

Odyssey Re Holdings Corp. 's Operating Subsidiaries

Operating Companies Covered

By This Report

Financial Strength Rating

Local Currency

A-/Stable/—

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Major Rating Factors

Strengths:

- Strong competitive position in reinsurance and a well-diversified product mix.
- Strong overall operating performance resulting largely from significant investment returns and realized gains.
- Strong investment management and liquidity.

Weaknesses:

- Small underwriting profits.
- Lack of clear competitive advantage in specific products or lines of business that are significant to overall earnings.
- Strong capital adequacy, but less capital redundant than some peers.

Rationale

The insurer financial strength ratings on Odyssey Re Holdings Corp.'s (ORH) operating insurance subsidiaries—Odyssey America Reinsurance Corp. (OARC), Clearwater Insurance Co., and Hudson Specialty Insurance Co. (collectively referred to as Odyssey Re)—are based on ORH's core position as a wholly owned subsidiary of Fairfax Financial Holdings Ltd. (FFH) following FFH's acquisition of the outstanding shares of common stock on Oct. 28, 2009. The ratings are also based on Odyssey Re's strong competitive position in reinsurance with a well-diversified product mix, strong overall operating performance, and strong investment management and liquidity. Offsetting these positive factors are small underwriting profits and the lack of a clear competitive advantage within specific products or lines of

business that are significant to overall earnings. Capital adequacy is strong, but the company's capital is less redundant than some peers'. Standard & Poor's Ratings Services views Odyssey Re's competitive position within reinsurance as strong based on its position as the fifth-largest operating reinsurance company (OARC) in the U.S. based on net premiums written (NPW) (according to the Reinsurance Association of America, or RAA, report as of June 30, 2009)—though this includes approximately \$170 million in primary writings (U.S. insurance division). Globally, Odyssey Re is ranked as the 14th-largest reinsurer (based on 2008 total NPW). Also, Odyssey Re has a strong competitive position with a well-established worldwide operating platform generating approximately \$2.3 billion of gross premiums written (GPW) in 2008 through both reinsurance (65%) and insurance (35%) coverage. Despite Odyssey Re's strong U.S. reinsurance market position and diversified revenue streams with expanding worldwide operations and gradually increasing primary line writings, it does not have a strong competitive advantage within a specific product or lines of business. Odyssey Re's operating performance is strong, although GAAP net income decreased to \$250.8 million at the end of third-quarter 2009 versus \$435.7 million at the same time in 2008. The decrease results mainly from considerably lower net realized investment gains of \$100 million, compared with \$565 million in the previous year. At the end of third-quarter 2009, the return on revenue (ROR), excluding realized investment gains, was strong at 13.5%. The GAAP combined ratio remains volatile. As of Sept. 30, 2009, the combined ratio (including other corporate expenses and foreign exchange movements) improved by 5.3 percentage points to 99.0% over the same period in 2008, mainly because of lower catastrophe losses. As of Sept. 30, 2009, the combined ratio included 7.3 percentage points of current-year catastrophe losses, compared with 14.2 percentage points at the same time in the previous year. Alternatively, in 2008, the combined ratio increased to 104.1% from 96.1% in 2007 as a result of a higher loss ratio in all four segments. The loss ratio for the Americas segment increased four percentage points, EuroAsia increased six percentage points, London was up by 11 percentage points, and U.S. Insurance rose nine percentage points. Investment management and liquidity are strong and a strength to the rating because of the involvement of Hamblin Watsa Investment Counsel Ltd. (HWIC), an affiliate of parent company FFH, which manages Odyssey Re's investment portfolio. Investment performance has been the main contributor to Odyssey Re's strong overall earnings and increasing surplus in the past few years. Odyssey Re's capitalization is strong and adequate for the rating. While shareholders' equity continued to grow, largely as a result of strong retained earnings, the company has used retained earnings largely to fund its share repurchases. Odyssey Re has less catastrophe exposure than some peers. But, capital is less redundant than that of some peers. Capitalization has improved in 2009 over the previous year, mainly because of higher retained earnings, but also as a result of a change in Standard & Poor's reserve discount credit.

