, a commitment fee (the "Tranche 2 Commitment Fee") for each calendar quarter (or portion thereof) at a per annum rate of 0.10% on such Lender's Tranche 2 Ratable Share of the average daily aggregate Unutilized Tranche 2 Commitments, payable in arrears (i) on the last Business Day of each calendar quarter, beginning with the first such day to occur after the Second Amendment Effective Date through the Tranche 2 Termination Date, and (ii) on the Tranche 2 Termination Date;

(f) To the Administrative Agent, for the account of each Tranche 2 Lender, a letter of credit fee (the "Tranche 2 Letter of Credit Fee") for each calendar quarter (or portion thereof) in respect of all Tranche 2 Letters of Credit outstanding during such quarter, at a per annum rate equal to 0.55% on such Tranche 2 Lender's Tranche 2 Ratable Share of the average daily aggregate Stated Amount of such Tranche 2 Letters of Credit. The Tranche 2 Letter of Credit Fee shall be due and payable quarterly in arrears (i) on the last Business Day of each calendar quarter, commencing with the first such date to occur after the Second Amendment Effective Date through the Final Maturity Date and (ii) on the Final Maturity Date; and"

1.4 Amendments to Section 2.19 (Increase in Commitments). Section 2.19 of the Credit Agreement is hereby amended and restated in its entirety as follows:

"Section 2.19 Increase in Commitments.

(a) The Borrower shall have the right, at any time prior to the date 6 months prior to the Tranche 2 Termination Date by written notice to and in consultation with the Administrative Agent, to request an increase in the Tranche 2 Commitments (each such requested increase, a "Commitment Increase"), by having one or more

existing Tranche 2 Lenders increase their respective Tranche 2 Commitments then in effect (each, an "Increasing Lender"), by adding as a Tranche 2 Lender with a new Tranche 2 Commitment hereunder one or more Persons that are not already Tranche 2 Lenders (each, an "Additional Lender"), or a combination thereof; provided that (i) any such request for a Commitment Increase shall be in a minimum amount of $10,000,000 or an integral multiple of $5,000,000 in excess thereof, (ii) immediately after giving effect to any Commitment Increase, (y) the aggregate Tranche 2 Commitments shall not exceed $150,000,000 and (z) the aggregate of all Commitment Increases effected after the Effective Date shall not exceed $50,000,000, and (iii) no existing Tranche 2 Lender shall be obligated to increase its Tranche 2 Commitment as a result of any request for a Commitment Increase by the Borrower unless it agrees in its sole discretion to do so.

(b) Each Additional Lender must qualify as an Eligible Assignee (the approval of which by the Administrative Agent and the Fronting Bank shall not be unreasonably withheld or delayed) and the Borrower and each Additional Lender shall execute a joinder agreement together with all such other documentation as the Administrative Agent and the Borrower may reasonably require, all in form and substance reasonably satisfactory to the Administrative Agent and the Borrower, to evidence the Tranche 2 Commitment of such Additional Lender and its status as a Tranche 2 Lender hereunder.

(c) If the aggregate Tranche 2 Commitments are increased in accordance with this Section, the Administrative Agent and the Borrower shall determine the effective date (the "Commitment Increase Date," which shall be a Business Day not less than thirty (30) days prior to the Commitment Termination Date) and the final allocation of such increase. The Administrative Agent shall promptly notify the Borrower and the Lenders of the final allocation of such increase and the Commitment Increase Date. The Administrative Agent is hereby authorized, on behalf of the Lenders, to enter into any amendments to this Agreement and the other Credit Documents as the Administrative Agent shall reasonably deem appropriate to effect such Commitment Increase.

(d) Notwithstanding anything set forth in this **Section 2.19** to the contrary, no increase in the Tranche 2 Commitments pursuant to this **Section 2.19** shall be effective unless:

(i) The Administrative Agent shall have received the following, each dated the Commitment Increase Date and in form and substance reasonably satisfactory to the Administrative Agent:

(A) as to each Increasing Lender, evidence of its agreement to provide a portion of the Commitment Increase, and as to each Additional Lender, a duly executed joinder agreement together with all other documentation required by the Administrative Agent pursuant to **Section 2.19(b)**;

(B) an instrument, duly executed by each Credit Party, acknowledging and reaffirming its obligations under this Agreement, the Security Documents and the other Credit Documents to which it is a party and the validity and continued effect of the Liens granted in favor of the Administrative Agent thereunder;

