

# Best's Rating Report



*OdysseyRe*®

**ODYSSEY REINSURANCE GROUP**

**A**

**HUDSON INSURANCE COMPANY**

**A**

Wilmington, Delaware

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**A**

# Best's Rating Report

## ODYSSEY REINSURANCE GROUP

Wilmington, DE

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### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The group's Financial Size Category is Class XV.

### RATING UNIT MEMBERS

Odyssey Reinsurance Group (AMB# 18514):

AMB#	COMPANY	BEST'S FSR		
03081	Hudson Insurance Company	A	g	
12631	Hudson Specialty Ins Co	A	g	
00539	Odyssey America Reins Corp	A	g	
78187	Newline Insurance Company Ltd	A	r	

### RATING RATIONALE

**Rating Rationale:** The ratings reflect Odyssey Reinsurance Group's ("Odyssey Re") strong risk-adjusted capitalization, strong financial performance and sound business position. Odyssey Re is a global underwriter of reinsurance and specialty primary insurance products and ranks among the top 15 global reinsurance groups in terms of premium volume. Odyssey Re's competitive position benefits from its diversified market presence with regard to business mix and geographic bearing. These positive attributes are further supported by Odyssey Re's diversified geographic client base, combined with its large line capacity, broad product capability and an opportunistic business strategy. An astute investment management philosophy emphasizing a total return measure and moderate investment leverage further supports these positive rating attributes. The outlook reflects Odyssey Re's strong operating results in light of challenging market conditions and the group's focus on managing exposures from catastrophic events while improving loss reserve adequacy.

The ratings also recognize Odyssey Re's good financial flexibility reflecting its strong liquidity and past access to the public debt and equity markets of parent holding company Odyssey Re Holdings Corp. ("ORH"). In September 2009, the group's majority owner, Fairfax Financial Holdings Limited ("Fairfax"), announced a tender offer to purchase the remaining common shares that it did not already own and is now a 100% owner of ORH. ORH has therefore delisted its common stock from the New York Stock Exchange. The group does benefit from Fairfax's access to public markets and its strong liquidity position with significant financial resources at the holding company level. Further, the group maintains a high quality invested asset base with solid liquidity due to considerable holdings of cash and cash equivalents.

Somewhat offsetting these strengths are challenging underwriting conditions reflective of price softening in major lines of business, reliance on investment results to boost total return measures and prior accident-year adverse loss reserve development, which has added to the loss ratio over the recent five-year period. However, loss reserve development has stabilized in large part, while more recent accident-year loss reserve development has demonstrated positive trends. Odyssey Re maintains a manageable exposure to natural catastrophes as measured by its 1 in 250 year probable maximum loss estimates relative to statutory surplus. In A.M. Best's opinion, Odyssey Re has made significant progress in building a holistic enterprise risk management framework and currently views it as adequate.

The rating applies to Odyssey America Reinsurance Corporation (Connecticut), Hudson Insurance Company (Delaware), Hudson Specialty Insurance Company (New York) and Newline Insurance Company Limited (London).

**Best's Financial Strength Rating: A**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
01/12/10	A	03/17/06	A u
11/17/08	A	10/14/05	A
10/15/07	A	09/15/05	A u
02/15/07	A	02/17/05	A
04/03/06	A		

### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data							
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policy- holders' Surplus		
2004	419,394	2,131,351	96,089	114,173	5,602,370	1,665,799		
2005	544,466	2,098,116	-288,125	-161,511	6,696,282	2,062,366		
2006	534,073	1,980,522	306,772	608,031	7,393,737	2,493,800		
2007	541,949	1,949,323	278,874	335,783	7,873,993	2,922,758		
2008	553,278	1,885,172	208,047	602,133	8,353,536	2,951,335		
Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash- flow (%)
2004	100.7	3.4	4.6	55.8	1.3	3.6	144.7	125.4
2005	120.1	3.2	-13.9	49.5	1.0	3.2	146.7	111.4
2006	96.0	3.9	15.1	43.2	0.8	2.7	153.0	137.3
2007	96.8	3.4	14.2	48.2	0.7	2.3	161.1	103.3
2008	101.5	3.1	10.7	70.7	0.6	2.4	156.3	102.2
5-Yr	103.1	3.4	6.0	...	...	...	...	...

(\* ) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings. Within several financial tables of this report, this group is compared against the Reinsurance Composite.

### BUSINESS REVIEW

For the purposes of this report, the financial information and discussion included for Odyssey Re reflects the consolidation of the statutory financials of all U.S. domiciled insurance and reinsurance companies owned by Odyssey Re Holdings Corp, including separately rated Clearwater Insurance Company (Clearwater). Individual reports for members of Odyssey Re Group and Clearwater include the individual member's statutory financial information.

Odyssey Re includes the U.S. reinsurance and insurance operations of ORH as well as Newline Insurance Company Limited (NICL) which is a UK-based insurance company. Reinsurance operations are led by Odyssey America Reinsurance Corporation (Odyssey America) which provides treaty casualty and property reinsurance as well as facultative reinsurance for small to medium sized regional companies and specialized departments of major insurance companies. Products are provided primarily through the broker market in the US and through brokers and directly with insurers and reinsurers internationally. Specific lines of business include specialty casualty and general casualty; commercial and personal property; marine; aviation and space; accident and health; and surety lines. Facultative casualty reinsurance is also provided for general liability; umbrella liability; directors' and officers' liability; professional liability and commercial automobile.

The US insurance operations of Odyssey Re are conducted through Hudson Insurance Company (Hudson) and Hudson Specialty Insurance Company (Hudson Specialty). The insurance operations provide coverage on both an admitted and non-admitted basis through in house underwriting facilities and a limited number of program administrators. Lines of business include professional liability; multi-peril crop; directors' and officers' liability; marine and energy; personal umbrella; personal liability; and personal and commercial auto. Where program administrator relationships are used, the group seeks organizations that have a long and successful track record in their particular areas of expertise. Odyssey Re management has established strong control systems to monitor program administrators including incentives to produce profitable business.

Specialty insurance is offered in London through the group's Lloyd's Syndicate and NICL, an Odyssey America subsidiary. Business is written primarily in non US liability lines including professional indemnity, motor, financial institutions and directors and officers liability.

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## 2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Reins-Property .....	...	386,772	20.5	72.7	443,575
Reins-Casualty .....	...	331,657	17.6	77.5	1,566,366
Oth Liab Occur .....	146,121	209,582	11.1	90.2	714,788
Fire .....	3,183	186,793	9.9	70.3	176,939
Oth Liab CM .....	105,339	106,309	5.6	47.6	308,538
Comm'l Auto Liab .....	31,914	102,589	5.4	64.4	118,360
Allied Lines .....	65,230	101,481	5.4	65.1	42,178
Med Prof Liab CM .....	108,758	85,709	4.5	33.9	205,333
Inland Marine .....	9,632	72,099	3.8	71.1	56,014
Auto Physical .....	27,857	42,168	2.2	75.1	17,938
Com'l MultiPeril .....	4,149	39,790	2.1	63.2	73,575
Priv Pass Auto Liab .....	18,307	24,592	1.3	74.5	36,891
Ocean Marine .....	26,778	7,979	0.4	137.4	33,688
All Other .....	6,010	187,650	10.0	35.8	214,667
Totals .....	553,278	1,885,172	100.0	67.3	4,008,848

**Geographical breakdown of direct premium writings (\$000):** California, \$84,704 (15.3%); Tennessee, \$26,150 (4.7%); New York, \$20,032 (3.6%); Washington, \$19,772 (3.6%); Illinois, \$18,667 (3.4%); 46 other jurisdictions, \$218,070 (39.4%); Aggregate Alien, \$165,884 (30.0%).

## FINANCIAL PERFORMANCE

**Overall Earnings:** Odyssey Re has generated favorable operating performance, as evidenced by its five-year average return on surplus which compares very favorably with its peer industry composite. Driving this favorable result over this period are average underwriting results just below breakeven and strong investment income earned on an expanding invested asset base.