Outlook

Standard & Poor's expects Odyssey Re to remain a core member of the FFH group of companies, since it represents approximately one-half of FFH's ongoing operations. In line with our criteria, we establish an aggregated rating for FFH's core group of companies, including Odyssey Re, to reflect the individual company risks as if they were consolidated. (For details on our criteria, see "Group Methodology," published April 22, 2009, on RatingsDirect.) We believe that the ratings on Odyssey Re are stable and that it is unlikely we would raise or lower them in the intermediate term. We expect Odyssey Re to generate a combined ratio of about 99%, an ROR of 15%, and positive earnings in full-

year 2009 and 2010. We expect earnings in 2009 will be about half of what they were in 2008 because of lower investment gains. But, positive earnings will contribute to capital adequacy remaining strong in 2009 and 2010. Although we expect Odyssey Re to continue to generate above-average long-term investment results, including realized gains, relative to common equity and bond benchmarks, the company is not immune to investment losses in a single year.

Competitive Position: Maintaining A Strong Reinsurance Platform And Expanding Globally

Odyssey Re has a strong U.S. reinsurance market position. It is expanding worldwide operations and gradually increasing primary line writings, although primary business is still a smaller part of the global portfolio. We view Odyssey Re's competitive position as strong based on its position as the fifth-largest operating reinsurance company (OARC) in the U.S. based on NPW (according to an RAA report as of June 30, 2009)—though this includes approximately \$170 million in primary writings (U.S insurance division as of June 30, 2009). Globally, Odyssey Re ranks as the 14th-largest reinsurer (based on 2008 total NPW).

Odyssey Re exhibits strong distribution channels, with geographic and product line diversification across both reinsurance (65% of GPW as of Sept. 30, 2009) and primary lines (35% of GPW) of business. Moreover, international premiums accounted for nearly half (48%) of global GPW at the end of third-quarter 2009. (Europe and Asia were responsible for 26%, the London Market for 14%, and Latin America and Canada for 8%.) With regard to its reinsurance book of business, Odyssey Re has realized the benefits of its opportunistic strategy, evident in the growth of GPW from \$1,154 million in 2001 to \$2,651 million in 2004 while rates were hardening. The company then experienced a decrease in GPW from \$2,627 million in 2005 to \$2,294 million in 2008 as prices softened. As of year-end 2008, GPW increased by a marginal 0.5%, and NPW declined by 3% year over year because of lower writings in the U.S. As of Sept. 30, 2009, GPW were down by 5.7% year over year, and NPW declined 8% because of lower writings in EuroAsia, the London Market, and the Americas, slightly offset by higher gross writings in the U.S insurance division. Net retention (NPW as a percent of GPW) decreased across the divisions in 2008 and into 2009.

Table 1

<i>Odyssey Re Holdings Corp. 's Operating Subsidiaries/Business Review</i>					
	<i>—Six months ended June 30—</i>		<i>—Year ended Dec. 31—</i>		
<i>(Mil. \$)</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Gross premiums written	1,066.3	2,294.5	2,282.7	2,335.7	2,626.9
Year-over-year change (%)	(6.8)	0.5	(2.3)	(11.1)	(0.9)
Net premiums written	938.8	2,030.8	2,089.4	2,160.9	2,301.7
Year-over-year change (%)	(8.1)	(2.8)	(3.3)	(6.1)	(2.5)
Non-life revenue/total revenue (%)	100.0	100.0	100.0	100.0	100.0
Life revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.0
Other revenue/total revenue (%)	0.0	0.0	0.0	0.0	0.0
Non-life EBITDA/total EBITDA (%)	100.0	100.0	100.0	100.0	100.0
Life EBITDA/total EBITDA (%)	0.0	0.0	0.0	0.0	0.0
Other income/EBITDA (%)	0.0	0.0	0.0	0.0	0.0

Table 1

<i>Odyssey Re Holdings Corp. 's Operating Subsidiaries/Business Review (cont. 'd)</i>					
	<i>—Six months ended June 30—</i>		<i>—Year ended Dec. 31—</i>		
<i>(Mil. \$)</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
<i>Gross premiums written by division (%)</i>					
Americas	36.2	33.8	36.6	39.6	43.0
EuroAsia	27.3	26.0	24.8	24.0	20.7
London market	13.9	16.7	15.3	14.6	16.4
U.S. insurance	22.6	23.5	23.3	21.8	19.8

Odyssey Re operates in a broad array of business lines. We view the diversified sources of earnings as positive. However, it is our opinion that the company lacks a clear competitive advantage within specific products or lines of business. In addition, with increased focus on crop insurance and primary business as well as increased competition in reinsurance lines of business, it is possible that the company's business mix will become more heavily weighted toward primary lines of business, depending on market opportunities.

