



CONSOLIDATED FINANCIAL STATEMENTS

ODYSSEY GROUP HOLDINGS, INC.

AND SUBSIDIARIES

AS OF DECEMBER 31, 2020 AND 2019

AND

FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018



Report of Independent Auditors

To the Board of Directors of Odyssey Group Holdings, Inc.:

We have audited the accompanying consolidated financial statements of Odyssey Group Holdings, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Odyssey Group Holdings, Inc. and its subsidiaries as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the three years in the period ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the information about incurred and paid claims development that precedes the current reporting period and the historical claims payout percentages included in Note 6 from page 38 to 44 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Financial Accounting Board (FASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

New York, New York
March 1, 2021

ODYSSEY GROUP HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2020	2019
	(In thousands, except share and per share amounts)	
ASSETS		
Investments and cash:		
Fixed income securities, available for sale, at fair value (amortized cost \$15,748 and \$15,902, respectively).....	\$ 15,941	\$ 16,503
Fixed income securities, held for trading, at fair value (amortized cost \$3,170,518 and \$3,329,206, respectively).....	3,415,732	3,362,775
Preferred stocks, held for trading, at fair value (cost \$16,396 and \$16,273, respectively)	18,798	17,082
Equity securities:		
Common stocks, at fair value (cost \$889,757 and \$1,729,805, respectively)	740,088	1,649,983
Common stocks, at equity	1,472,718	580,280
Short-term investments, held for trading, at fair value (amortized cost \$2,334,190 and \$1,912,842, respectively).....	2,334,201	1,913,820
Cash and cash equivalents	919,712	866,712
Cash and cash equivalents held as collateral	155,496	21,910
Other invested assets	1,779,237	1,465,675
Total investments and cash	10,851,923	9,894,740
Accrued investment income	41,452	40,186
Premiums receivable	1,468,667	1,286,325
Reinsurance recoverable on paid losses	166,661	85,256
Reinsurance recoverable on unpaid losses	1,047,812	894,255
Prepaid reinsurance premiums	282,708	158,857
Funds held by reinsureds	207,262	188,738
Deferred acquisition costs	299,661	260,222
Federal and foreign income taxes receivable.....	228,710	213,467
Other assets.....	258,213	219,528
Total assets.....	\$ 14,853,069	\$ 13,241,574
LIABILITIES		
Unpaid losses and loss adjustment expenses	\$ 6,844,631	\$ 6,080,670
Unearned premiums	1,681,350	1,338,051
Reinsurance balances payable	396,419	248,757
Funds held under reinsurance contracts.....	135,761	91,475
Debt obligations	89,984	89,942
Other liabilities	930,835	802,779
Total liabilities	10,078,980	8,651,674
Commitments and Contingencies (Note 11)		
SHAREHOLDERS' EQUITY		
Non-controlling interest - preferred shares of subsidiaries	29,299	29,299
Common shares, \$10.00 par value; 60,000 shares authorized; 51,752 and 51,752 shares issued and outstanding, respectively	518	518
Additional paid-in capital	1,936,893	1,962,263
Accumulated other comprehensive loss, net of deferred income taxes.....	(129,497)	(80,560)
Retained earnings.....	2,936,876	2,678,380
Total shareholders' equity	4,774,089	4,589,900
Total liabilities and shareholders' equity	\$ 14,853,069	\$ 13,241,574

See accompanying notes to consolidated financial statements.

ODYSSEY GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
REVENUES			
Gross premiums written	\$ 4,446,677	\$ 3,815,959	\$ 3,328,628
Ceded premiums written	657,126	422,190	430,808
Net premiums written	3,789,551	3,393,769	2,897,820
Increase in net unearned premiums	(202,911)	(214,616)	(142,391)
Net premiums earned	3,586,640	3,179,153	2,755,429
Net investment income	168,393	245,773	209,226
Net realized investment gains (losses):			
Realized investment gains (losses)	26,639	211,327	(117,106)
Other-than-temporary impairment losses	(34,480)	—	(299)
Total net realized investment (losses) gains	(7,841)	211,327	(117,405)
Total revenues	<u>3,747,192</u>	<u>3,636,253</u>	<u>2,847,250</u>
EXPENSES			
Losses and loss adjustment expenses	2,424,562	2,154,031	1,715,745
Acquisition costs	693,498	629,859	588,740
Other underwriting expenses	318,983	305,396	275,868
Other expenses, net	7,196	6,013	15,811
Interest expense	6,410	7,814	4,132
Total expenses	<u>3,450,649</u>	<u>3,103,113</u>	<u>2,600,296</u>
Income before income tax	<u>296,543</u>	<u>533,140</u>	<u>246,954</u>
Federal and foreign income tax (benefit) provision:			
Current	(20,502)	106,812	51,071
Deferred	56,938	20,937	(27,892)
Total federal and foreign income tax provision	36,436	127,749	23,179
Net income	<u>\$ 260,107</u>	<u>\$ 405,391</u>	<u>\$ 223,775</u>

See accompanying notes to consolidated financial statements.

ODYSSEY GROUP HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
Net income.....	\$ 260,107	\$ 405,391	\$ 223,775
OTHER COMPREHENSIVE (LOSS) INCOME, BEFORE TAX			
Unrealized net (depreciation) appreciation on securities arising during the year	(66,407)	55,502	(64,946)
Reclassification adjustment for net realized investment losses (gains) included in net income	17,566	(71,544)	(17,956)
Foreign currency translation adjustments	(14,898)	40,447	(62,689)
Change in benefit plan liabilities.....	1,810	(40,433)	11,411
Other comprehensive loss, before tax	(61,929)	(16,028)	(134,180)
TAX BENEFIT (PROVISION)			
Unrealized net depreciation (appreciation) on securities arising during the year	13,933	(11,729)	13,690
Reclassification adjustment for net realized investment (losses) gains included in net income.....	(3,689)	15,024	3,771
Foreign currency translation adjustments	3,128	(8,494)	13,164
Change in benefit plan liabilities.....	(380)	8,491	(2,396)
Total tax benefit	12,992	3,292	28,229
Other comprehensive loss, net of tax	(48,937)	(12,736)	(105,951)
Comprehensive income	\$ 211,170	\$ 392,655	\$ 117,824

See accompanying notes to consolidated financial statements.