In 2009, the group's earnings benefited from a reduction of catastrophe losses and modest favorable reserve development supported by strong investment income and realized capital gains. Odyssey Re's overall earnings in 2008 surpassed industry peers when factoring increased catastrophe losses and challenging investing conditions relating to turmoil in the global capital markets. Despite catastrophe losses related to Hurricanes Ike and Gustav, gains on the sale of credit default swaps and equity total return swaps contributed significantly to very profitable income measures. The group's earnings in 2006 and 2007 were strong due to limited catastrophe losses and favorable recent accident year loss ratio trends.

With its investment portfolio managed by Hamblin Watsa Investment Counsel ("Hamblin Watsa"), which is the investment management subsidiary of the group's ultimate parent Fairfax. Odyssey Re has benefited from significant realized gains over the past five years, which have served to drive the strong total return measures relative to its peers. A.M. Best expects Odyssey Re to generate profitable total return measures due to strong investment performance somewhat offset by reduced underwriting margins reflective of soft reinsurance pricing in most markets.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	4.6	5.0	100.7	93.7	14.6	11.8	104.2	83.8
2005	-13.9	-0.7	120.1	112.5	6.8	5.6	140.3	89.7
2006	15.1	21.0	96.0	85.0	53.5	21.4	91.3	47.4
2007	14.2	20.0	96.8	85.4	32.8	11.3	90.5	57.4
2008	10.7	14.5	101.5	90.5	25.9	-13.4	99.8	70.4
5-Yr	6.0	13.3	103.1	93.6	27.7	7.0	103.3	68.8

**Underwriting Income:** Odyssey Re has produced underwriting results in line with its peer group of U.S. statutory reinsurance companies, as evidenced by its five-year average combined ratio of 103.1% based on year-end 2008 results. In 2008, the group's underwriting performance was impacted by catastrophe losses attributed to Hurricanes Ike and Gustav that led to the generation of a modest underwriting loss. In 2009, underwriting results benefited from a lower level of natural catastrophe losses and modestly favorable loss reserve development.

The group generated an underwriting profit in 2007 and 2006, which reflects moderate catastrophe seasons and the benefits of otherwise strong underwriting results in non-catastrophe exposed businesses. Although catastrophe losses returned to more normalized levels in 2007, underwriting results remained sound with only a slight deterioration from the prior year.

In recent years, Odyssey Re's underwriting results benefited from a continued improvement in loss reserve development as reserves in 2008 and 2009 calendar years developed with slight redundancies. Odyssey Re's 2007 results included approximately \$55 million of adverse loss reserve development on a statutory basis, which approximated a modest percentage of its overall net carried loss reserves. This is an improvement from 2006 when the group reported nearly \$183.8 million of adverse development that included \$43 million of development related to the 2005 storms, \$69 million of development related to asbestos and environmental claims incurred by separately rated Clearwater as well as costs associated with the commutation of two reinsurance agreements of \$34 million and \$28 million, respectively.

In 2009, Odyssey Re benefited from favorable catastrophe pricing, while casualty rates continued to moderately soften in its reinsurance business with a more pronounced rate softening in its primary insurance markets. The group's expense ratio has fluctuated modestly during the five-year period but is comparable to industry averages. The group's business mix has shifted over the past five years from a predominantly long-tail portfolio of assumed liability reinsurance to a portfolio with a greater weighting of short-tail classes of business. In addition, more than 25% of Odyssey Re's premiums written are now derived from U.S. primary specialty insurance operations, which accounted for a very modest amount of premiums only five years earlier.

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2004	-29,594	68.4	4.6	73.0	22.4	5.4	27.8	...	100.7
2005	-424,039	87.3	5.3	92.6	21.0	6.5	27.5	...	120.1
2006	95,037	62.8	5.9	68.6	20.8	6.6	27.3	...	96.0
2007	66,340	60.6	6.8	67.4	21.3	8.1	29.3	...	96.8
2008	-14,786	67.3	5.8	73.1	20.0	8.4	28.4	...	101.5
5-Yr	...	69.4	5.7	75.1	21.1	6.9	28.0	...	103.1

**Investment Income:** The group's investment strategy while opportunistic remains highly disciplined and effective over the most recent five-year period as demonstrated by Odyssey Re's excellent total return measures. The group's invested assets are managed by Hamblin Watsa, which is the investment management subsidiary of Fairfax and operates with an investment strategy that emphasizes a long-term value-oriented approach. The yield on invested assets and realized capital gains has been the cornerstone of the group's strong total overall earnings as well as consistent growth in shareholders' equity despite operating in a challenging investment environment.

In total, realized capital gains have contributed nearly \$1.6 billion of pre-tax operating income during the five-year period. Including realized capital gains, the group's return on investments significantly outperforms industry composite norms.

The group's fixed income holdings are allocated primarily in government securities, municipalities and corporate debt. In 2009, the allocation of government securities moderated while holdings of municipalities and corporate debt increased. In the latter portion of 2008, Odyssey Re shifted its portfolio allocation to include a greater portion of common stock holdings, which coincided with the considerable recovery of the equity markets in 2009. Consequently, the carrying value of Odyssey Re's equity investments has increased to nearly \$2.2 billion in 2009 from \$886 million at the start of 2008. Included in this carrying value are significant unrealized gains on equities.

In 2008, Odyssey Re's total return on invested assets was very strong, driven by gains from credit default swaps and equity total return swaps, which contributed to realized capital gains of \$534 million. In 2007, the group reported realized capital gains that reflected the sale of corporate and government bonds and gains on derivatives offset slightly by modest realized losses on its common stock portfolio. The large realized capital gain in 2006 includes the sale of an affiliate's stock, which accounts for the majority of the annual realized gain.

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## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2004	145,474	172,969	-32,941	44.7	3.4	6.8	-1.9	3.5
2005	156,723	104,478	148,115	7.7	3.2	8.6	75.3	5.8
2006	221,875	482,040	-128,578	41.6	3.9	10.3	17.5	6.3
2007	222,170	187,420	206,190	0.1	3.4	9.7	-24.4	4.4
2008	212,945	524,384	-176,923	-4.2	3.1	8.3	-13.4	3.9
5-Yr	...	...	...	13.3	3.4	8.9	4.5	4.8

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2008	2007	
Long-term bonds .....	3,484,164	48.8	56.7	-11.6
Stocks .....	1,518,065	21.3	11.8	85.7
Affiliated Investments .....	387,064	5.4	11.3	-50.8
Other Inv Assets .....	1,753,818	24.6	20.3	24.4
Total .....	7,143,110	100.0	100.0	2.7

## 2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class		Struc. Secur. (%)	Struc. Secur. (% of PHS)
				1-2 (%)	3-6 (%)		
Governments .....	39.8	7.0	3.0	100.0	...	...	...
Other .....	51.2	3.0	20.0	100.0	...	...	...
Corporates .....	9.0	0.9	9.0	11.6	88.4	16.1	2.2
Total all bonds..	100.0	3.6	12.2	92.1	7.9	1.4	2.2

## CAPITALIZATION

**Capital Generation:** Odyssey America's statutory surplus which can be considered the group's statutory surplus due to the group's organizational structure, has increased at a five-year compounded annual growth rate of greater than 15% based on year-end 2009 results despite sizeable dividend payments to its parent ORH. The increase in surplus is attributable to a combination of operating earnings; strong and consistent realized capital gains; and a capital contribution from ORH following the 2005 hurricane season. This expanded capital position has supported the group's premium writings, adverse development charges and natural catastrophe losses during the most recent five-year period.

Although stockholder dividends have been paid in the past several years, Odyssey America has retained a sizable portion of its earnings thereby augmenting capital formation. Since 2005, Odyssey America has paid over \$800 million of dividends to ORH while significantly expanding its surplus position. The group's dividends served as a funding mechanism for ORH's share repurchase program, which has ceased given the recent acquisition by Fairfax of 100% of its shares.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	PHS Growth (%)
2004	96,089	140,028	-61,972	-119,929	54,216	3.4
2005	-288,125	252,592	362,500	69,600	396,567	23.8
2006	306,772	353,462	-60,000	-168,800	431,434	20.9
2007	278,874	393,610	-155,000	-88,525	428,958	17.2
2008	208,047	347,461	-410,000	-116,931	28,577	1.0
5-Yr	601,657	1,487,153	-324,472	-424,585	1,339,753	...