(C) a certificate of the secretary or an assistant secretary of each Credit Party, certifying to and attaching the resolutions adopted by the board of directors (or similar governing body) of such Credit Party approving or consenting to such Commitment Increase;

(D) a certificate of a Financial Officer of the Borrower, certifying that (y) as of the Commitment Increase Date, all representations and warranties of the Credit Parties contained in this Agreement and the other Credit Documents qualified as to materiality are true and correct and those not so qualified are true and correct in all material respects, both immediately before and after giving effect to the Commitment Increase and any Letters of Credit issued in connection therewith (except to the extent any such representation or warranty is expressly stated to have been made as of a specific date, in which case such representation or warranty is true and correct (if qualified as to materiality) or true and correct in all material respects (if not so qualified), in each case as of such date), and (z) no Default or Event of Default has occurred and is continuing, both immediately before and after giving effect to such Commitment Increase (including any Letters of Credit issued in connection therewith and the application of the proceeds thereof); and

(ii) Each outstanding Syndicated Letter of Credit shall have been amended giving effect to the Commitment Increase or, if required, returned by each respective beneficiary to the Administrative Agent and cancelled and/or exchanged for a new or amended Syndicated Letter of Credit giving effect to the Commitment Increase; and

(iii) In the case of any Credit Extension in connection with such Commitment Increase, the conditions precedent set forth in Section 4.2 shall have been satisfied."

1.5 Amendments to Section 7.2 (Investments). Section 7.2 of the Credit Agreement is hereby amended and restated in its entirety as follows:

Section 7.2 Investments. Make any Investments in (a) Fairfax, Crum & Forster, Northbridge Financial, TIG Insurance Group, TIG Insurance Company, ORH Holdings, Inc., Fairfax Financial (US) LLC, United States Fire Insurance Company or Fairfax Inc. or their respective Affiliates and Subsidiaries (other than the Borrower and its Subsidiaries) or (b) debt and equity securities of Fairfax, Crum & Forster, Northbridge Financial, TIG Insurance Group, TIG Insurance Company, ORH Holdings, Inc., Fairfax Financial (US) LLC, United States Fire Insurance Company or Fairfax Inc. or their respective Affiliates and Subsidiaries (other than the Borrower and its Subsidiaries), other than in each case Investments made from Cash on Hand (as defined in Section 7.6(b)) and the proceeds of Restricted Payments received by the Borrower pursuant to Restricted Payments permitted to be made (and made) to the Borrower after the Second Amendment Effective Date in accordance with Section 7.6(a); provided**,** however, (A) each such Investment shall be permitted by the applicable Investment Guidelines, (B) each such Investment shall not violate any Requirement of Law and (C) no Default or Event of Default shall have occurred and be continuing (or result therefrom)."

1.6 Amendments to Section 7.6 (Restricted Payments). Sections 7.6(b) and (c) of the Credit Agreement are hereby amended and restated in their entirety as follows:

"(b) the Borrower may make Restricted Payments (i) in an aggregate amount equal to the amount of cash, cash equivalents and marketable securities on hand ("Cash on Hand") as of the Second Amendment Effective Date, such amount not to exceed $100,000,000, and (ii) in an aggregate amount (excluding any Restricted Payments permitted under clause (i) hereof) equal to 100% of the Restricted Payments received by the Borrower pursuant to Restricted Payments permitted to be made (and made) to the Borrower after the Second Amendment Effective Date in accordance with **Section 7.6(a);** provided**,** however, that, in the case of any Restricted Payment to be made pursuant to clause (i) or (ii) above, both at the time of declaration and of payment of each such Restricted Payment, no Default or Event of Default shall have occurred and be continuing (or result therefrom);"

"(c) the Borrower may purchase, redeem, retire or otherwise acquire shares of its common stock from the proceeds of Restricted Payments received by the Borrower pursuant to Restricted Payments permitted to be made (and made) to the Borrower after the Second Amendment Effective Date in accordance with **Section 7.6(a);** provided, however, (A) each such Restricted Payment shall be permitted by the applicable Investment Guidelines, (B) each such Restricted Payment shall not violate any Requirement of Law and (C) no Default or Event of Default shall have occurred and be continuing (or result therefrom);"

1.7 Amendments to Section 7.13(b)(Minimum Statutory Surplus). Section 7.13(b) of the Credit Agreement is hereby amended and restated in its entirety as follows:

(b) "Minimum Statutory Surplus. Permit the Statutory Surplus of OARC to be less than $2,000,000,000."