ODYSSEY GROUP HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Years Ended December 31,		
	2020	2019	2018
(In thousands, except common share amounts)			
NON-CONTROLLING INTEREST - PREFERRED SHARES OF SUBSIDIARIES			
Balance, beginning and end of year.....	\$ 29,299	\$ 29,299	\$ 29,299
COMMON SHARES (par value)			
Balance, beginning of year.....	518	492	492
Common shares capital contributions.....	—	26	—
Balance, beginning and end of year.....	518	518	492
ADDITIONAL PAID-IN CAPITAL			
Balance, beginning of year.....	1,962,263	1,725,992	1,738,968
Common shares capital contributions.....	—	225,480	—
Net change due to stock option exercises and restricted share awards	(25,370)	10,791	(12,976)
Balance, end of year	1,936,893	1,962,263	1,725,992
ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME NET OF DEFERRED INCOME TAXES			
Balance, beginning of year.....	(80,560)	(68,729)	37,222
Unrealized - cumulative effect of adoption of accounting changes.....	—	905	—
Adjusted beginning balance.....	(80,560)	(67,824)	37,222
Unrealized depreciation on securities, net of reclassification adjustments	(38,597)	(12,747)	(65,441)
Foreign currency translation adjustments	(11,770)	31,953	(49,525)
Change in benefit plan liabilities	1,430	(31,942)	9,015
Balance, end of year	(129,497)	(80,560)	(68,729)
RETAINED EARNINGS			
Balance, beginning of year.....	2,678,380	2,328,716	2,206,552
Retained earnings - cumulative effect of adoption of accounting changes.....	—	(4,116)	—
Adjusted beginning balance.....	2,678,380	2,324,600	2,206,552
Net income	260,107	405,391	223,775
Dividends to preferred shareholder and non-controlling interest.....	(1,611)	(1,611)	(1,611)
Dividends to common shareholder	—	(50,000)	(100,000)
Balance, end of year	2,936,876	2,678,380	2,328,716
TOTAL SHAREHOLDERS' EQUITY	\$ 4,774,089	\$ 4,589,900	\$ 4,015,770
COMMON SHARES OUTSTANDING			
Balance, beginning of year.....	51,752	49,170	49,170
Shares issued	—	2,582	—
Balance, end of year	51,752	51,752	49,170

See accompanying notes to consolidated financial statements.

ODYSSEY GROUP HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2020	2019	2018
	(In thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 260,107	\$ 405,391	\$ 223,775
Adjustments to reconcile net income to net cash provided by operating activities:			
Increase in premiums receivable and funds held, net of reinsurance.....	(64,545)	(165,974)	(302,471)
Increase in unearned premiums and prepaid reinsurance premiums, net	201,449	219,148	139,269
Increase in unpaid losses and loss adjustment expenses, net of reinsurance.....	478,761	375,281	292,180
(Increase) decrease in current and deferred federal and foreign income taxes, net	(1,455)	23,947	(60,301)
Increase in deferred acquisition costs	(39,211)	(29,909)	(28,766)
Change in other assets and other liabilities, net.....	107,438	18,346	129,620
Net realized investment losses (gains)	7,841	(211,327)	117,405
Bond discount amortization, net	(8,810)	(15,442)	(27,041)
Amortization of compensation plans.....	16,939	17,023	17,234
Net cash provided by operating activities.....	<u>958,514</u>	<u>636,484</u>	<u>500,904</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of fixed income securities, available for sale	100	22,782	530,941
Sales of fixed income securities, available for sale.....	—	4,125	43,750
Purchases of fixed income securities, available for sale.....	—	—	(13,983)
Sales of equity securities, available for sale	39,138	57,025	5,771
Purchases of equity securities, available for sale	(76,608)	(5,030)	(29,584)
Net settlements of other invested assets.....	71,821	525,991	244,245
Purchases of other invested assets	(392,292)	(654,997)	(486,805)
Sales of trading securities.....	6,419,324	4,392,909	5,063,733
Purchases of trading securities.....	(6,815,806)	(4,835,657)	(6,854,273)
Net purchases of fixed assets	(15,600)	(12,785)	(15,323)
Net cash used in investing activities	<u>(769,923)</u>	<u>(505,637)</u>	<u>(1,511,528)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Purchases of restricted shares.....	(41,955)	(6,950)	(29,492)
Dividends paid to preferred shareholder	(1,611)	(1,611)	(1,611)
Dividends paid to common shareholder	—	(45,424)	(50,001)
Net cash used in financing activities	<u>(43,566)</u>	<u>(53,985)</u>	<u>(81,104)</u>
Effect of exchange rate changes on cash and cash equivalents	41,561	(2,640)	(34,431)
Increase (decrease) in cash and cash equivalents	186,586	74,222	(1,126,159)
Cash and cash equivalents, beginning of year	888,622	814,400	1,940,559
Cash and cash equivalents, end of year.....	<u>\$ 1,075,208</u>	<u>\$ 888,622</u>	<u>\$ 814,400</u>
Supplemental disclosures of cash flow information:			
Interest paid.....	\$ 2,857	\$ 4,381	\$ 4,068
Income taxes paid	\$ 37,588	\$ 104,271	\$ 83,367
Non-cash activity:			
Dividends paid to common shareholder.....	\$ —	\$ 4,576	\$ 49,999
Receipt of securities for issuance of common shares.....	\$ —	\$ 225,506	\$ —

See accompanying notes to consolidated financial statements.

ODYSSEY GROUP HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Odyssey Group Holdings, Inc., a Delaware corporation (together with its subsidiaries, the “Company”, or “OGHI” on a stand-alone basis), is an underwriter of reinsurance, providing a full range of property and casualty products on a worldwide basis, and of specialty insurance, primarily in the United States and through the Lloyd’s of London (“Lloyd’s”) marketplace. OGHI owns all of the common shares of Odyssey Reinsurance Company (“ORC”), its principal operating subsidiary, which is domiciled in the state of Connecticut. ORC directly or indirectly owns all of the common shares of the following subsidiaries:

- Hudson Insurance Company (“Hudson”) and its subsidiaries:
 - Hilltop Specialty Insurance Company (“Hilltop”), formerly known as Hudson Specialty Insurance Company;
 - Hudson Excess Insurance Company (“Hudson Excess”);
- Greystone Insurance Company (“Greystone”);
- Newline Holdings U.K. Limited and its subsidiaries (collectively, “Newline”):
 - Newline Underwriting Management Limited, which manages Newline Syndicate (1218), a member of Lloyd’s;
 - Newline Insurance Company Limited (“NICL”);
 - Newline Europe Holdings GmbH
 - Newline Europe Versicherung AG (“NV”); and
 - Newline Corporate Name Limited (“NCNL”), which provides capital for and receives distributed earnings from Newline Syndicate (1218);
- Odyssey Re Europe Holdings S.A.S. (“OREH”):
 - Odyssey Re Europe S.A. (“ORES”).