Odyssey Re's distribution sources are diverse, with the company's reinsurance business produced through brokers (86%) and direct relationships (14%), with the top five brokers constituting 41% of total business production, as measured by GPW in 2008 (63% of reinsurance). The management of the business is divided among four major units: Americas, EuroAsia, London Market, and U.S. Insurance.

Americas

Americas is the largest division within Odyssey Re, although its proportion of the business is decreasing. It accounted for \$776.4 million (or 34%) of GPW at year-end 2008, compared with 56% in 2003. As a result of continuing pricing pressures, we expect casualty business, as a proportion of the Americas segment, to continue to decline. The division focuses solely on reinsurance and underwrites mainly casualty lines (53%, down from 59% at year-end 2007), and primarily provides coverage to specialty companies and small and midsize regional companies. This division comprises the reinsurance operations mainly in the U.S. (75%), but also Latin America (20%) and Canada (5%). The Latin American and Canadian businesses have become an increasingly larger part of the company's business. These international sourced premiums amounted to 25% of the Americas segment at year-end 2008, up from 22% in 2007 and 16% in 2003. It primarily writes property/casualty (P/C) treaty, although it also writes casualty facultative in the U.S., and property facultative in Latin America. The Latin American business is predominantly commercial property and motor. The Canadian unit writes mostly property, casualty, crop hail, and surety coverage.

EuroAsia

The EuroAsia division is growing, with GPW accounting for approximately \$597 million, or 26% of the total, in 2008. The division writes primarily treaty business written on both a pro rata and excess basis. The two main business lines are property (64% of GWP year-end 2008) and motor (14%). Approximately one-third of the segment's property writings are exposed to some type of property catastrophe component. The main office is in Paris, and France is the largest geographic market for the EuroAsia division, accounting for approximately one-quarter of the division's GWP. Europe

represented 69% of GWP in 2008, while Asia represented 17% and the Middle East, Africa, and the Americas comprised the remaining 14%, highlighting the division's geographic diversity.

London Market

The London Market division produced \$381 million, or 17%, of GPW in 2008, up from \$350 million in 2007. It operates through three platforms: the London branch of Odyssey America; Newline, which includes Newline Insurance Co. (a Financial Services Authority-approved company); and a Lloyd's syndicate, which includes Newline Asia Services Pte. Odyssey Re recently established new offices in Singapore and Melbourne. The business is generated through brokers and is underwritten on both a primary and reinsurance basis, with primary writings, Newline, and the Lloyd's syndicate, amounting to 66% of the division's written premiums. The balance stems from reinsurance through the London branch. Newline focuses on international casualty insurance such as professional indemnity, directors and officers (D&O), and crime, in addition to products and employers liability. And, in 2006, it began underwriting medical malpractice liability for non-U.S. risks and U.K. motor insurance. Newline business is underwritten on a primary basis for small- to medium-size European and Australian clients. Newline is authorized to underwrite primary lines of business throughout the EU and U.K., as well as facultative business on a worldwide basis. The London branch underwrites worldwide treaty reinsurance consisting of property, marine, aerospace, and international casualty.

U.S. Insurance

The U.S. Insurance business continues to grow both in terms of premiums generated (\$540 million, or 24% of the total, in 2008, up from 11% in 2003) as well as by product line and geographical coverage. The division writes specialty lines such as medical malpractice and professional liability on an admitted and nonadmitted basis through its primary operating companies: Hudson Insurance Co. and Hudson Specialty Insurance Co. Professional liability (\$131 million of GPW) and medical malpractice (\$114 million of GPW) remain the largest segments, constituting 24% and 21%, respectively, of the division's GPW at year-end 2008.

The division underwrites medical malpractice business covering community hospitals and small physician groups and individual doctors through regional brokers, on a claims-made basis, and mainly on a surplus lines basis to benefit from rate and policy form flexibility. The balance of the business—approximately \$426 million in GPW in 2008—includes errors and omissions (E&O), D&O, specialty commercial auto, and multiperil crop insurance. This business is written through a combination of in-house underwriting facilities and via a limited number of relationships. Historically, program writing has been problematic for many companies. Odyssey Re is selective about its program business largely based on its view of price adequacy. Odyssey Re has acquired some agents and ended selected relationships. In August 2008, Odyssey Re acquired the assets pertaining to the crop insurance business of CropUSA Insurance Agency Inc. Since 2006, CropUSA had acted as managing general underwriter for Hudson in the crop insurance sector. Moreover, Hudson is one of the 16 federally appointed insurance companies allowed to underwrite multiperil crop insurance in 2009. Crop-related GPW amounted to \$62.3 million in 2008, and its primary states include Texas, Idaho, and Kansas. The company has indicated that it has very high cessions in its crop business, insulating it from any large severity losses. As part of its focus on developing the U.S. insurance business, the company has expanded lines of business such as crop, financial products, D&O, and, most recently, environmental

insurance. As part of its regional presence expansion, Odyssey Re opened new offices in Overland Park, Kan.; San Francisco; Chicago; and, most recently, Philadelphia in September 2009. These lines of business are not currently significant to the overall earnings, and Odyssey Re still needs to prove its expertise in these new fields.