1.8 Amendments to Section 7.13(c)(Minimum Risk−Based Capital). Section 7.13(c) of the Credit Agreement is hereby amended and restated in its entirety as follows:

"(c) Minimum Risk−Based Capital. Permit the ratio of (i) "total adjusted capital" (within the meaning of the Risk−Based Capital for Insurers Model Act as promulgated by the NAIC as of the date hereof (the "Model Act")) of OARC to (ii) 2 times the "Authorized Control Level Risk−Based Capital" (within the meaning of the Model Act) of OARC to be less than one hundred seventy five percent (175%), as of the last day of any fiscal quarter, beginning with the fiscal quarter ending December 31, 2009."

1.9 Amendments to Section 8.1(m)(Events of Default−Ratings Downgrade). Section 8.1(m) of the Credit Agreement is hereby amended and restated in its entirety as follows:

"(m) Ratings Downgrade. The Financial Strength Rating for OARC falls below A−; or"

ARTICLE II

TERMINATION OF TRANCHE 1 COMMITMENTS

Effective as of the Second Amendment Effective Date, the aggregate Tranche 1 Commitments shall be permanently terminated in whole, and by the execution hereof by the Required Lenders, the requirement in Section 2.5(b) of the Credit Agreement to provide 3 Business Days prior written notice to the Administrative Agent is hereby waived.

ARTICLE III
CONDITIONS OF EFFECTIVENESS

This Second Amendment shall become effective as of the first date (such date being referred to as the "Second Amendment Effective Date") on which each of the following conditions shall have been satisfied:

(a) The Administrative Agent shall have received, dated as of the Second Amendment Effective Date, an executed counterpart hereof from each of the Credit Parties and the Required Lenders;

(b) On the Second Amendment Effective Date, the representations and warranties set forth in Article IV hereof shall be true and correct in all material respects;

(c) Since December 31, 2008, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect;

(d) The Borrower shall have paid to the Administrative Agent, for the benefit of each Lender who approves this Second Amendment a nonrefundable amendment fee in the amount of 0.10% of such approving Lender's Tranche 2 Commitment, which fee shall be deemed fully earned as of the Second Amendment Effective Date;

(e) The Borrower shall have paid all principal, interest and other amounts outstanding under the Credit Agreement with respect to the Tranche 1 Commitments and there shall be no Tranche 1 Credit Extensions outstanding;

(f) The Borrower shall have paid to Wells Fargo Securities, LLC ("Wells Fargo Securities") the other fees required under the engagement letter from Wells Fargo Securities to the Borrower, dated as of February 17, 2010; and

(g) The Borrower shall have paid all reasonable out−of−pocket costs and expenses of the Administrative Agent in connection with the preparation, negotiation, execution and delivery of this Second Amendment (including, without limitation, the reasonable and documented fees and out−of−pocket expenses of counsel for the Administrative Agent with respect thereto).

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

Each of the Credit Parties (solely as to itself and its Subsidiaries) represents and warrants to the Administrative Agent, the Issuing Banks and the Lenders that (i) the representations and warranties contained in the Credit Agreement and the other Credit Documents are true and correct in all material respects on and as of the Second Amendment Effective Date, both immediately before and after giving effect to this Second Amendment (except to the extent any such representation or warranty is expressly stated to have been made as of a specific date, in which case such representation or warranty shall be true and correct in all material respects as of such date), (ii) this Second Amendment has been duly authorized, executed and delivered by such Credit Party and constitutes the legal, valid and binding obligation of such Credit Party enforceable against it in accordance with its terms, and (iii) no Default or Event of Default shall have occurred and be continuing on the Second Amendment Effective Date, both immediately before and after giving effect to this Second Amendment.