Fairfax Financial Holdings Limited (“Fairfax”), a publicly traded financial services holding company based in Canada, ultimately owns 100% of the common shares of OGHI and 100% of the non-controlling interest - preferred shares of OGHI’s subsidiaries. OGHI’s direct 100% owner is Odyssey US Holdings Inc. (“OUSHI”), all of the common shares of which are ultimately owned by Fairfax.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2. Summary of Significant Accounting Policies

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

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that could differ materially from actual results affecting the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. The Company considers its accounting policies that are most dependent on the application of estimates and assumptions as critical accounting estimates, which are defined as estimates that are both: i) important to the portrayal of the Company’s financial condition and results of operations and ii) require the Company to exercise significant judgment. These estimates, by necessity, are based on assumptions about numerous factors.

The Company reviews its critical accounting estimates and assumptions on a quarterly basis, including: the valuation of the reserves for unpaid losses and loss adjustment expenses; analysis of the recoverability of deferred income tax assets; and valuation of the investment portfolio, including a review for other-than-temporary declines in estimated fair value and the pricing of level 3 securities.

(b) *Investments.* The majority of the Company’s investments in fixed income securities and common stocks are categorized as “held for trading” and are recorded at their estimated fair value based on quoted market prices (see Note 3). Most investments in common stocks of affiliates are carried at the Company’s proportionate share of the equity of those affiliates. Short-term investments, which are classified as “held for trading” and which have a maturity of one year or less from the date of purchase, are carried at fair value. The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents include certificates of deposits totaling \$10.8 million and \$10.6 million as of December 31, 2020 and 2019, respectively. Investments in limited partnerships, investment funds, mortgage loans, affiliate loans and real estate have been reported in other invested assets. Other invested assets also include accounts relating to the Company’s unqualified benefit plans and derivative securities, all of which are carried at fair value. The Company routinely evaluates the carrying value of its investments in common stocks of affiliates and in partnerships and investment funds. In the case of limited partnerships and investment funds, the carrying value is generally established on the basis of the net valuation criteria as determined by the managers of the investments. Such valuations could differ significantly from the values that would have been available had markets existed for the securities. Investment transactions are recorded on their trade date, with balances pending settlement reflected in the consolidated balance sheets as a component of other assets or other liabilities.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(c) *Revenue Recognition.* Reinsurance assumed premiums written and related costs are based upon reports received from ceding companies. When reinsurance assumed premiums written have not been reported by the ceding company they are estimated, at the individual contract level, based on historical patterns and experience from the ceding company and judgment of the Company. Subsequent adjustments to premiums written, based on actual results or revised estimates from the ceding company, are recorded in the period in which they become known. Reinsurance assumed premiums written related to proportional treaty business are established on a basis that is consistent with the coverage periods under the terms of the underlying insurance contracts. Reinsurance assumed premiums written related to excess of loss and facultative reinsurance business are recorded over the coverage term of the contracts, which is generally one year. Unearned premium reserves are established for the portion of reinsurance assumed premiums written that are to be recognized over the remaining contract period. Unearned premium reserves related to proportional treaty contracts are computed based on reports received from ceding companies, which show premiums written but not yet earned. Premium adjustments made over the life of the contract are recognized as earned premiums based on the applicable contract period. Insurance premiums written are based upon the effective date of the underlying policy and are generally earned on a pro rata basis over the policy period, which is usually one year. A reserve for uncollectible premiums is established when deemed necessary. The Company has established a reserve for potentially uncollectible premium receivable balances of \$11.0 million and \$10.9 million as of December 31, 2020 and 2019, respectively, which has been netted against premiums receivable.

The cost of reinsurance purchased by the Company (reinsurance premiums ceded) is reported as prepaid reinsurance premiums and amortized over the contract period in proportion to the amount of reinsurance protection provided. The ultimate amount of premiums, including adjustments, is recognized as premiums ceded, and amortized over the applicable contract period. Premiums earned are reported net of reinsurance ceded premiums earned in the consolidated statements of operations. Amounts paid by the Company for retroactive reinsurance that meet the conditions for reinsurance accounting are reported as reinsurance receivables to the extent those amounts do not exceed the associated liabilities. If the liabilities exceed the amounts paid, reinsurance receivables are increased to reflect the difference, and the resulting gain is deferred and amortized over the estimated settlement period. If the amounts paid for retroactive reinsurance exceed the liabilities, the related liabilities are increased or the reinsurance receivable is reduced, or both, at the time the reinsurance contract is effective, and the excess is charged to net income. Changes in the estimated amount of liabilities relating to the underlying reinsured contracts are recognized in net income in the period of the changes. Assumed and ceded reinstatement premiums represent additional premiums related to reinsurance coverages, principally catastrophe excess of loss contracts, which are paid when the incurred loss limits have been utilized under the reinsurance contract and such limits are reinstated. Premiums written and earned premiums related to a loss event are estimated and accrued as earned. The accrual is adjusted based upon any change to the ultimate losses incurred under the contract.

Leasing revenue is generally recognized ratably over the term of the leases. All of the Company's leasing revenue are generated from operating leases. Assets held for leases consist of land and buildings with estimated useful lives of 30 to 39 years and are valued at \$291.9 million.

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

Included in acquisition costs in the consolidated statements of operations are amortized deferred acquisition costs of \$675.5 million, \$613.6 million and \$569.8 million for the years ended December 31, 2020, 2019 and 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(e) *Goodwill and Intangible Assets.* The Company accounts for goodwill and intangible assets as permitted or required by GAAP. A purchase price paid that is in excess of net assets arising from a business combination is recorded as an asset (“goodwill”) and is not amortized. Intangible assets with finite lives are amortized over the estimated useful life of the asset. Intangible assets with indefinite useful lives are not amortized. Goodwill and intangible assets are analyzed for impairment on a quarterly basis to determine if the carrying amount may not be recoverable. If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statements of operations. For the years ended December 31, 2020, 2019 and 2018 the Company did not impair any goodwill or intangible assets.

The following table reflects the carrying amount of goodwill, intangible assets with indefinite lives and intangible assets with finite lives as of December 31, 2020 and 2019 (in thousands):

	Goodwill	Intangible Assets		Total
		Indefinite Lives	Finite Lives	
Balance, January 1, 2019	\$ 52,268	\$ 5,813	\$ 11,555	\$ 69,636
Acquired during 2019.....	—	—	12,768	12,768
Amortization during 2019	—	—	(4,453)	(4,453)
Balance, December 31, 2019.....	52,268	5,813	19,870	77,951
Amortization during 2020	—	—	(4,818)	(4,818)
Balance, December 31, 2020.....	<u>\$ 52,268</u>	<u>\$ 5,813</u>	<u>\$ 15,052</u>	<u>\$ 73,133</u>

The Company amortized \$2.6 million during the year ended December 31, 2018 related to its intangible assets with finite lives.