**Overall Capitalization:** Odyssey Re maintains a strong overall risk-adjusted capital position, as measured by its Best's Capital Adequacy Ratio (BCAR) analysis. The benefits of surplus generation and moderating premium growth, as well as the divestiture of a significant affiliated investment, have led to improved and sustainable capitalization over the five-year period. Odyssey Re's total return operating philosophy has generated considerable realized capital gains over the five-year period that have supported surplus growth. Odyssey America's capital position has benefited from past capital

contributions from its parent ORH, and very strong recent year net earnings. The fixed income portfolio consists of conservative holdings with solid credit quality and liquidity that further supports the group's capitalization. During the past year the group has increased its common stock holdings and due to appreciation of these assets in 2009, Odyssey Re's common stock leverage (common stock investments as a percentage of statutory surplus) has increased to a figure approximating 60%, which is elevated compared to industry composite norm.

The group continues to experience modest adverse loss reserve development attributed to assumed excess liability lines written in prior accident years. Although the adverse loss reserve development continues, the degree of reserve development relative to total carried reserves has moderated, with favorable loss reserve development in most business lines offsetting prior year development in total on older accident years in 2009 and 2008. The group's credit risk is mitigated due to collateral held in the form of letters of credit and funds held. However, not all recoverables are backed by collateral. A significant risk relating to the capitalization of the group is catastrophe exposure. Management addresses these risks by managing to a 1 in 250 year probable maximum loss and attempts to limit the net after tax occurrence to any geographic zone to less than 20% of statutory surplus. The significant financial resources of its ultimate parent company, Fairfax, further enhance Odyssey Re's financial flexibility. ORH maintains public debt listings; however, its financial leverage is well within the established range of current rating levels.

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			—Dividend Requirements—		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	1,665,799	34.0	...	66.0	-61,971	64.5	54.3
2005	2,062,366	46.2	-0.3	54.1	-22,500	-7.8	-13.9
2006	2,493,800	38.2	0.1	61.7	-60,000	19.6	9.9
2007	2,922,758	32.8	...	67.2	-155,000	55.6	46.2
2008	2,951,335	32.5	...	67.5	-410,000	197.1	68.1

**Underwriting Leverage:** Odyssey Re's underwriting leverage measures are conservative primarily due to its rebalanced portfolio and significant increase in statutory surplus. Moreover, as market conditions continued to soften through 2009 and into 2010, the group's writings have moderated. The group's catastrophe writings increased in the most recent year but its catastrophe loss exposure is still in line with management's stated net, after tax loss tolerance for a 1-250 year per occurrence not exceeding 20% of statutory surplus.

Although improved, the group's net leverage is slightly elevated relative to its peer sample group, primarily due to the high percentage of longer-tail liability casualty reserves that account for the majority of carried loss reserves.

## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	1.3	1.6	3.6	4.3	0.4	0.9	1.9	2.6
2005	1.0	1.6	3.2	4.0	0.2	0.8	1.8	2.5
2006	0.8	1.5	2.7	3.1	0.3	0.7	1.6	2.2
2007	0.7	1.3	2.3	2.6	0.3	0.7	1.6	2.1
2008	0.6	1.4	2.4	2.7	0.3	0.8	1.7	2.3

Current BCAR: 204.9

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	—DPW—		—GPW—		—NPW—		—NPE—	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	419,394	88.1	2,329,885	10.8	2,131,351	8.4	2,079,625	15.1
2005	544,466	29.8	2,343,100	0.6	2,098,116	-1.6	2,067,875	-0.6
2006	534,073	-1.9	2,098,194	-10.5	1,980,522	-5.6	2,028,418	-1.9
2007	541,949	1.5	2,048,524	-2.4	1,949,323	-1.6	1,960,397	-3.4
2008	553,278	2.1	2,022,088	-1.3	1,885,172	-3.3	1,936,274	-1.2
5-Yr CAGR	...	19.9	...	-0.8	...	-0.8	...	1.4
5-Yr Chg	...	148.2	...	-3.9	...	-4.1	...	7.1

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**Reserve Quality:** The group has experienced marked improvement in loss reserve development, largely attributable to accident years 2003-2008 with significant reserve releases on the most recent accident years contributing to modestly favorable loss reserve development in calendar years 2009 and 2008. The majority of the development is attributable to business generated within Odyssey America and Clearwater.

The group has exposure to latent liabilities, comprised largely of asbestos and environmental (A&E) claims relating to business written by separately rated Clearwater for accident years 1985 and prior. In 2006, Clearwater strengthened A&E reserves by \$69 million of which \$28 million is attributable to the commutation of a significant reinsurance agreement. Net loss and LAE reserves increased by \$77.4 million in 2007 and \$45 million in 2008. As of year-end 2008, A&E reserves represented 5.7% of the group's net loss and LAE reserves.

Odyssey Re Group discounts reserves relating to the indemnity portion of workers' compensation reserves of Odyssey America Reinsurance Corporation.

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Thru '08	Develop. Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
2003	2,183,399	3,279,710	50.2	68.0	181.5	1,227,540	37.4
2004	2,794,097	3,514,600	25.8	43.3	169.0	1,460,882	41.6
2005	3,437,289	3,812,023	10.9	18.2	184.3	1,827,362	47.9
2006	3,844,348	3,950,293	2.8	4.2	194.1	2,282,773	57.8
2007	3,862,541	3,861,687	0.0	0.0	197.0	2,927,512	75.8
2008	4,061,861	4,061,861	...	...	209.8	4,061,861	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Thru '08	Develop. Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2003	868,281	713,990	-17.8	143,231	54.0	83.0
2004	988,906	836,575	-15.4	233,342	55.0	82.7
2005	1,364,218	1,190,895	-12.7	366,480	76.5	104.1
2006	952,314	867,345	-8.9	455,411	55.1	82.5
2007	1,001,365	949,310	-5.2	644,739	61.3	90.7
2008	1,134,349	1,134,349	...	1,134,349	72.3	100.6

## ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	Company				Industry Composite				
	Net A&E Reserve (\$000)	Reserve Retention (%)	Net IBNR Mix (%)	Survival Ratio (3yr)	Comb Impact (1 yr)	Comb Ratio (3 yr)	Survival Ratio (3yr)	Comb Impact (1 yr)	Comb Ratio (3 yr)
2004	61,621	22.7	...	...	...	...	...	1.4	...
2005	89,243	28.3	58.2	...	1.6	...	...	1.0	...
2006	215,760	62.6	24.4	-12.6	3.4	1.7	8.0	0.5	0.9
2007	256,911	67.4	36.9	-50.6	4.0	3.0	8.5	0.7	0.7
2008	260,305	65.9	44.1	39.1	2.3	3.2	7.4	0.3	0.5

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Ret. (%)	Recov. to PHS (%)	Ceded Reins. to PHS (%)	Ret. (%)	Recov. to PHS (%)	Ceded Reins. to PHS (%)	
2004	1,210,249	90.4	57.4	72.7	79.6	48.9	69.0	
2005	1,499,342	88.6	58.1	72.7	62.5	51.1	77.0	
2006	822,333	93.1	26.7	33.0	87.9	42.1	55.8	
2007	754,374	92.6	20.5	25.8	90.7	38.5	51.7	
2008	873,390	90.8	23.1	29.6	88.5	44.0	57.9	

## 2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	115,477	322,833	102,070	-1,339	539,041
Foreign Affiliates.....	9,291	3,057	...	-13	12,335
US Insurers.....	206,468	166,250	36,077	-5,162	403,633
Pool/Associations.....	25,292	23,257	...	...	48,549
Other Non-US.....	120,941	125,836	18,446	-48,800	216,423
Total (ex US Affils).....	361,992	318,400	54,523	-53,975	680,940
Grand Total.....	477,469	641,233	156,593	-55,314	1,219,981

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	15.1	...	15.4	25.3	55.8	30.2	1.9	47.6
2005	16.1	...	6.5	26.9	49.5	45.2	1.9	46.7
2006	16.9	...	3.5	22.8	43.2	26.1	1.2	48.4
2007	7.2	...	13.0	27.9	48.2	26.9	1.3	45.4
2008	12.3	...	6.9	51.4	70.7	13.1	3.1	46.5

## LIQUIDITY

**Overall Liquidity:** The group's liquidity position is solid and compares favorably with its reinsurance peer group. As of year-end 2009, total invested assets approached nearly \$8 billion, with a sizeable amount allocated in fixed income maturities of solid credit quality. The average durations are less than 10 years. Strong cash flows over the past several years are driven by favorable operating results on a considerably expanded invested asset base. Maintaining sound liquidity is significant given the group's exposure to natural and man-made catastrophe losses. Odyssey Re also maintains significant cash and short term investments, which totaled \$1.0 billion as of September 30, 2009.