Prospective

In 2009 and 2010, Standard & Poor's expects Odyssey Re to continue to expand the international business and domestic internally controlled insurance business while the company remains selective about its U.S. insurance program business and casualty reinsurance. We do not expect Odyssey Re to command a pricing leadership position or gain a significant competitive advantage within the insurance and reinsurance markets it competes in. Competition in property reinsurance and international reinsurance, along with primary lines pricing, remain challenges. Rates continue to deteriorate in most casualty lines. Accordingly, we expect GPW to decline 5%-10% in 2009 relative to 2008, followed by moderate overall volume growth in 2010.

Management And Corporate Strategy: Limited Investment Risk Through The Soft Cycle

We view Odyssey Re's management and corporate strategy as marginally positive, led by the strength of the investment team. The company's strategy is supported by its ability to realize the benefits of its opportunistic strategy, its expanding global presence, and its improved earnings in recent years. As the soft market erodes underwriting profitability, Odyssey Re has reduced exposures in some lines (casualty, medical malpractice, and international liability) while expanding into new lines of business. The company is selective about its program business exposure, which we view as a positive factor. In addition, the company's investment approach limits investment downside risk.

Senior management is well seasoned, with the CEO and heads of the largest operating units having more than 25 years of reinsurance and insurance industry experience each, most notably as underwriters. Moreover, the CEO and the operating units' CEOs all have more than seven years experience with Odyssey Re.

Operational management

Odyssey Re operates through four strategic operating divisions (Americas, EuroAsia, London Market, and U.S. Insurance), and each division is separate from a marketing standpoint, while reserves, pricing, and investments are centralized at the corporate level. In spring 2009, Odyssey Re introduced a new chief operating officer role with global underwriting responsibility and created a dedicated risk-management unit at the executive level. All positions were internal rotations. The company has several distribution platforms that have enabled it to respond to market conditions and rotate the portfolio out of lines of business that have seen the most overall price softening.

Financial management

Financial and capital management will remain tied to Odyssey Re's book value growth goal of a 15% return on equity on average through the cycle. The company aims for a combined ratio of about 95%. Overall, Odyssey Re continues to develop its economic capital modeling methodology to provide precise risk appetites to the wide array of complex risks it faces.

Standard & Poor's views Odyssey Re's insurance risk tolerance as relatively low because of the company's focus on underwriting, reduced casualty exposure, and strong earnings with consistent investment gains in prior years. On the other hand, the company has raised its overall catastrophe loss tolerance this year to 20% from 15% of surplus—although this increased tolerance has not been utilized. Odyssey Re does not have direct asset and liability matching as they consider duration by risk profile. Furthermore, we view investment risk as high in terms of the potential volatility of a sizable equity portfolio.

Enterprise Risk Management: Adequate And Still Developing

As a core member of the FFH group of companies, Odyssey Re is an integral part of FFH's enterprise risk management (ERM) program. Standard & Poor's considers FFH's ERM to be adequate, and Odyssey Re's ERM is aligned with that of its parent. The importance of ERM to the overall appraisal of FFH's financial strength is high given the group's size, complexity, and exposure to a variety of risks. The primary factor supporting the overall risk assessment of FFH's ERM is adequate risk controls for the majority of the group's risks. The relative newness of the formalization of the organization's ERM efforts, combined with partly limited centralized risk aggregation and control, currently limits a stronger assessment.

During 2009, Odyssey Re increased its focus on risk management by setting up a dedicated global risk-management unit of four employees.

Accounting

Standard & Poor's views accounting as adequate, reflecting the implementation of improved internal controls as a result of accounting restatements in 2006. Odyssey Re previously took several steps to address these issues, including increased staffing, stronger internal accounting controls, best practices sharing, and greater accountability.

Odyssey Re's total adjusted capital was \$3.7 billion as of Sept. 30, 2009, which included adjustments to reflect, consistent with our capital model criteria, the catastrophe risk within Odyssey Re's exposures.