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

	Years Ended December 31,					2026 and thereafter
	2021	2022	2023	2024	2025	
Amortization of intangible assets	\$ 4,818	\$ 4,421	\$ 3,062	\$ 1,867	\$ 850	\$ 5

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

The reserves for unpaid losses and loss adjustment expenses are based on the Company’s evaluations of reported claims and individual case estimates received from ceding companies for reinsurance business or the estimates advised by the Company’s claims adjusters for insurance business. The Company utilizes generally accepted actuarial methodologies to determine reserves for losses and loss adjustment expenses on the basis of historical experience and other estimates. The reserves are reviewed continually during the year and changes in estimates for losses and loss adjustment expenses are reflected as expenses in the consolidated statements of operations in the period that the changes are made. Reinsurance recoverables on unpaid losses and loss adjustment expenses are reported as assets. A reserve for uncollectible reinsurance recoverables is established based on an evaluation of each reinsurer or retrocessionaire and historical experience. The Company uses tabular reserving for workers’ compensation indemnity loss reserves, which are considered to be fixed and determinable, and discounts such reserves using an interest rate of 3.5% and the Life Table for Total Population: United States, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(g) *Deposit Assets and Liabilities.* The Company may enter into assumed and ceded reinsurance contracts that contain certain loss limiting provisions and, as a result, do not meet the risk transfer provisions of GAAP. These contracts are deemed as either transferring only significant timing risk or only significant underwriting risk or transferring neither significant timing nor underwriting risk and are accounted for using the deposit accounting method, under which revenues and expenses from reinsurance contracts are not recognized as written premium and incurred losses. Instead, the profits or losses from these contracts are recognized net, as other income or other expense, over the contract or contractual settlement periods.

For such contracts, the Company initially records the amount of consideration paid as a deposit asset or received as a deposit liability. Revenue or expense is recognized over the term of the contract, with any deferred amount recorded as a component of assets or liabilities until such time it is earned. The ultimate asset or liability under these contracts is estimated, and the asset or liability initially established, which represents the consideration transferred, is increased or decreased over the term of the contract. The change during the period is recorded in the Company's consolidated statements of operations, with increases and decreases in the ultimate asset or liability shown in other expense, net. As of December 31, 2020 and 2019, the Company had reflected \$1.6 million and \$3.1 million in other assets and \$0.2 million and \$0.3 million in other liabilities, respectively, related to deposit contracts. In cases where cedants retain the consideration on a funds held basis, the Company records those assets in other assets, and records the related investment income on the assets in the Company's consolidated statements of operations as investment income.

(h) *Income Taxes.* The Company records deferred income taxes to provide for the net tax effect of temporary differences between the carrying values of assets and liabilities in the Company's consolidated financial statements and their tax bases. Such differences relate principally to deferred acquisition costs, unearned premiums, unpaid losses and loss adjustment expenses, investments and tax credits. Deferred tax assets are reduced by a valuation allowance when the Company believes it is "more likely than not" that all or a portion of deferred taxes will not be realized. The Company assessed the realization of its foreign tax credit carryovers ("FTC") and determined that it is more likely than not that all FTC carryovers related to foreign branch income will not be utilized prior to their expiration. As a result, a valuation allowance of \$28.1 million was recorded against the FTC deferred tax asset as of December 31, 2020. The Company has elected to recognize accrued interest and penalties associated with uncertain tax positions as part of the income tax provision.

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

(j) *Foreign Currency.* Foreign currency transaction gains or losses resulting from a change in exchange rates between the currency in which a transaction is denominated, or the original currency, and the functional currency are reflected in the consolidated statements of operations in the period in which they occur. The Company translates the financial statements of its foreign subsidiaries and branches that have functional currencies other than the U.S. dollar into U.S. dollars by translating balance sheet accounts at the balance sheet date exchange rate and income statement accounts at the rate at which the transaction occurs or the average exchange rate for each quarter. Translation gains or losses are recorded, net of deferred income taxes, as a component of accumulated other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the foreign exchange effects, net of the effects of foreign currency forward contracts purchased as an economic hedge against foreign exchange rate volatility and of tax, on specific line items in the Company's financial statements for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Statements of operations:			
Realized investment (losses) gains:			
Foreign currency forward contracts (losses) gains	\$ (17,553)	\$ (26,919)	\$ 58,841
Other investment gains (losses)	10,931	(38,289)	(24,139)
Non-Investment realized gains	14,942	16,742	—
Total realized investment gains (losses)	8,320	(48,466)	34,702
Net investment income (loss)	375	(378)	(4,214)
Other income, net	—	—	1,575
Income (loss) before income tax	8,695	(48,844)	32,063
Total federal and foreign income tax provision (benefit)	1,827	(10,257)	6,734
Net income (loss)	6,868	(38,587)	25,329
Other comprehensive (loss) income:			
Other comprehensive (loss) income before income tax	(14,898)	40,447	(62,689)
Federal and foreign income tax (benefit) provision before income tax	(3,128)	8,494	(13,164)
Other comprehensive (loss) income, net of tax	(11,770)	31,953	(49,525)
Total effects on comprehensive loss and shareholders' equity	<u>\$ (4,902)</u>	<u>\$ (6,634)</u>	<u>\$ (24,196)</u>

(k) *Stock-Based Compensation Plans.* The Company reflects awards of restricted common stock of Fairfax to employees as a reduction to additional paid-in-capital when the shares are purchased. The award value is amortized through compensation expense over the related vesting periods.

(l) *Claims Payments.* Payments of claims by the Company, as reinsurer, to a broker on behalf of a reinsured company are recorded in the Company's financial statements as paid losses at the time the cash is disbursed and are treated as paid to the reinsured. Premiums due to the Company from the reinsured are recorded as receivables from the reinsured until the cash is received by the Company, either directly from the reinsured or from the broker.

(m) *Funds Held Balances.* "Funds held under reinsurance contracts" represents amounts due to reinsurers arising from the Company's receipt of a deposit from a reinsurer, or the withholding of a portion of the premiums due, in accordance with contractual terms, as a guarantee that the reinsurer will meet its loss and other obligations. Interest generally accrues on withheld funds in accordance with contract terms. "Funds held by reinsured" represents amount due from a ceding company that withholds, in accordance with the contractual terms, a portion of the premium due the Company as a guarantee that the Company will meet its loss and other obligations.