## LIQUIDITY ANALYSIS

Period Ending	Company			Industry Composite				
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	39.9	106.3	144.7	9.7	69.3	125.9	166.1	5.0
2005	42.0	97.1	146.7	4.9	66.8	128.1	165.4	6.3
2006	64.4	120.5	153.0	3.2	66.6	136.2	176.2	4.4
2007	56.6	127.6	161.1	2.6	56.6	136.9	175.5	3.2
2008	55.4	128.5	156.3	3.9	50.2	122.7	171.3	5.3

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)	
2004	582,042	456,299	-379,939	138.2	125.4	100.3	113.2	
2005	208,322	228,788	191,405	110.9	111.4	75.9	113.0	
2006	567,962	612,333	488,542	139.6	137.3	113.7	141.8	
2007	114,057	69,857	-824,035	106.1	103.3	113.3	115.4	
2008	142,213	45,953	512,403	108.0	102.2	107.4	123.6	

## HISTORY

Insurance subsidiaries of ORH include Odyssey America, Clearwater, Hudson, Hudson Specialty, Clearwater Select Insurance Company, Newline Insurance Company Limited and Newline Syndicate 1218.

Odyssey Reinsurance Corporation was renamed Clearwater Insurance Company effective December 4, 2003. The company is the former Skandia America Reinsurance Corporation, now a Delaware corporation, which was incorporated on May 15, 1974 under the laws of New York to serve as the United States Branch of Skandia Insurance Company Ltd., Stockholm, Sweden. On May 31, 1996, Skandia America Reinsurance Corporation and its subsidiaries, including Hudson, were sold to Fairfax for approximately \$230 million.

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TIG Reinsurance Company ("TIG Re") was incorporated on September 10, 1986. Effective January 2, 1992, the company was re-domesticated to Connecticut. TIG Re was acquired by Fairfax in April of 1999, and subsequently became the parent company of Clearwater as of October 26, 1999 and adopted the name Odyssey America Reinsurance Corporation. As a result of this reorganization, Odyssey America is now the flagship of the group and continues to actively write reinsurance business. Clearwater has substantially ceased writing new reinsurance business but is active as a licensed, primary insurer. Hudson, a subsidiary of Clearwater, also continues to write business, principally primary property and casualty insurance.

Odyssey UK Holdings Corp (formerly known as TIG UK Re Holdings Corp.), a subsidiary of Odyssey America, was formed in 1997 as a holding company with several wholly-owned operating subsidiaries, including Newline Underwriting Management Ltd. and, as of 2006, Newline Insurance Company Limited. Newline is the vehicle through which Odyssey America owns and manages Lloyd's Syndicate 1218 ("Newline Syndicate").

ORH was incorporated on March 21, 2001 to serve as the holding company for the U.S.-based reinsurance subsidiaries of Fairfax. In connection with ORH's initial public offering in June 2001, two wholly-owned subsidiaries of Fairfax transferred 100% of the outstanding shares of OARC to ORH in exchange for common stock of ORH, cash and term notes. Immediately following the initial public offering, approximately 26% of ORH was owned by public shareholders and 74% was owned by Fairfax subsidiaries. On March 4, 2003, Fairfax announced it had purchased, through a subsidiary, 4.3 million outstanding shares of ORH in a private transaction, increasing its interest in ORH to approximately 80.6%. On December 4, 2006 Fairfax completed a secondary offering of 10.2 million shares of ORH, reducing its interest in ORH to approximately 59.6%.

On September 18, 2009, then-majority shareholder Fairfax, which at the time owned 72.5% of ORH common shares, announced that it had reached an agreement with ORH, whereby Fairfax would commence a tender offer to acquire all of the outstanding shares of ORH common stock that it did not already own. Fairfax paid minority shareholders of ORH \$65 a share, for a total transaction value of approximately \$1.1 billion. Upon completion of the tender offer, ORH de-listed its common stock from the New York Stock Exchange, where it had previously traded under the ticker symbol: ORH.

On October 28, 2003, Odyssey America purchased General Security Indemnity Company, a shell excess and surplus lines company, which was renamed Hudson Specialty Insurance Company. This company provides the group with the ability to write property and casualty insurance on an excess and surplus lines basis. In December 2003, Odyssey America contributed all of the shares of Hudson Specialty to Clearwater.

On November 15, 2004, ORH purchased Overseas Partners U.S. Reinsurance Company, a Delaware-domiciled reinsurance company that had been in run-off since 2002, from Overseas Partners Limited. The company was renamed Clearwater Select Insurance Company and was contributed to Clearwater on November 30, 2004.

## MANAGEMENT

The President and Chief Executive Officer of ORH is Andrew A. Barnard. Prior to joining the group in 1996, Mr. Barnard was the Executive Vice President and Chief Underwriting Officer of Transatlantic Holdings. Brian D. Young is Executive Vice President and Chief Operating Officer of ORH. Prior to joining the Group in 1996, he was a Vice President of Transatlantic Reinsurance. Michael G. Wacek is Executive Vice President of ORH. Prior to joining the Group in 1998, he was Managing Director of St. Paul Reinsurance Company Ltd. in London. R. Scott Donovan is Executive Vice President and Chief Financial Officer of ORH. Prior to joining ORH in 2006, he served as President and Chief Operating Officer of TIG Insurance Group, an affiliate of Fairfax.

## REINSURANCE

The group's retrocessional program includes specific reinsurances covering portions of its business, including facultative business, property business and selected liability lines. Property catastrophe reinsurance is maintained in several layers with retentions and amounts recoverable varying by zone.

## CONSOLIDATED BALANCE SHEET (at December 31, 2008)

ADMITTED ASSETS (\$000)				
	12/31/08	12/31/07	'08%	'07%
Bonds .....	3,484,164	3,941,026	41.7	50.1
Preferred stock .....	115	1,187	0.0	0.0
Common stock .....	1,517,950	816,153	18.2	10.4
Cash & short-term invest .....	1,479,921	967,517	17.7	12.3
Other non-affil inv asset .....	210,770	381,507	2.5	4.8
Investments in affiliates .....	387,064	786,898	4.6	10.0
<b>Total invested assets.....</b>	<b>7,079,983</b>	<b>6,894,287</b>	<b>84.8</b>	<b>87.6</b>
Premium balances .....	425,536	408,054	5.1	5.2
Accrued interest .....	63,128	61,285	0.8	0.8
All other assets.....	784,889	510,367	9.4	6.5
<b>Total assets.....</b>	<b>8,353,536</b>	<b>7,873,993</b>	<b>100.0</b>	<b>100.0</b>

LIABILITIES & SURPLUS (\$000)				
	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves .....	4,008,848	3,793,056	48.0	48.2
Unearned premiums.....	556,417	607,518	6.7	7.7
Conditional reserve funds.....	59,054	62,135	0.7	0.8
All other liabilities .....	777,881	488,527	9.3	6.2
<b>Total liabilities.....</b>	<b>5,402,200</b>	<b>4,951,235</b>	<b>64.7</b>	<b>62.9</b>
Total policyholders' surplus.....	2,951,335	2,922,758	35.3	37.1
<b>Total liabilities &amp; surplus.....</b>	<b>8,353,536</b>	<b>7,873,993</b>	<b>100.0</b>	<b>100.0</b>