The company's net realized gains were reduced by other-than-temporary impairment losses of \$126.7 million, \$123 million of which relates to equities, at the end of third-quarter 2009, compared with \$102 million at the same time in 2008. The write-downs were not a material portion of the \$8.9 billion investment portfolio as of third-quarter 2009. During 2008, net realized investment gains were reduced by \$358.7 million in other-than-temporary impairment losses (up from \$54.5 million in 2007), most of which came from equities of \$339 million, and the remainder from fixed-income securities.

Operating Performance: Strong, Though Volatile And Still Heavily Reliant On Strong Investment Performance

Odyssey Re's operating performance is strong because of investment-related results, but underwriting results, as measured by the combined ratio, continue to underperform the company's reinsurance peers'. Odyssey Re had a five-year (2004-2008) combined ratio of 102.5% (including other corporate expenses and foreign exchange movements), while reinsurance peers had an average of 92%. In 2008, Odyssey Re had a 104% combined ratio, which improved to 99% at the end of third-quarter 2009.

Table 2

Odyssey Re Holdings Corp. 's Operating Subsidiaries/Operating Performance					
	—Six months ended June 30—			—Year ended Dec. 31—	
<i>(Mil. \$)</i>	2009	2008	2007	2006	2005
Total revenue	1,110.9	2,331.6	2,450.0	2,712.9	2,496.9
EBITDA	203.7	174.3	411.8	587.6	(211.7)
EBITDA including realized gains	159.5	866.5	950.9	776.7	(151.9)
Net income	117.4	549.0	595.6	507.9	(115.7)
Return on adjusted equity (%)	4.0	20.0	25.1	27.3	(7.2)
Return on equity (%)	4.0	20.0	25.1	27.3	(7.2)
Return on assets (%)	1.2	5.7	6.5	5.8	(1.4)
Return on revenue (%)	17.0	5.8	15.3	20.3	(9.7)
Return on revenue including realized gains (%)	13.0	35.5	37.3	27.2	(7.3)
Realized gains/EBITDA (%)	(21.7)	397.2	130.9	32.2	(28.3)
Administrative expense ratio (%)	8.0	11.3	9.1	7.8	7.6
Commission expense ratio (%)	20.1	20.1	20.6	20.9	20.6
Non-life loss ratio (%)	67.3	72.7	66.4	66.7	90.5
Non-life combined ratio (%)	95.3	104.1	96.1	95.4	118.8
Cash flows					
Net cash flow from operating activities	(77.7)	112.1	188.7	752.3	395.7
Net cash flow from investing activities	177.4	314.1	(1,262.2)	(304.4)	(265.0)
Net cash flow from financing activities	(78.9)	(389.8)	(131.5)	63.1	277.7

Historical

Historically, operating performance has been hurt by major catastrophe events, such as the Sept. 11, 2001, terrorist attacks and losses from Hurricanes Katrina, Rita, and Wilma of \$436 million in 2005. In the periods in between, operating performance significantly improved, reflecting better premium rates and terms and conditions in the marketplace. Operating performance was strong from 2006-2008, resulting from strong net investment income and net realized capital gains.

Current performance

In 2008, the combined ratio increased to 104.1% from 96.1% in 2007, which was reasonable given the large catastrophe losses, including Hurricanes Ike and Gustav (pretax losses totaled \$155 million, which contributed 7.5 percentage points to the overall combined ratio), a snowstorm and an earthquake in China, and European windstorm Emma. All of these led to increased loss ratios for all four segments. The Americas segment was up by four percentage points, EuroAsia increased six percentage points, London Market rose 11 percentage points, and U.S. Insurance increased nine percentage points compared with 2007.

Odyssey Re has experienced adverse historical reserve development associated with U.S. casualty lines underwritten between 1997 and 2001, which has negatively affected the loss ratio for the Americas division. The loss ratio averaged 68.5% over the past three years (2006-2008). In 2008, Odyssey Re experienced overall favorable reserve development compared with adverse development in

previous years. Net loss reserves, specifically for 2001 and prior accident years, increased 2.3% in 2008 from 5.6% in 2007 and 5.4% in 2006. Casualty business in the Americas segments remains the largest proportion of total loss reserves, at 40% as of year-end 2008.