(n) *Fixed Assets.* Fixed assets, with a net book value of \$106.3 million and \$95.9 million as of December 31, 2020 and 2019, respectively, are recorded at amortized cost and are included in other assets. Depreciation and amortization are generally computed on a straight-line basis over the following estimated useful lives:

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

Depreciation and amortization expense for the years ended December 31, 2020, 2019 and 2018 was \$27.6 million, \$26.9 million and \$11.4 million, respectively.

(o) *Contingent Liabilities.* Amounts are accrued for the resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of the Company, it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. In many cases it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

after the contingency arises, in which case no accrual is made until that time. As of December 31, 2020 and 2019, no contingent liabilities have been recorded (see Note 11).

(p) *Recent Accounting Pronouncements.* The Financial Accounting Standards Board (“FASB”) is the organization responsible for establishing and improving GAAP.

In January 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-01, “Financial Instruments - Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 generally requires that equity investments (excluding those investments for which the equity method of accounting is utilized) be measured at fair value with changes in fair value recognized in net income. Under existing GAAP, changes in fair value of available-for-sale equity investments are recorded in other comprehensive income. The Company adopted ASU 2016-01 effective January 1, 2019 and elected to utilize a cumulative effect adjustment to the opening balance of retained earnings for the year of adoption. Accordingly, the Company’s reporting for the comparative periods prior to adoption continue to be presented in the financial statements in accordance with the previous guidance where changes in fair value of available-for-sale equity investments were recorded in other comprehensive income. The adoption of ASU 2016-01, as of January 1, 2019, resulted in a cumulative change adjustment of \$0.9 million between accumulated other comprehensive income and retained earnings, with no net impact on the Company’s shareholders’ equity.

In February 2016 and July 2018, the FASB issued ASU 2016-02 and ASU 2018-11, respectively, both entitled “Leases”, requiring a lessee i) to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, and ii) to make additional qualitative and quantitative disclosures about its leases. The Company adopted ASU 2016-02 effective January 1, 2019 and elected to utilize a cumulative-effect adjustment to the opening balance of retained earnings in the year of adoption.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses,” which provides for the recognition and measurement at the reporting date of all expected credit losses for financial assets that are not accounted for at fair value through net income, including investments in available-for-sale debt securities and loans, premiums receivable and reinsurance recoverable. The updated guidance amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security’s amortized cost basis and its fair value. This guidance also applies a new current expected credit loss model for determining credit-related impairments for financial instruments measured at amortized cost. In November 2019, the FASB issued ASU 2019-10, which deferred the effective date of ASU 2016-13 to 2023 (with early adoption permitted), and ASU 2019-11, which amended and clarified certain guidance contained in ASU 2016-13. The Company is evaluating the effect this standard will have on its consolidated financial statements, although such effect is not expected to be significant.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts described as restricted cash or restricted cash equivalents. The Company adopted ASU 2016-18 effective January 1, 2019 using a retrospective transition method to the prior periods presented on the consolidated statements of cash flows. The adoption of ASU 2016-18 did not have a material impact on the Company’s financial statements.

In January 2017, the FASB issued 2017-04, “Intangibles – Goodwill and Other – Simplifying the Test for Goodwill Impairment,” which eliminates the requirement to determine the implied value of goodwill in measuring an impaired loss. The effective date of ASU 2017-07 for the Company is 2023, with early adoption permitted. The Company is evaluating the effect this standard will have on its consolidated financial statements, although such effect is not expected to be significant.

In March 2017, the FASB issued ASU 2017-08, “Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities,” which the Company adopted in 2020. ASU 2017-08 requires that the premium on callable debt securities be amortized through the earliest call date rather than through the maturity date of the callable security. In October 2020, the FASB issued ASU 2020-08, which clarified an entity’s accounting responsibilities related to callable debt securities that have multiple call dates. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

adoption of ASU 2017-08 and ASU 2020-08 did not have a significant impact on the Company's financial statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging," which simplifies and expands the eligible hedging strategies for financial and nonfinancial risks and enhances the transparency of how hedging results are presented and disclosed. ASU 2017-12 also provides partial relief on the timing of certain aspects of hedge documentation and eliminates the requirement to recognize hedge ineffectiveness separately in earnings. In November 2019, the FASB issued 2019-10, which amended the effective date of ASU 2017-12 to 2021. The Company is currently evaluating the impact of the adoption of ASU 2017-12 and ASU 2019-10 on the Company's consolidated financial statements but does not expect this guidance to have a material effect on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes." ASU 2019-12 provides the simplification of existing guidance for income taxes, including the removal of certain exceptions related to the recognition of deferred tax liabilities on foreign subsidiaries and is effective for the Company in 2022. The Company is currently evaluating the impact of the adoption of ASU 2019-12 on the Company's consolidated financial statements but does not expect this guidance to have a material effect on the Company's consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides optional expedients and exceptions for applying GAAP to investments, derivatives, or other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate that is expected to be discontinued because of reference rate reform. Along with the optional expedients, the amendments include a general principle that permits an entity to consider contract modifications due to reference reform to be an event that does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. This standard may be elected over time through December 31, 2022 as reference rate reform activities occur. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements but does not expect this guidance to have a material effect on the Company's consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements," which provides disclosure guidance and was issued because of previous guidance that allowed companies the option to disclose information either on the face of financial statements or as a disclosure. ASU 2020-10 codifies the disclosure option so that it appears in both Section 45, Other Presentation Matters, and Section 50, Disclosure. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements but does not expect this guidance to have a material effect on the Company's consolidated financial statements.

The Company has determined that all recently issued guidance and pronouncements, other than those directly referenced above, are either not applicable or are immaterial to the Company's consolidated financial statements.

(q) *Misclassification of Equity Method Investments.* The Company has concluded that, as a result of i) the December 19, 2019 removal of certain veto rights held by a Greek regulatory entity with a minority interest in financial services provider Eurobank Ergasias Services & Holdings S.A. ("Eurobank"), in which the Company and Fairfax hold significant equity interests, and ii) the acquisition of additional shares of Seaspan Corporation ("Seaspan") on December 17, 2019, Fairfax and the Company had obtained significant influence over Eurobank and Seaspan as of those dates. As a result, the investments in common stock of Eurobank and Seaspan as of December 31, 2019 should have been recorded using the equity method of accounting. Both investments had been reported at fair value.