## CONSOLIDATED SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	
		12/31/08	12/31/07
Premiums earned.....	1,936,274	Premiums collected.....	1,917,762
Losses incurred .....	1,303,934	Benefit & loss related pmts	1,123,366
LAE incurred .....	112,409	LAE & undrw expenses paid	652,183
Undrw expenses incurred	534,717	Undrw cash flow .....	142,213
Net underwriting income	-14,786	Investment income.....	226,042
Net investment income....	212,945	Other income/expense ...	-2,942
Other income/expense ...	9,888	Pre-tax cash operations	365,312
Pre-tax oper income ...	208,047	Income taxes pd (recov)...	319,359
Realized capital gains.....	524,384	Net oper cash flow.....	45,953
Income taxes incurred .....	130,298		
Net income .....	602,133		

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## Ultimate Parent: Fairfax Financial Holdings Limited HUDSON INSURANCE COMPANY

Wilmington, DE  
17 State Street, 29th Floor, New York, NY 10004  
Web: [www.hudsoninsgroup.com](http://www.hudsoninsgroup.com)

Tel: 212-978-2800  
AMB#: 03081  
Ultimate Parent#: 58364

Fax: 212-344-2973  
NAIC#: 25054  
FEIN#: 13-5150451

### BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the consolidated Financial Strength of the property/casualty members of Odyssey Reinsurance Group, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A (Excellent). The company is assigned the Financial Size Category of Class XV, which is the Financial Size Category of the group.

### RATING RATIONALE

The following text is derived from the report of Odyssey Reinsurance Group.

**Rating Rationale:** The ratings reflect Odyssey Reinsurance Group's ("Odyssey Re") strong risk-adjusted capitalization, strong financial performance and sound business position. Odyssey Re is a global underwriter of reinsurance and specialty primary insurance products and ranks among the top 15 global reinsurance groups in terms of premium volume. Odyssey Re's competitive position benefits from its diversified market presence with regard to business mix and geographic bearing. These positive attributes are further supported by Odyssey Re's diversified geographic client base, combined with its large line capacity, broad product capability and an opportunistic business strategy. An astute investment management philosophy emphasizing a total return measure and moderate investment leverage further supports these positive rating attributes. The outlook reflects Odyssey Re's strong operating results in light of challenging market conditions and the group's focus on managing exposures from catastrophic events while improving loss reserve adequacy.

The ratings also recognize Odyssey Re's good financial flexibility reflecting its strong liquidity and past access to the public debt and equity markets of parent holding company Odyssey Re Holdings Corp. ("ORH"). In September 2009, the group's majority owner, Fairfax Financial Holdings Limited ("Fairfax"), announced a tender offer to purchase the remaining common shares that it did not already own and is now a 100% owner of ORH. ORH has therefore delisted its common stock from the New York Stock Exchange. The group does benefit from Fairfax's access to public markets and its strong liquidity position with significant financial resources at the holding company level. Further, the group maintains a high quality invested asset base with solid liquidity due to considerable holdings of cash and cash equivalents.

Somewhat offsetting these strengths are challenging underwriting conditions reflective of price softening in major lines of business, reliance on investment results to boost total return measures and prior accident-year adverse loss reserve development, which has added to the loss ratio over the recent five-year period. However, loss reserve development has stabilized in large part, while more recent accident-year loss reserve development has demonstrated positive trends. Odyssey Re maintains a manageable exposure to natural catastrophes as measured by its 1 in 250 year probable maximum loss estimates relative to statutory surplus. In A.M. Best's opinion, Odyssey Re has made significant progress in building a holistic enterprise risk management framework and currently views it as adequate.

The rating applies to Odyssey America Reinsurance Corporation (Connecticut), Hudson Insurance Company (Delaware), Hudson Specialty Insurance Company (New York) and Newline Insurance Company Limited (London).

**Best's Financial Strength Rating: A g**

**Outlook: Stable**

### FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
01/12/10	A g	03/17/06	A gu
11/17/08	A g	10/14/05	A g
10/15/07	A g	09/15/05	A gu
02/15/07	A g	02/17/05	A g
04/03/06	A g		

### KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
2004	237,940	102,788	7,902	3,670	219,951	79,076
2005	295,065	179,985	15,906	9,670	328,484	117,480
2006	268,263	199,422	3,453	1,101	371,338	115,416
2007	251,497	192,240	7,892	4,736	390,766	120,103
2008	269,567	115,357	13,732	30,293	424,832	135,106

  

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash-flow (%)
2004	91.1	2.7	8.9	2.2	1.3	3.1	157.2	129.1
2005	87.2	3.2	10.8	3.6	1.5	3.3	157.0	137.1
2006	102.6	4.3	1.8	1.3	1.7	3.9	147.4	139.4
2007	103.4	4.5	4.0	1.1	1.6	3.8	146.1	110.9
2008	108.4	3.5	8.5	0.9	0.9	3.0	148.3	114.6
5-Yr	99.3	3.8	6.2	...	...	...	...	...

(\* Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Casualty Composite.

### BUSINESS REVIEW

The following text is derived from the report of Odyssey Reinsurance Group.

For the purposes of this report, the financial information and discussion included for Odyssey Re reflects the consolidation of the statutory financials of all U.S. domiciled insurance and reinsurance companies owned by Odyssey Re Holdings Corp, including separately rated Clearwater Insurance Company (Clearwater). Individual reports for members of Odyssey Re Group and Clearwater include the individual member's statutory financial information.

Odyssey Re includes the U.S. reinsurance and insurance operations of ORH as well as Newline Insurance Company Limited (NICK) which is a UK-based insurance company. Reinsurance operations are led by Odyssey America Reinsurance Corporation (Odyssey America) which provides treaty casualty and property reinsurance as well as facultative reinsurance for small to medium sized regional companies and specialized departments of major insurance companies. Products are provided primarily through the broker market in the US and through brokers and directly with insurers and reinsurers internationally. Specific lines of business include specialty casualty and general casualty; commercial and personal property; marine; aviation and space; accident and health; and surety lines. Facultative casualty reinsurance is also provided for general liability; umbrella liability; directors' and officers' liability; professional liability and commercial automobile.

The US insurance operations of Odyssey Re are conducted through Hudson Insurance Company (Hudson) and Hudson Specialty Insurance Company (Hudson Specialty). The insurance operations provide coverage on both an admitted and non-admitted basis through in house underwriting facilities and a limited number of program administrators. Lines of business include professional liability; multi-peril crop; directors' and officers' liability; marine and energy; personal umbrella; personal liability; and personal and commercial auto. Where program administrator relationships are used, the group seeks organizations that have a long and successful track record in their particular areas of expertise. Odyssey Re management has established strong control systems to monitor program administrators including incentives to produce profitable business.

# Best's Rating Report

Specialty insurance is offered in London through the group's Lloyd's Syndicate and NICKL, an Odyssey America subsidiary. Business is written primarily in non US liability lines including professional indemnity, motor, financial institutions and directors and officers liability.

## 2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Oth Liab Occur .....	113,299	47,020	40.8	54.9	83,608
Oth Liab CM .....	61,356	20,252	17.6	44.1	54,636
Comm'l Auto Liab.....	28,564	18,487	16.0	83.5	15,763
Priv Pass Auto Liab.....	18,307	11,872	10.3	73.3	7,028
Auto Physical .....	15,766	7,146	6.2	84.4	3,999
Surety .....	4,989	3,601	3.1	30.3	1,024
Inland Marine .....	8,534	2,835	2.5	51.0	2,018
Fire .....	3,183	2,467	2.1	37.9	2,115
Med Prof Liab CM.....	5,517	940	0.8	77.9	200
Allied Lines .....	8,333	661	0.6	31.2	1,047
All Other.....	1,719	75	0.1	-99.9	940
Totals .....	269,567	115,357	100.0	58.8	172,378

**Geographical breakdown of direct premium writings (\$000):** California, \$52,748 (19.6%); New York, \$18,826 (7.0%); Washington, \$12,335 (4.6%); Tennessee, \$11,356 (4.2%); Texas, \$8,104 (3.0%); 45 other jurisdictions, \$78,454 (29.1%); Aggregate Alien, \$87,746 (32.6%).