Odyssey Re's operating performance is strong, although GAAP net income decreased to \$250.8 million as of Sept. 30, 2009, from \$435.7 million at the same time in 2008. The decrease results mainly from considerably lower net realized investment gains of \$100 million, compared with \$565 million in 2008. The combined ratio at the end of third-quarter 2009 improved by 5.3 percentage points to 99.0% over the same period in 2008, largely because of lower catastrophe losses. This was offset somewhat by an approximate two-percentage-point increase in the expense ratio, primarily as Odyssey Re incurred higher foreign currency exchange losses, as well as costs related to the tender offer by Fairfax. As of Sept. 30, 2009, the combined ratio included 7.3 percentage points of current-year catastrophe losses, compared with 14.2 percentage points in the same period of the previous year. As of Sept. 30, 2009, the ROR (excluding realized investment gains) was strong at 13.5%.

Prospective

As a result of catastrophe losses that are lower than this past year, we expect underwriting results in full-year 2009 to be stronger, and it is likely that the full-year 2009 and 2010 combined ratio will remain at the current level of about 99%, with an ROR of about 15%. Based on Odyssey Re's strong investment performance track record, we expect investment earnings to increase. As a result, we expect strong net realized investment gains for the full year, though they likely will be down from 2008. Odyssey Re still faces potential earnings volatility because of catastrophe exposure. And, with underwriting profits expected to have a limited influence on overall results, investment performance remains key to strong operating performance.

Investments And Liquidity: Investment Performance Is Strong And A Strength To The Rating

Investments and liquidity are strong. Odyssey Re, through FFH, follows a long-term value-oriented investment philosophy that emphasizes total return while preserving capital and providing sufficient liquidity for the payment of policyholders' claims. The company applies a value-oriented investment style to achieve its strategy, and its investment portfolio is managed by HWIC, an affiliate of FFH. HWIC has a long track record of successful investing.

Odyssey Re significantly changed its investment risk this year. The equity share increased to 26% of total investments and cash at the end of second-quarter 2009 from 15% at the end of second-quarter 2008, municipal securities rose to 30% from 4%, and government securities declined to 12% from 45%. The level of equity market risk is high compared with that of peers and does increase the potential for future volatile investment performance despite Odyssey Re's strong investment track record—the company is not immune to investment losses in a single year. However, as of Sept. 30, 2009, about 29% of the equity exposure is hedged through a U.S. equity index total return swaps contract to protect against declines until third-quarter 2010. The company also has a long tradition of using other derivatives for hedging purposes. As of third-quarter 2009, Odyssey Re mainly uses credit default swaps to hedge part of its credit risk exposure and forward currency contracts to hedge earnings from international operations. The total investment portfolio was \$8.9 billion as of Sept. 30, 2009, an increase of about \$1 billion from year-end 2008.

There is a duration mismatch between invested assets (7.9 years at the end of third-quarter 2009) and liabilities (five years). This is offset somewhat by net insurance liabilities of about \$4.7 billion, compared with cash and short-term investments of about \$1.7 billion (19% of total investments) and fixed-income securities rated 'AA' or higher of roughly \$3.8 billion (43%) as of Sept. 30, 2009.

Table 3

Odyssey Re Holdings Corp.'s Operating Subsidiaries/Investments, Financial Flexibility, And Liquidity Statistics

	—Six months ended June 30—		—Year ended Dec. 31—		
<i>(Mil. \$)</i>	2009	2008	2007	2006	2005
Total invested assets	8,090.1	7,892.5	7,779.4	7,066.1	5,970.3
Net investment income	160.4	255.2	329.4	487.1	220.1
Realized gains/(losses)	(44.1)	692.3	539.1	189.1	59.9
Unrealized gains/(Losses)	271.2	(13.1)	135.9	36.0	163.3
Net investment yield (%)	2.0	3.3	4.4	7.5	4.0
Net investment yield including realized gains (%)	1.5	12.1	11.7	10.4	5.0
Net investment yield including realized and unrealized gains (%)	4.9	11.9	13.5	10.9	8.0
<i>Portfolio composition</i>					
Fixed-income securities, available for sale, at fair value	55.0	49.8	59.7	49.6	43.5
Common stocks, at fair value	23.8	19.7	11.4	9.0	10.1
Common stock, at equity	1.7	1.8	2.0	3.5	9.5
Short-term investments at cost, which approximates fair value	6.8	15.2	6.2	1.7	3.3
Cash and cash equivalents	10.6	9.6	11.5	29.2	25.6
Cash collateral for borrowed securities	0.2	1.0	3.8	5.2	4.0
Other invested assets	1.9	2.8	5.3	1.9	4.0
<i>Reinsurance and reserves</i>					
Reinsurance utilization ratio (%)	12.0	11.5	8.5	7.5	12.4
Net loss reserves/total adjusted equity (%)	146.7	158.3	165.5	208.5	230.0
Net loss reserves/net premiums written (%)	490.3	220.5	210.2	201.0	163.8
Liquid assets/net technical reserves (%)	136.3	137.2	130.4	124.3	107.0