The effect of the misclassifications were such that the December 31, 2019 investments at fair value were overstated by \$887.5 million, while investments in subsidiaries and affiliates were understated by \$851.6 million. Similarly, net realized gains on investments was overstated by \$35.9 million, pre-tax, for the year ended December 31, 2019. The realized gain differences were corrected in the income statement in 2020, while the investment classifications were properly reflected in the consolidated financial statements for the year ended December 31, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company performed both a qualitative and quantitative assessment of the materiality of the adjustments and concluded that the effects were not material to the Company's financial position or results of operations within the 2019 annual financial statements or for the 2020 annual financial statements in which they were adjusted.

(r) *Subsequent Events*. The Company has evaluated the significance of events occurring subsequent to December 31, 2020 with respect to disclosing the nature and expected impact of such events as of March 1, 2021, the date these consolidated financial statements were available to be issued.

3. Fair Value Measurements

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

Fair Value Hierarchy

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

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

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

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets;
- c) Pricing models, the inputs for which are observable for substantially the full term of the asset or liability; and
- d) Pricing models, the inputs for which are derived principally from, or corroborated by, observable market data through correlation or other means, for substantially the full term of the asset or liability.

Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 include government and corporate fixed income securities, which are priced using publicly traded over-the-counter prices and broker-dealer quotes. Observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads and bids are available for these investments. Also included in Level 2 are inactively traded convertible corporate debentures that are valued using a pricing model that includes observable inputs such as credit spreads and discount rates in the calculation.

Level 3: Level 3 financial instruments are financial assets and liabilities for which the values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement is

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. Therefore, these inputs reflect the Company's own assumptions about the methodology and valuation techniques that a market participant would use in pricing the asset or liability.

For the years ended December 31, 2020, 2019 and 2018, no securities were transferred into or out of Level 3.

During the years ended December 31, 2020, 2019 and 2018, the Company purchased \$332.3 million, \$19.7 million and \$83.4 million, respectively, of investments that are classified as Level 3. As of December 31, 2020 and 2019, the Company held \$492.4 million and \$347.4 million, respectively, of investments that are classified as Level 3. Level 3 investments include CPI-linked derivative contracts, and certain loans, bonds, preferred stocks and common stocks.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are generally reported as transfers in or out of the Level 3 category as of the beginning of the period in which the reclassifications occur. The Company has determined, after carefully considering the impact of recent economic conditions and liquidity in the credit markets on the Company's portfolio, that it should not re-classify any of its investments from Level 1 or Level 2 to Level 3 for the years ended December 31, 2020, 2019 and 2018. There were no transfers of securities between Level 1 and Level 2 during the years ended December 31, 2020, 2019 and 2018.

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

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables present the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019 (in thousands):

	Fair Value Measurements as of December 31, 2020			
	Reported Fair Value	Level 1	Level 2	Level 3
Fixed income securities, available for sale:				
United States government, government agencies and authorities	\$ 512	\$ —	\$ 512	\$ —
States, municipalities and political subdivisions	15,429	—	15,429	—
Total fixed income securities, available for sale	15,941	—	15,941	—
Fixed income securities, held for trading:				
United States government, government agencies and authorities	306,075	—	306,075	—
States, municipalities and political subdivisions	118,778	—	118,778	—
Foreign governments	241,689	—	241,689	—
Corporate	2,749,190	6,671	2,470,178	272,341
Total fixed income securities, held for trading ..	3,415,732	6,671	3,136,720	272,341
Preferred stocks, held for trading.....	18,798	3,403	—	15,395
Common stocks, at fair value	431,179	430,992	187	—
Short-term investments, held for trading.....	2,334,201	2,292,701	41,500	—
Cash equivalents.....	461,190	461,190	—	—
Derivatives	57,833	—	57,438	395
Other investments.....	226,074	—	21,760	204,314
Total assets measured at fair value	<u>\$ 6,960,948</u>	<u>\$ 3,194,957</u>	<u>\$ 3,273,546</u>	<u>\$ 492,445</u>
Derivative liabilities	\$ 64,131	\$ —	\$ 64,131	\$ —
Total liabilities measured at fair value.....	<u>\$ 64,131</u>	<u>\$ —</u>	<u>\$ 64,131</u>	<u>\$ —</u>

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Fair Value Measurements as of December 31, 2019			
	Reported Fair Value	Level 1	Level 2	Level 3
Fixed income securities, available for sale:				
United States government, government agencies and authorities	\$ 612	\$ —	\$ 612	\$ —
States, municipalities and political subdivisions	15,891	—	15,891	—
Total fixed income securities, available for sale	16,503	—	16,503	—
Fixed income securities, held for trading:				
United States government, government agencies and authorities	948,213	—	948,213	—
States, municipalities and political subdivisions	64,988	—	64,988	—
Foreign governments	642,495	—	642,495	—
Corporate	1,707,079	5,476	1,426,646	274,957
Total fixed income securities, held for trading ..	3,362,775	5,476	3,082,342	274,957
Convertible preferred stocks, held for trading	—	—	—	—
Preferred stocks, held for trading.....	17,082	2,230	—	14,852
Common stocks, at fair value	1,382,296	1,367,875	165	14,256
Short-term investments, held for trading.....	1,913,820	1,333,984	579,836	—
Cash equivalents.....	378,315	375,913	2,402	—
Derivatives.....	34,922	—	34,193	729
Other investments.....	61,624	—	19,041	42,583
Total assets measured at fair value	<u>\$ 7,167,337</u>	<u>\$ 3,085,478</u>	<u>\$ 3,734,482</u>	<u>\$ 347,377</u>
Derivative liabilities	\$ 61,581	\$ —	\$ 61,581	\$ —
Total liabilities measured at fair value.....	<u>\$ 61,581</u>	<u>\$ —</u>	<u>\$ 61,581</u>	<u>\$ —</u>

In accordance with ASU 2015-17, “Fair Value Measurement (Topic 820): Disclosure for Investments in Certain Entities That Calculate Net Asset Value (“NAV”) per Share (or Its Equivalent),” investments that are measured at fair value using the NAV per share (or its equivalent) as a practical expedient, have not been classified in the fair value hierarchy. As of December 31, 2020 and 2019, \$979.1 million and \$923.4 million, respectively, of investments reported as equity securities and other invested assets, based upon NAV, are not included within the fair value hierarchy tables.