## FINANCIAL PERFORMANCE

The following text is derived from the report of Odyssey Reinsurance Group.

**Overall Earnings:** Odyssey Re has generated favorable operating performance, as evidenced by its five-year average return on surplus which compares very favorably with its peer industry composite. Driving this favorable result over this period are average underwriting results just below breakeven and strong investment income earned on an expanding invested asset base.

In 2009, the group's earnings benefited from a reduction of catastrophe losses and modest favorable reserve development supported by strong investment income and realized capital gains. Odyssey Re's overall earnings in 2008 surpassed industry peers when factoring increased catastrophe losses and challenging investing conditions relating to turmoil in the global capital markets. Despite catastrophe losses related to Hurricanes Ike and Gustav, gains on the sale of credit default swaps and equity total return swaps contributed significantly to very profitable income measures. The group's earnings in 2006 and 2007 were strong due to limited catastrophe losses and favorable recent accident year loss ratio trends.

With its investment portfolio managed by Hamblin Watsa Investment Counsel ("Hamblin Watsa"), which is the investment management subsidiary of the group's ultimate parent Fairfax, Odyssey Re has benefited from significant realized gains over the past five years, which have served to drive the strong total return measures relative to its peers. A.M. Best expects Odyssey Re to generate profitable total return measures due to strong investment performance somewhat offset by reduced underwriting margins reflective of soft reinsurance pricing in most markets.

## PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	8.9	5.5	91.1	87.1	5.8	12.3	104.6	92.7
2005	10.8	9.7	87.2	83.0	8.2	7.9	105.0	90.9
2006	1.8	1.1	102.6	96.8	19.2	19.1	94.4	79.5
2007	4.0	3.9	103.4	97.0	20.9	15.4	94.6	78.4
2008	8.5	23.7	108.4	101.6	16.9	-1.2	99.0	83.4
5-Yr	6.2	9.4	99.3	93.7	14.3	10.5	99.4	84.8

**Underwriting Income:** Odyssey Re has produced underwriting results in line with its peer group of U.S. statutory reinsurance companies, as evidenced by its five-year average combined ratio of 103.1% based on year-end 2008 results. In 2008, the group's underwriting performance was impacted by catastrophe losses attributed to Hurricanes Ike and Gustav that led to the generation of a modest underwriting loss. In 2009, underwriting results benefited from a lower level of natural catastrophe losses and modestly favorable loss reserve development.

The group generated an underwriting profit in 2007 and 2006, which reflects moderate catastrophe seasons and the benefits of otherwise strong underwriting results in non-catastrophe exposed businesses. Although catastrophe losses returned to more normalized levels in 2007, underwriting results remained sound with only a slight deterioration from the prior year.

In recent years, Odyssey Re's underwriting results benefited from a continued improvement in loss reserve development as reserves in 2008 and 2009 calendar years developed with slight redundancies. Odyssey Re's 2007 results included approximately \$55 million of adverse loss reserve development on a statutory basis, which approximated a modest percentage of its overall net carried loss reserves. This is an improvement from 2006 when the group reported nearly \$183.8 million of adverse development that included \$43 million of development related to the 2005 storms, \$69 million of development related to asbestos and environmental claims incurred by separately rated Clearwater as well as costs associated with the commutation of two reinsurance agreements of \$34 million and \$28 million, respectively.

In 2009, Odyssey Re benefited from favorable catastrophe pricing, while casualty rates continued to moderately soften in its reinsurance business with a more pronounced rate softening in its primary insurance markets. The group's expense ratio has fluctuated modestly during the five-year period but is comparable to industry averages. The group's business mix has shifted over the past five years from a predominantly long-tail portfolio of assumed liability reinsurance to a portfolio with a greater weighting of short-tail classes of business. In addition, more than 25% of Odyssey Re's premiums written are now derived from U.S. primary specialty insurance operations, which accounted for a very modest amount of premiums only five years earlier.

## UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.		
2004	4,347	55.7	9.5	65.3	13.7	12.2	25.8	...	91.1
2005	9,771	50.8	8.4	59.2	17.9	10.0	27.9	...	87.2
2006	-7,523	58.5	11.2	69.7	23.4	9.5	32.9	...	102.6
2007	-4,695	54.5	11.7	66.2	23.2	14.0	37.2	...	103.4
2008	2,739	58.8	14.6	73.4	9.0	26.0	35.0	...	108.4
5-Yr	...	55.8	11.3	67.1	18.7	13.5	32.2	...	99.3

**Investment Income:** The group's investment strategy while opportunistic remains highly disciplined and effective over the most recent five-year period as demonstrated by Odyssey Re's excellent total return measures. The group's invested assets are managed by Hamblin Watsa, which is the investment management subsidiary of Fairfax and operates with an investment strategy that emphasizes a long-term value-oriented approach. The yield on invested assets and realized capital gains has been the cornerstone of the group's strong total overall earnings as well as consistent growth in shareholders' equity despite operating in a challenging investment environment.

In total, realized capital gains have contributed nearly \$1.6 billion of pre-tax operating income during the five-year period. Including realized capital gains, the group's return on investments significantly outperforms industry composite norms.

The group's fixed income holdings are allocated primarily in government securities, municipalities and corporate debt. In 2009, the allocation of government securities moderated while holdings of municipalities and corporate debt increased. In the latter portion of 2008, Odyssey Re shifted its portfolio allocation to include a greater portion of common stock holdings, which coincided with the considerable recovery of the equity markets in 2009. Consequently, the carrying value of Odyssey Re's equity investments has increased to nearly \$2.2 billion in 2009 from \$886 million at the start of 2008. Included in this carrying value are significant unrealized gains on equities.

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In 2008, Odyssey Re's total return on invested assets was very strong, driven by gains from credit default swaps and equity total return swaps, which contributed to realized capital gains of \$534 million. In 2007, the group reported realized capital gains that reflected the sale of corporate and government bonds and gains on derivatives offset slightly by modest realized losses on its common stock portfolio. The large realized capital gain in 2006 includes the sale of an affiliate's stock, which accounts for the majority of the annual realized gain.

## INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2004	3,555	938	-103	107.0	2.7	3.3	0.9	4.5
2005	6,135	3,067	-117	72.6	3.2	4.7	20.0	4.9
2006	10,976	960	158	78.9	4.3	4.8	9.8	4.9
2007	12,587	13	-129	14.7	4.5	4.4	9.8	5.0
2008	10,994	18,436	-95	-12.7	3.5	9.6	-4.5	4.8
5-Yr	...	...	...	26.5	3.8	5.8	6.5	4.8

## INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)		—% of Invested Assets—		Annual % Change
	2008	2007	2008	2007	
Long-term bonds .....	255,538	75.2	78.4	9.4	
Other Inv Assets .....	84,127	24.8	21.6	30.7	
Total .....	339,664	100.0	100.0	14.0	

## 2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class		Struc. Secur. (%)	Struc. Secur. (% of PHS)
				1-2 (%)	3-6 (%)		
Governments .....	33.3	4.4	1.5	100.0	...	...	...
Other .....	66.4	6.2	24.0	100.0	...	...	...
Corporates .....	0.4	18.8	15.0	...	100.0	...	...
Total all bonds..	100.0	6.0	16.5	99.6	0.4	...	...

## CAPITALIZATION

The following text is derived from the report of Odyssey Reinsurance Group.