ARTICLE V
ACKNOWLEDGEMENT AND CONFIRMATION OF THE CREDIT PARTIES

Each Credit Party hereby confirms and agrees that, after giving effect to this Second Amendment, the Credit Agreement and the other Credit Documents to which it is a party remain in full force and effect and enforceable against such Credit Party in accordance with their respective terms and shall not be discharged, diminished, limited or otherwise affected in any respect, and the amendments contained herein shall not, in any manner, be construed to constitute payment of, or impair, limit, cancel or extinguish, or constitute a novation in respect of, the Obligations of the Credit Parties evidenced by or arising under the Credit Agreement, the other Credit Documents, and the liens and security interests in the Collateral, which shall not in any manner be impaired, limited, terminated, waived or released, but shall continue in full force and effect. Each Credit Party represents and warrants to the Lenders that it has no knowledge of any claims, counterclaims, offsets, or defenses to or with respect to its obligations under the Credit Documents, or if such Credit Party has any such claims, counterclaims, offsets, or defenses to the Credit Documents or any transaction related to the Credit Documents, the same are hereby waived, relinquished, and released in consideration of the execution of this Second Amendment. This acknowledgement and confirmation by the Credit Parties is made and delivered to induce the Administrative Agent and the Lenders to enter into this Second Amendment, and the Credit Parties acknowledge that the Administrative Agent and the Lenders would not enter into this Second Amendment in the absence of the acknowledgement and confirmation contained herein.

ARTICLE VI
MISCELLANEOUS

6.1 Governing Law. This Second Amendment shall be governed by and construed and enforced in accordance with the laws of the State of New York.

6.2 Full Force and Effect. Except as expressly amended hereby, the Credit Agreement shall continue in full force and effect in accordance with the provisions thereof on the date hereof. As used in the Credit Agreement, “hereinafter,” “hereto,” “hereof,” and words of similar import shall, unless the context otherwise requires, mean the Credit Agreement after amendment by this Second Amendment. Any reference to the Credit Agreement or any of the other Credit Documents herein or in any such documents shall refer to the Credit Agreement and Credit Documents as amended hereby. This Second Amendment is limited as specified and shall not constitute or be deemed to constitute an amendment, modification or waiver of any provision of the Credit Agreement except as expressly set forth herein. This Second Amendment shall constitute a Credit Document under the terms of the Credit Agreement.

6.3 Expenses. The Borrower agrees on demand (i) to pay all reasonable fees and expenses of counsel to the Administrative Agent, and (ii) to reimburse the Administrative Agent for all reasonable out–of–pocket costs and expenses, in each case, in connection with the preparation, negotiation, execution and delivery of this Second Amendment and the other Credit Documents delivered in connection herewith.

6.4 Severability. To the extent any provision of this Second Amendment is prohibited by or invalid under the applicable law of any jurisdiction, such provision shall be ineffective only to the extent of such prohibition or invalidity and only in any such jurisdiction, without prohibiting or invalidating such provision in any other jurisdiction or the remaining provisions of this Second Amendment in any jurisdiction.

6.5 Successors and Assigns. This Second Amendment shall be binding upon, inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto.

6.6 Construction. The headings of the various sections and subsections of this Second Amendment have been inserted for convenience only and shall not in any way affect the meaning or construction of any of the provisions hereof.

6.7 Counterparts. This Second Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Second Amendment by telecopy or by electronic mail in a .pdf or similar file shall be effective as delivery of a manually executed counterpart of this Second Amendment. A complete set of counterparts shall be lodged with the Borrower and the Administrative Agent.

[THE BALANCE OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be executed by their duly authorized officers as of the date first above written.

ODYSSEY RE HOLDINGS CORP.

By: /s/ R. Scott Donovan
Name: R. Scott Donovan
Title: Executive Vice President & Chief Financial Officer

ODYSSEY AMERICA REINSURANCE CORPORATION

By: /s/ R. Scott Donovan
Name: R. Scott Donovan
Title: Executive Vice President

CLEARWATER INSURANCE COMPANY

By: /s/ R. Scott Donovan
Name: R. Scott Donovan
Title: President

CLEARWATER SELECT INSURANCE COMPANY

By: /s/ R. Scott Donovan
Name: R. Scott Donovan
Title: President

HUDSON INSURANCE COMPANY

By: /s/ Peter H. Lovell
Name: Peter H. Lovell
Title: SVP

HUDSON SPECIALTY INSURANCE COMPANY

By: /s/ Peter H. Lovell
Name: Peter H. Lovell
Title: SVP

WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent, Fronting Bank and as a Lender

By: /s/ Mark B. Felker
Name: Mark B. Felker
Title: Managing Director
Wachovia Bank, National Association

KeyBank National Association

By: /s/ Mary K. Young
Name: Mary K. Young
Title: Senior Vice President

CITIBANK, N.A.