The following table provides a summary of changes in the fair value of Level 3 financial assets for the years ended December 31, 2020 and 2019 (in thousands):

	Fixed Income Securities	Other Invested Assets	Equity Securities
Balance, January 1, 2019.....	\$ 382,312	\$ 43,545	\$ 44,164
Change in value related to securities sold.....	(5,713)	—	1,276
Change in value related to securities held	(50,912)	(233)	(3,795)
Purchases / additions	19,715	—	—
Settlements / paydowns.....	(70,445)	—	(12,537)
Balance, December 31, 2019	274,957	43,312	29,108
Change in value related to securities sold.....	(1,420)	(12,197)	(1,933)
Change in value related to securities held	86,219	8,305	543
Purchases / additions	167,011	165,289	—
Settlements / paydowns.....	(254,426)	—	(12,323)
Balance, December 31, 2020	<u>\$ 272,341</u>	<u>\$ 204,709</u>	<u>\$ 15,395</u>

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables present changes in value included in net income related to Level 3 assets for the years ended December 31, 2020, 2019, and 2018 (in thousands):

	Net Investment Losses	Net Realized Capital Gains (Losses)	Currency Translation	Total
Year ended December 31, 2020				
Fixed income securities	\$ (1,529)	\$ 86,328	\$ —	\$ 84,799
Other invested assets.....	—	(3,892)	—	(3,892)
Equity securities	—	(1,523)	133	(1,390)
Total changes in value included in net (loss) income	<u>\$ (1,529)</u>	<u>\$ 80,913</u>	<u>\$ 133</u>	<u>\$ 79,517</u>
Year ended December 31, 2019				
Fixed income securities	\$ (1,863)	\$ (54,762)	\$ —	\$ (56,625)
Other invested assets.....	—	(233)	—	(233)
Equity securities	—	(2,603)	84	(2,519)
Total changes in value included in net (loss) income	<u>\$ (1,863)</u>	<u>\$ (57,598)</u>	<u>\$ 84</u>	<u>\$ (59,377)</u>
Year ended December 31, 2018				
Fixed income securities	\$ (1,458)	\$ (64,078)	\$ (1,051)	\$ (66,587)
Other invested assets.....	—	2,023	75	2,098
Equity securities	—	(6,630)	(128)	(6,758)
Total changes in value included in net loss	<u>\$ (1,458)</u>	<u>\$ (68,685)</u>	<u>\$ (1,104)</u>	<u>\$ (71,247)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company uses valuation techniques to establish the fair value of Level 3 investments. The following table provides information on the valuation techniques, significant unobservable inputs and ranges for each major category of Level 3 assets measured at fair value on a recurring basis at December 31, 2020 and 2019 (in thousands):

Valuation Technique/Asset Type	As of December 31,		Significant Unobservable Inputs	Range	
	2020	2019		2020	2019
<u>Market Approach</u>					
Fixed income securities, held for trading	\$ 253,839	\$ 255,846	Risk premium for credit risk	4.3%	4.4%-5.1%
	12,290	12,214	Risk premium for credit risk	1.8%	1.4%-1.9%
	6,212	6,897	Risk premium for credit risk	5.4%	3.5%-4.2%
Preferred stocks, held for trading	12,895	12,352	Risk premium for credit risk	4.2%	3.6%-4.2%
	2,500	2,500	Transaction price	—	—
CPI-linked derivatives (1)	394	729	Broker quotes	—	—
Put options	1	—	Broker quotes	—	—
Total valued using market approach	<u>288,131</u>	<u>290,538</u>			
<u>Market Price to Book Value</u>					
Common stocks, at fair value (2)	—	14,256	Time lag in receiving book value of comparable companies	—	—
<u>Par Value</u>					
Other investments	204,314	42,583	Risk premium for credit risk	6.7%-13.3%	11.9%-13.6%
			Underlying stock price	\$ 1.09	—
Total - Level 3	<u>\$ 492,445</u>	<u>\$ 347,377</u>			

(1) Valued using broker-dealer quotes that use market observable inputs except for the inflation volatility input, which is not market observable.

(2) The Company evaluates observable price-to-book multiples of peer companies and applies such to the most recently available book value per share.

Fair Value Option

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

The Company owns Classes A, C, E, G, H, J, K and Q common shares of HWIC Asia Fund (“HWIC Asia”), which is 100% owned by Fairfax and of which the Company owns 29.7% as of December 31, 2020. At the time of the purchase of each class of shares, the Company elected the FVO for these investments, as HWIC Asia is a multi-class investment company that reports its investments at fair value and provides a NAV on a monthly basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company owns shares of HWIC QIAIF Value Opportunities Fund ("HWIC VOF"), shares in HWIC QIAIF Property Fund I ("HWIC PFI") and shares in HWIC QIAIF Property Fund II ("HWIC PF2"), which are each 100% owned by Fairfax and of which the Company owns 3.7%, 29.4% and 31.4%, respectively. At the time of purchase of the HWIC VOF and the HWIC PFI investments, the Company elected the FVO for these investments, as they are investment companies that report investments at fair value and provide a NAV on a monthly basis.

The carrying values of the Company's investment in the various HWIC Asia, HWIC VOF and HWIC PFI and HWIC PF2 common share issues as of December 31, 2020 and 2019, which are included in common stocks at fair value on the balance sheet, and the changes in fair value for each issue for the years then ended, are summarized below (in thousands):

	HWIC Asia Class A	HWIC Asia Class C	HWIC Asia Class E	HWIC Asia Class G	HWIC Asia Class H	HWIC Asia Class J	HWIC Asia Class K	HWIC Asia Class Q	HWIC VOF	HWIC PFI	HWIC PF2	Total
Fair value as of												
January 1, 2019	\$ 4,103	\$ 24,656	\$ 45	\$ 84,448	\$ 116,778	\$ 45,777	\$ 30,749	\$ 19,686	\$ —	\$ —	\$ —	\$ 326,242
(Sales) purchases	—	(18,000)	—	3,501	—	—	5,242	—	5,583	12,771	—	9,097
Change in fair value	(952)	(1,477)	11	(11,026)	(44,108)	(5,200)	(9,065)	2,286	303	(7)	—	(69,235)
Currency translation adjustment	—	—	—	—	44	444	93	430	96	476	—	1,583
Fair value as of												
December 31, 2019	3,151	5,179	56	76,923	72,714	41,021	27,019	22,402	5,982	13,240	—	267,687
Purchases	—	—	—	—	—	—	2,827	—	—	—	50,051	52,878
Change in fair value	(318)	2,573	(2)	(7,462)	(4,853)	2,009	(5,535)	(2,385)	(644)	221	(60)	(16,456)
Currency translation adjustment	—	—	—	—	28	380	76	270	354	436	3,256	4,800
Fair value as of												
December 31, 2020	<u>\$ 2,833</u>	<u>\$ 7,752</u>	<u>\$ 54</u>	<u>\$ 69,461</u>	<u>\$ 67,889</u>	<u>\$ 43,410</u>	<u>\$ 24,387</u>	<u>\$ 20,287</u>	<u>\$ 5,692</u>	<u>\$ 13,897</u>	<u>\$ 53,247</u>	<u>\$ 308,909</u>

HWIC Asia's fair value decreased by \$42.3 million for the year ended December 31, 2018.