**Capital Generation:** Odyssey America's statutory surplus which can be considered the group's statutory surplus due to the group's organizational structure, has increased at a five-year compounded annual growth rate of greater than 15% based on year-end 2009 results despite sizeable dividend payments to its parent ORH. The increase in surplus is attributable to a combination of operating earnings; strong and consistent realized capital gains; and a capital contribution from ORH following the 2005 hurricane season. This expanded capital position has supported the group's premium writings, adverse development charges and natural catastrophe losses during the most recent five-year period.

Although stockholder dividends have been paid in the past several years, Odyssey America has retained a sizable portion of its earnings thereby augmenting capital formation. Since 2005, Odyssey America has paid over \$800 million of dividends to ORH while significantly expanding its surplus position. The group's dividends served as a funding mechanism for ORH's share repurchase program, which has ceased given the recent acquisition by Fairfax of 100% of its shares.

## CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Pretax Operating Income	Total Inv. Gains	Source of Surplus Growth			Change in PHS	PHS Growth (%)
			Net Contrib. Capital	Other, Net of Tax	Other, Net of Tax		
2004	7,902	835	25,000	-5,253	28,484	56.3	
2005	15,906	2,950	25,000	-5,452	38,403	48.6	
2006	3,453	1,118	...	-6,635	-2,064	-1.8	
2007	7,892	-115	...	-3,090	4,687	4.1	
2008	13,732	18,341	...	-17,071	15,002	12.5	
5-Yr	48,885	23,129	50,000	-37,501	84,513	...	

**Overall Capitalization:** Odyssey Re maintains a strong overall risk-adjusted capital position, as measured by its Best's Capital Adequacy Ratio (BCAR) analysis. The benefits of surplus generation and moderating premium growth, as well as the divestiture of a significant affiliated investment, have led to improved and sustainable capitalization over the five-year period. Odyssey Re's total return operating philosophy has generated considerable realized capital gains over the five-year period that have supported surplus growth. Odyssey America's capital position has benefited from past capital contributions from its parent ORH, and very strong recent year net earnings. The fixed income portfolio consists of conservative holdings with solid credit quality and liquidity that further supports the group's capitalization. During the past year the group has increased its common stock holdings and due to appreciation of these assets in 2009, Odyssey Re's common stock leverage (common stock investments as a percentage of statutory surplus) has increased to a figure approximating 60%, which is elevated compared to industry composite norm.

The group continues to experience modest adverse loss reserve development attributed to assumed excess liability lines written in prior accident years. Although the adverse loss reserve development continues, the degree of reserve development relative to total carried reserves has moderated, with favorable loss reserve development in most business lines offsetting prior year development in total on older accident years in 2009 and 2008. The group's credit risk is mitigated due to collateral held in the form of letters of credit and funds held. However, not all recoverables are backed by collateral. A significant risk relating to the capitalization of the group is catastrophe exposure. Management addresses these risks by managing to a 1 in 250 year probable maximum loss and attempts to limit the net after tax occurrence to any geographic zone to less than 20% of statutory surplus. The significant financial resources of its ultimate parent company, Fairfax, further enhance Odyssey Re's financial flexibility. ORH maintains public debt listings; however, its financial leverage is well within the established range of current rating levels.

## QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	% of PHS			—Dividend Requirements—		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	79,076	81.9	...	18.1	...	...	...
2005	117,480	76.4	...	23.6	...	...	...
2006	115,416	77.7	...	22.3	...	...	...
2007	120,103	74.7	...	25.3	...	...	...
2008	135,106	66.4	...	33.6	...	...	...

**Underwriting Leverage:** Odyssey Re's underwriting leverage measures are conservative primarily due to its rebalanced portfolio and significant increase in statutory surplus. Moreover, as market conditions continued to soften through 2009 and into 2010, the group's writings have moderated. The group's catastrophe writings increased in the most recent year but its catastrophe loss exposure is still in line with management's stated net, after tax loss tolerance for a 1-250 year per occurrence not exceeding 20% of statutory surplus.

Although improved, the group's net leverage is slightly elevated relative to its peer sample group, primarily due to the high percentage of longer-tail liability casualty reserves that account for the majority of carried loss reserves.

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## LEVERAGE ANALYSIS

Period Ending	Company				Industry Composite			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	1.3	0.7	3.1	6.2	1.1	1.8	3.9	5.2
2005	1.5	0.7	3.3	5.4	1.0	1.8	3.7	4.9
2006	1.7	1.1	3.9	5.4	0.9	1.6	3.3	4.3
2007	1.6	1.3	3.8	5.0	0.8	1.5	3.0	3.9
2008	0.9	1.3	3.0	4.1	0.9	1.6	3.3	4.3

Current BCAR: 204.9

## PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	237,940	6.6	237,940	6.6	102,788	51.5	89,055	67.8
2005	295,065	24.0	295,065	24.0	179,985	75.1	147,322	65.4
2006	268,263	-9.1	268,263	-9.1	199,422	10.8	191,534	30.0
2007	251,497	-6.3	251,497	-6.3	192,240	-3.6	197,674	3.2
2008	269,567	7.2	269,567	7.2	115,357	-40.0	162,155	-18.0
5-Yr CAGR	...	3.8	...	3.8	...	11.2	...	25.0
5-Yr Chg	...	20.8	...	20.8	...	70.0	...	205.5

**Reserve Quality:** The group has experienced marked improvement in loss reserve development, largely attributable to accident years 2003-2008 with significant reserve releases on the most recent accident years contributing to modestly favorable loss reserve development in calendar years 2009 and 2008. The majority of the development is attributable to business generated within Odyssey America and Clearwater.

The group has exposure to latent liabilities, comprised largely of asbestos and environmental (A&E) claims relating to business written by separately rated Clearwater for accident years 1985 and prior. In 2006, Clearwater strengthened A&E reserves by \$69 million of which \$28 million is attributable to the commutation of a significant reinsurance agreement. Net loss and LAE reserves increased by \$77.4 million in 2007 and \$45 million in 2008. As of year-end 2008, A&E reserves represented 5.7% of the group's net loss and LAE reserves.

Odyssey Re Group discounts reserves relating to the indemnity portion of workers' compensation reserves of Odyssey America Reinsurance Corporation.

## LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
2003	32,111	40,942	27.5	17.5	77.1	9,174	22.4
2004	54,029	54,610	1.1	0.7	61.3	12,941	23.7
2005	82,897	84,232	1.6	1.1	57.2	20,927	24.8
2006	126,433	120,742	-4.5	-4.9	63.0	38,869	32.2
2007	151,897	151,590	-0.2	-0.3	76.7	84,891	56.0
2008	167,730	167,730	...	...	103.4	167,730	100.0

## LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2003	25,985	21,252	-18.2	1,361	71.6	91.5
2004	34,024	25,524	-25.0	3,767	58.4	84.3
2005	50,943	48,695	-4.4	7,986	62.6	90.5
2006	81,056	71,116	-12.3	17,942	64.0	96.9
2007	90,189	86,815	-3.7	46,022	67.9	105.1
2008	82,839	82,839	...	82,839	71.3	106.3

## CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	
2004	244,410	43.2	178.2	309.1	81.0	92.2	128.1	
2005	245,313	61.0	129.6	208.8	81.8	92.2	124.5	
2006	175,108	74.3	108.4	151.7	81.1	73.5	101.8	
2007	139,704	76.4	83.5	116.3	82.5	64.5	90.2	
2008	152,010	42.8	78.6	112.5	82.6	72.3	101.0	

## 2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	20,913	55,174	52,139	-1,674	126,552
US Insurers.....	33,734	40,746	18,173	-1,760	90,893
Other Non-US.....	4,837	7,096	2,614	702	15,249
Total (ex US Affil).....	38,571	47,842	20,787	-1,058	106,142
Grand Total.....	59,484	103,016	72,926	-2,732	232,694

\* Includes Commissions less Funds Withheld

## INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/ Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	...	...	...	2.2	2.2	...	7.0	16.5
2005	3.4	...	...	0.2	3.6	...	7.1	15.7
2006	1.3	...	...	...	1.3	...	6.2	16.4
2007	1.1	...	...	...	1.1	...	5.8	15.3
2008	0.9	...	...	...	0.9	...	5.2	9.7

## LIQUIDITY

The following text is derived from the report of Odyssey Reinsurance Group.