By: /s/ Cynthia W. Priest
Name: Cynthia W. Priest
Title: Vice President

The Bank of New York Mellon

By: /s/ Paulette Truman
Name: Paulette Truman
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION, as a Lender

By: /s/ Daniel R. Raynor
Name: Daniel R. Raynor
Title: Senior Vice President

Webster Bank, National Association

By: /s/ Lawrence Davis

Name: Lawrence Davis

Title: Vice President

Exhibit 21.1

List of the Registrant’s Subsidiaries

Name	Jurisdiction of Incorporation
Odyssey America Reinsurance Corporation	Connecticut
Clearwater Insurance Company	Delaware
Hudson Insurance Company	Delaware
Hudson Specialty Insurance Company	New York
Clearwater Select Insurance Company	Delaware
Napa River Insurance Services, Inc.	California
O.R.E Holdings Limited	Mauritius
Newline Holdings U.K. Limited	United Kingdom
Newline Underwriting Management Limited	United Kingdom
Newline Insurance Company Limited	United Kingdom
Newline Corporate Name Limited	United Kingdom
Newline Underwriting Limited	United Kingdom
Newline Asia Services Pte. Ltd.	United Kingdom
Connect Liability Solutions Pty Ltd.	Australia
Odyssey Holdings Latin America, Inc.	Delaware
Odyssey Latin America Inc.	Delaware

Exhibit 24

ODYSSEY RE HOLDINGS CORP.
POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that each person whose signature appears below constitutes and appoints, jointly and severally, V. Prem Watsa, Andrew A. Barnard and R. Scott Donovan, his true and lawful attorneys–in–fact and agents, each of whom may act alone, with full powers of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign (1) an annual report on Form 10–K, or such other form as may be recommended by counsel, to be filed with the Securities and Exchange Commission (the "***Commission***"), and any and all amendments thereto, and any and all instruments and documents filed as a part of or in connection with the said annual report or amendments thereto, and (2) any reports and applications relating thereto to be filed by the Company with the Commission and/or any national securities exchanges under the Securities Exchange Act of 1934, as amended, and any and all amendments thereto, and any and all instruments and documents filed as part of or in connection with such reports or amendments thereto; granting unto said attorneys–in–fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done, as fully for all intents and purposes as he might or could do in person, and hereby ratifying and confirming all that the said attorneys–in–fact and agents or any of them, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned have executed this power of attorney as of the 25th day of February, 2010.

/s/ Andrew A. Barnard

Andrew A. Barnard

/s/ V. Prem Watsa

V. Prem Watsa

/s/ Alan D. Horn

Alan D. Horn

/s/ Brandon W. Sweitzer

Brandon W. Sweitzer

/s/ R. Scott Donovan

R. Scott Donovan

/s/ James F. Dowd

James F. Dowd

/s/ Anthony F. Griffiths

Anthony F. Griffiths

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES–OXLEY ACT OF 2002

I, Andrew A. Barnard, certify that:

1. I have reviewed this annual report on Form 10–K of the registrant, Odyssey Re Holdings Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Andrew A. Barnard
Andrew A. Barnard
President and Chief Executive Officer

Date: February 25, 2010

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF
THE SARBANES–OXLEY ACT OF 2002

I, R. Scott Donovan, certify that:

1. I have reviewed this annual report on Form 10–K of the registrant, Odyssey Re Holdings Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ R. Scott Donovan
R. Scott Donovan
Executive Vice President and
Chief Financial Officer

Date: February 25, 2010

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES–OXLEY
ACT OF 2002**

In connection with the annual report on Form 10–K of Odyssey Re Holdings Corp. (the "Company") containing the financial statements of the Company for the fiscal year ended December 31, 2009 (the "Report") as filed with the Securities and Exchange Commission on the date hereof, I, Andrew A. Barnard, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes–Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Andrew A. Barnard
Andrew A. Barnard
President and Chief Executive Officer

February 25, 2010

A signed original of this written statement required by Section 906 has been provided to Odyssey Re Holdings Corp. and will be retained by Odyssey Re Holdings Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES–OXLEY
ACT OF 2002**

In connection with the annual report on Form 10–K of Odyssey Re Holdings Corp. (the "Company") containing the financial statements of the Company for the fiscal year ended December 31, 2009 (the "Report") as filed with the Securities and Exchange Commission on the date hereof, I, R. Scott Donovan, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes–Oxley Act of 2002, that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ R. Scott Donovan
R. Scott Donovan
Executive Vice President and
Chief Financial Officer

February 25, 2010

A signed original of this written statement required by Section 906 has been provided to Odyssey Re Holdings Corp. and will be retained by Odyssey Re Holdings Corp. and furnished to the Securities and Exchange Commission or its staff upon request.