Liquidity

Odyssey Re's liquidity remains strong, with more than 19% of its investments in cash, cash equivalents, or short-term investments as of Sept. 30, 2009. This is coupled with a high-quality fixed-income portfolio, with 69% of fixed-income securities rated 'AAA' and no debt repayment obligations in the near term. On the other hand, cash flows from operations continued to decrease unfavorably to \$50.6 million as of Sept. 30, 2009, from \$112 million in 2008 and a five-year high of \$752 million in 2006.

Prospective

Standard & Poor's expects investment performance to remain very strong, with a changing investment mix and risk level over time in accordance with the long-term value-oriented investment philosophy. Liquidity likely will remain strong.

Capitalization: Strong Operating Performance And Retained Earnings Improve Capitalization

Odyssey's capitalization is strong and adequate for the rating. While shareholders' equity continued to grow, largely as a result of strong retained earnings, the company has used retained earnings to fund its share repurchases. Compared with peers, Odyssey Re has less catastrophe exposure. Nonetheless, the company's capital is less redundant than some peers'. Although not a material change, Odyssey Re is looking to increase its catastrophe exposure, which would require higher capitalization to offset potentially more volatile earnings. Capitalization has improved in 2009 compared with 2008, mainly because of higher retained earnings, but also as a result of a change in Standard & Poor's reserve discount credit. Capitalization includes our estimate of a one-in-250-year net C-5 catastrophe charge for natural perils.

Table 4

Odyssey Re Holdings Corp. 's Operating Subsidiaries/Capitalization

<i>(Mil. \$)</i>	—Six months ended June 30—		—Year ended Dec. 31—		
	2009	2008	2007	2006	2005
Total assets	10,150.0	9,726.5	9,501.0	8,953.7	8,646.6
Equity	3,138.4	2,827.7	2,654.7	2,083.6	1,639.5
Total adjusted equity	3,138.4	2,827.7	2,654.7	2,083.6	1,639.5
Total capital	3,627.7	3,317.0	3,143.9	2,596.1	2,108.6
Change in adjusted equity (%)	16.6	6.5	27.4	27.1	4.5
Minority interests/adjusted equity (%)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	12.8	5.1	10.9	15.7	(7.1)
Fixed-charge coverage (x)	10.6	3.8	8.2	11.9	(6.6)
Debt/total capital (%)	13.5	14.8	15.6	19.7	22.2
Preferred/total capital	2.1	2.8	3.1	3.8	4.6
(Debt plus preferred)/total capital (%)	15.6	17.6	18.7	23.5	26.9
Investment leverage (%)	65.9	60.0	39.3	42.3	71.3

Prospective

We expect Odyssey Re's capital adequacy in 2009 and 2010 to remain strong, reflecting strong operating performance and strong investment total returns supporting the capital base, despite a potentially higher one-in-250-year probable maximum loss catastrophe charge.

Reserves

Standard & Poor's believes Odyssey Re's total reserves are adequate based on published Schedule P statutory reserves reporting for 1999-2008. However, we expect that some reserve deficiencies within the U.S. casualty lines for 2001 and prior accident years still might occur, though they're likely to be less severe than in previous years. Americas casualty, although down, still comprises 40% of total net reserves as of year-end 2008. On the other hand, casualty from other divisions has increased and adds up to 32% of total net reserves.

Since 2003, the company has reported adverse net loss reserve development, mainly related to U.S. casualty lines for underwriting years prior to 2002, especially in general liability, professional liability, and excess workers' compensation. This happened as Odyssey Re continued to experience loss

emergence resulting from a combination of higher claims frequency and severity from these same underwriting years. In 2008, Odyssey Re reported net reserve releases of \$10.1 million, although it still experienced adverse development within the Americas for business written in 2001 and earlier of \$105 million. In the six months ended June 30, 2009, net favorable development totaled \$10.9 million versus adverse development of \$3.4 million during the same period in 2008. Although reserve deficiencies associated with the U.S. casualty book of business appear to be less volatile relative to previous years, it remains to be seen whether the company will experience continued volatility associated with its U.S. casualty loss reserves.