**Overall Liquidity:** The group's liquidity position is solid and compares favorably with its reinsurance peer group. As of year-end 2009, total invested assets approached nearly \$8 billion, with a sizeable amount allocated in fixed income maturities of solid credit quality. The average durations are less than 10 years. Strong cash flows over the past several years are driven by favorable operating results on a considerably expanded invested asset base. Maintaining sound liquidity is significant given the group's exposure to natural and man-made catastrophe losses. Odyssey Re also maintains significant cash and short term investments, which totaled \$1.0 billion as of September 30, 2009.

## LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	60.3	119.6	157.2	5.7	22.3	99.6	136.4	13.8
2005	55.5	123.4	157.0	4.4	20.6	102.4	137.9	11.9
2006	53.2	118.4	147.4	3.2	23.5	108.9	141.7	11.8
2007	56.8	118.5	146.1	5.1	21.7	111.2	145.2	10.1
2008	43.3	140.4	148.3	1.1	19.1	104.5	141.1	12.0

## CASH FLOW ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)	
2004	16,885	20,813	-5,409	124.8	129.1	125.3	135.3	
2005	59,361	49,737	28,932	149.8	137.1	114.8	128.2	
2006	68,397	60,082	-34,810	150.5	139.4	113.3	125.9	
2007	17,324	18,894	-7,818	110.5	110.9	112.0	122.6	
2008	8,990	21,523	17,712	106.1	114.6	100.7	112.5	

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## HISTORY

This company was incorporated with the temporary title Hudson Insurance Company of Delaware under the laws of Delaware on May 1, 1978 to act as the vehicle for the transfer of the corporate domicile of Hudson Insurance Company from New York, New York to Wilmington, Delaware, effective as of December 31, 1978. The predecessor company was originally incorporated on January 16, 1918 under the laws of New York and began business on December 14, 1918. The United States branch of Skandia Insurance Company Ltd., Stockholm, Sweden (the "US branch") acquired complete financial control of that predecessor company on August 25, 1939.

The US branch, concurrent with its domestication on July 1, 1974, passed direct stock ownership to Skandia America Reinsurance Corporation (now known as Clearwater Insurance Company), New York, New York. From November 1977 until February 1996, Skandia America Reinsurance Corporation was a subsidiary of Skandia America Corporation, a wholly owned holding company of Skandia US Holding Corporation, which was a wholly owned holding company affiliate of Skandia Insurance Company Ltd. (named Skandia Insurance Group Company Ltd. from 1989 to 1993).

On February 21, 1996, Skandia America Corporation entered into an agreement to sell the former Skandia America Reinsurance Corporation (now known as Clearwater Insurance Company) and its subsidiaries, including Hudson Insurance Company ("Hudson"), to Fairfax Financial Holdings Limited, a Canadian financial services holding company. The acquisition became effective on May 31, 1996.

Hudson is a wholly owned subsidiary of Clearwater Insurance Company (formerly Odyssey Reinsurance Corporation), which is wholly owned by Odyssey America Reinsurance Corporation ("Odyssey America"), which is wholly owned by Odyssey Re Holdings Corp. ("ORH"). Fairfax Financial Holdings Limited is the ultimate 100% shareholder of ORH.

Primary insurance business was conducted until 1932. In 1935, the company became a professional reinsurer. In 1981, the company began to underwrite excess and special risk business. From 1985 to 1989, the company ceased writing new and renewal business. In 1990, the company began writing specialty insurance business.

Paid-up capital of \$7.5 million consists of 25,000 common shares at \$300 par value each. All authorized shares are outstanding.

## MANAGEMENT

The company's chairman is Andrew A. Barnard, who is also the chairman of the board of Clearwater Insurance Company, Clearwater Select Insurance Company, Hudson Specialty Insurance Company and Odyssey America Reinsurance Corporation. Management of the company's affairs is directed by president and chief operating officer, Christopher L. Gallagher.

**Officers:** Chairman, Andrew A. Barnard; Chief Executive Officer, Brian D. Young; President and Chief Operating Officer, Christopher L. Gallagher; Executive Vice President and Chief Underwriting Officer, Christopher T. Suarez; Executive Vice President and Chief Actuary, Robert S. Bennett; Executive Vice Presidents, Alane R. Carey, Scott F. Galiardo, James J. Hooghuis; Senior Vice President and Chief Financial Officer, John F. Verbich; Senior Vice President, Secretary and General Counsel, Peter H. Lovell; Senior Vice President and Controller, Anthony J. Slowski; Senior Vice Presidents, James A. Crowe, James J. Danbrowney, Matthew J. Deneen, Gerald A. Dugan, Michael P. Gleeson, Kent A. Petersen, Stephen L. Porcelli, Jeffrey M. Rubin, Jean Willig.

**Directors:** Andrew A. Barnard, Robert S. Bennett, R. Scott Donovan, Christopher L. Gallagher, Michael G. Wacek, Brian D. Young.

## REGULATORY

An examination of the financial condition was made as of December 31, 2007 by the Insurance Department of Delaware. The 2008 annual independent audit of the company was conducted by PricewaterhouseCoopers, LLP. The annual statement of actuarial opinion is provided by Robert S. Bennett, Executive Vice President and Chief Actuary.

**Territory:** The company is licensed in the District of Columbia, Puerto Rico, U.S. Virgin Islands and all states.

## REINSURANCE

The company reinsures specific lines of its business using a combination of pro rata and excess of loss reinsurance arrangements with unaffiliated carriers. The company further cedes 70% of the resulting net account to Odyssey America on a quota share basis.

## BALANCE SHEET

### ADMITTED ASSETS (\$000)

	12/31/08	12/31/07	'08%	'07%
Bonds.....	255,538	233,628	60.2	59.8
Cash & short-term invest.....	79,747	62,035	18.8	15.9
Other non-affil inv asset.....	68	44	0.0	0.0
Total invested assets.....	335,353	295,708	78.9	75.7
Premium balances.....	33,626	43,216	7.9	11.1
Accrued interest.....	4,312	2,303	1.0	0.6
All other assets.....	51,541	49,539	12.1	12.7
Total assets.....	424,832	390,766	100.0	100.0

### LIABILITIES & SURPLUS (\$000)

	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves.....	172,378	155,446	40.6	39.8
Unearned premiums.....	34,070	80,868	8.0	20.7
Conditional reserve funds.....	3,219	3,206	0.8	0.8
All other liabilities.....	80,059	31,142	18.8	8.0
Total liabilities.....	289,726	270,663	68.2	69.3
Capital & assigned surplus.....	89,725	89,725	21.1	23.0
Unassigned surplus.....	45,381	30,378	10.7	7.8
Total policyholders' surplus.....	135,106	120,103	31.8	30.7
Total liabilities & surplus.....	424,832	390,766	100.0	100.0

### SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Premiums earned.....	162,155	Premiums collected.....	155,489
Losses incurred.....	95,403	Benefit & loss related pmts	86,219
LAE incurred.....	23,645	LAE & undrw expenses paid	60,279
Undrw expenses incurred	40,369	Undrw cash flow.....	8,990
Net underwriting income	2,739	Investment income.....	7,164
Net investment income.....	10,994	Other income/expense...	6,441
Other income/expense...	...	Pre-tax cash operations	22,596
Pre-tax oper income...	13,732	Income taxes pd (recov)...	1,073
Realized capital gains.....	18,436	Net oper cash flow.....	21,523
Income taxes incurred.....	1,875		
Net income.....	30,293		

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## Why is this *Best's*<sup>®</sup> Rating Report important to you?

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The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

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A and A- . . . . .	Excellent
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B and B- . . . . .	Fair
C++ and C+ . . . . .	Marginal
C and C- . . . . .	Weak
D . . . . .	Poor
E . . . . .	Under Regulatory Supervision
F . . . . .	In Liquidation
S . . . . .	Rating Suspended

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