Net asbestos and environmental (A&E) reserves are relatively small compared with Odyssey Re's capital and reserve base at \$237 million (approximately 6% of the company's \$3.7 billion total adjusted capital and approximately 5% of the net reserve base) as of Sept. 30, 2009. The company expects to complete its annual review of A&E in the fourth quarter. Although we expect that A&E risk is generally decreasing for Odyssey Re, sporadic reserve charges will occur, reflecting the most recent reserve studies and legal settlements.

Reinsurance

Reinsurance utilization remained relatively moderate at 13.8% through Sept. 30, 2009, and 11.5% in 2008. The company uses reinsurance protection mainly for its primary business and facultative reinsurance. Odyssey Re is a gross writer in P/C treaty reinsurance.

The company's objective is to limit its one-in-250-year occurrence net probable maximum loss exposure aftertax, including reinstatement premiums, to a maximum of 20% (up from 15%) of its statutory surplus. The largest exposure is European Wind, which was less than 15% as of June 30, 2009.

As of Dec. 31, 2008, reinsurance recoverables totaled \$773 million, up about 6% from year-end 2007. As of Sept. 30, 2009, recoverables constituted about 23% of the company's shareholders' equity, down from 27% at year-end 2008. In addition, Odyssey Re benefits from collateral that constituted 29.2% of the recoverables as of year-end 2008, including letters of credit, funds withheld, and trust agreement, which partially alleviates some of the credit risks. Odyssey Re's 10 largest reinsurers constituted 54% of the company's total paid loss recoverables as of Sept. 30, 2009.

Financial Flexibility: Strong, Aligned With FFH

Odyssey Re's financial flexibility is strong. Prior to the tender offer in September 2009, Fairfax continued to increase its ownership of Odyssey Re (71.9% as of June 20, 2009, up from 59.6% in 2006) as Odyssey Re repurchased common shares on the open market.

Interest expense has been stable and ORH's double leverage decreased slightly to 118% as of year-end 2008 from 120% at year-end 2007. This is well within Standard & Poor's threshold. Debt obligations have remained unchanged for the past three years. They totaled \$489 million as of Sept. 30, 2009, the bulk of which matures in 2013 (\$225 million) and 2015 (\$125 million). The remaining debt matures in 2016 and 2021. Near-term debt expenses—debt interest, employee benefits, and operational leases—amount to \$48.2 million during 2009 and \$84.3 million from 2010-2012.

In July 2007, ORH replaced its three-year, \$150 million credit facility with a new five-year, \$200 million credit facility, \$100 million of which is available for direct, unsecured borrowing. As of June 30, 2009, \$56.5 million was outstanding under the credit facility, all of which was in support of letters

of credit. In December 2008, Odyssey entered into a five-year interest rate swap, with an aggregate notional value of \$140 million, to protect it from adverse movements in interest rates.

Financial and debt-plus-preferred leverage at the holding company are strengths to the rating and measured 12.1% and 14%, respectively, as of Sept. 30, 2009, down from 14.8% and 17.6%, respectively, at year-end 2008. Odyssey Re's GAAP interest and fixed-charge coverage ratios (excluding realized capital gains and losses) were strong at 11.1x and 9.1x, respectively, in the first nine months of 2009, compared with 5.4x and 4.1x, respectively, at year-end 2008. The improved ratios resulted from increased underwriting income. Cash and cash equivalents as well as short-term investments at the holding company level totaled \$64.5 million as of Sept. 30, 2009, up from \$23.9 million at year-end 2008. Goodwill was only about 1% of total common equity (\$2.59 billion) at year-end 2008.

atings Detail (As Of 15-Dec-2009)*

Operating Companies Covered By This Report

Odyssey America Reinsurance Corp.

Financial Strength Rating

Local Currency A-/Stable/—

Counterparty Credit Rating

Local Currency A-/Stable/—

Clearwater Insurance Co.

Financial Strength Rating

Local Currency A-/Stable/—

Issuer Credit Rating

Local Currency A-/Stable/—

Hudson Specialty Insurance Co.

Financial Strength Rating

Local Currency A-/Stable/—

Issuer Credit Rating

Local Currency A-/Stable/—

Related Entities

Odyssey Re Holdings Corp.

Issuer Credit Rating

Local Currency BBB-/Stable/—

Preferred Stock (2 Issues)

BB

Senior Unsecured (2 Issues)

BBB-

Domicile

Connecticut

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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