The Company did not elect the FVO for its other affiliated investments, as these affiliated investments were ultimately 100% owned by Fairfax and its subsidiaries, and fair values were deemed to be not readily obtainable.

As of December 31, 2020 and 2019, respectively, the Company has not elected the FVO for any of its liabilities.

4. Investments and Cash

A summary of the Company's available for sale investment portfolio as of December 31, 2020 and 2019, is as follows (in thousands):

	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
2020				
Fixed income securities:				
United States government, government agencies and authorities	\$ 441	\$ 71	\$ —	\$ 512
States, municipalities and political subdivisions	15,307	122	—	15,429
Total fixed income securities	<u>\$ 15,748</u>	<u>\$ 193</u>	<u>\$ —</u>	<u>\$ 15,941</u>
2019				
Fixed income securities:				
United States government, government agencies and authorities	\$ 553	\$ 59	\$ —	\$ 612
States, municipalities and political subdivisions	15,349	542	—	15,891
Total fixed income securities	<u>\$ 15,902</u>	<u>\$ 601</u>	<u>\$ —</u>	<u>\$ 16,503</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Common stocks accounted for under the equity method of accounting were carried at \$1,472.7 million and \$580.3 million as of December 31, 2020 and 2019, respectively. Common stocks at equity had gross unrealized appreciation of \$13.7 million and \$10.2 million and gross unrealized depreciation of \$82.3 million and \$30.4 million as of December 31, 2020 and 2019, respectively. Other invested assets were carried at \$1,779.2 million and \$1,465.7 million as of December 31, 2020 and 2019, respectively, reflecting no gross unrealized appreciation or Depreciation.

A summary of the Company's held for trading and fair value option portfolios as of December 31, 2020 and 2019 is as follows (in thousands):

	2020 Fair Value	2019 Fair Value
Fixed income securities:		
United States government, government agencies and authorities	\$ 306,075	\$ 948,213
States, municipalities and political subdivisions	118,778	64,988
Foreign governments	241,689	642,495
Corporate	2,749,190	1,707,079
Total fixed income securities	<u>3,415,732</u>	<u>3,362,775</u>
Preferred stocks	18,798	17,082
Common stocks	740,088	1,649,983
Short-term investments	2,334,201	1,913,820
Cash and cash equivalents.....	919,712	866,712
Cash and cash equivalents held as collateral.....	155,496	21,910
Total.....	<u>\$ 7,584,027</u>	<u>\$ 7,832,282</u>

(a) Fixed Income Maturity Schedule

The amortized cost and fair value of fixed income securities as of December 31, 2020, by contractual maturity, are shown below (in thousands):

	At December 31, 2020					
	Available for Sale			Held for Trading		
	Cost or Amortized Cost	Fair Value	% of Total Fair Value	Cost or Amortized Cost	Fair Value	% of Total Fair Value
Due in one year or less.....	\$ —	\$ —	0.0%	\$ 508,998	\$ 496,259	14.5%
Due after one year through five years	15,744	15,935	100.0	2,092,761	2,309,444	67.6
Due after five years through ten years	—	—	0.0	351,508	374,832	11.0
Due after ten years	4	6	0.0	217,251	235,197	6.9
Total fixed income securities.....	<u>\$ 15,748</u>	<u>\$ 15,941</u>	<u>100.0%</u>	<u>\$3,170,518</u>	<u>\$3,415,732</u>	<u>100.0%</u>

Actual maturities may differ from the contractual maturities shown in the previous table due to the existence of call options. In the case of securities containing call options, the actual maturity will be the same as the contractual maturity if the issuer elects not to exercise its call option. Total securities subject to call options represent approximately 55.8% of the total fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

The following table sets forth the sources and components of net investment income for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Interest on fixed income securities.....	\$ 110,359	\$ 111,489	\$ 112,428
Dividends on preferred stocks	814	1,435	1,495
Dividends on common stocks	6,976	24,891	16,396
Net income (loss) of common stocks, at equity.....	8,865	(35,331)	21,300
Interest on cash and short-term investments	21,562	34,828	26,816
Net income from other invested assets.....	80,672	165,670	65,666
Gross investment income.....	<u>229,248</u>	<u>302,982</u>	<u>244,101</u>
Less: investment expenses.....	<u>60,855</u>	<u>57,209</u>	<u>34,875</u>
Net investment income	<u>\$ 168,393</u>	<u>\$ 245,773</u>	<u>\$ 209,226</u>

The following table summarizes the Company's net realized investment gains and losses for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Available for sale / equity method:			
From sales.....	\$ 18,271	\$ 69,625	\$ 12,106
Other-than-temporary impairments	<u>(34,480)</u>	<u>—</u>	<u>(299)</u>
Total available for sale	<u>(16,209)</u>	<u>69,625</u>	<u>11,807</u>
Held for trading:			
From sales and settlements.....	(403,596)	(15,991)	49,431
From mark to market adjustments.....	<u>411,964</u>	<u>157,693</u>	<u>(178,643)</u>
Total held for trading	<u>8,368</u>	<u>141,702</u>	<u>(129,212)</u>
Total net realized investment (losses) gains.....	<u>\$ (7,841)</u>	<u>\$ 211,327</u>	<u>\$ (117,405)</u>

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the components of net realized investment gains and losses on the Company's available for sale and equity method securities for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Fixed income securities:			
Realized investment gains	\$ —	\$ 1,054	\$ 18,805
Realized investment losses	—	—	(6,526)
Other-than-temporary impairments	—	—	(56)
Net realized investment gains.....	<u>—</u>	<u>1,054</u>	<u>12,223</u>
Equity securities:			
Realized investment gains	5	—	—
Realized investment losses	—	—	(173)
Other-than-temporary impairment.....	—	—	(243)
Net realized investment gains (losses).....	<u>5</u>	<u>—</u>	<u>(416)</u>
Common stocks, at equity:			
Realized investment gains	18,266	73,356	—
Realized investment losses	—	(4,785)	—
Other-than-temporary impairments	(34,480)	—	—
Net realized investment (losses) gains.....	<u>(16,214)</u>	<u>68,571</u>	<u>—</u>
Total available for sale securities:			
Realized investment gains	18,271	74,410	18,805
Realized investment losses.....	—	(4,785)	(6,699)
Other-than-temporary impairments	(34,480)	—	(299)
Net realized investment (losses) gains.....	<u>\$ (16,209)</u>	<u>\$ 69,625</u>	<u>\$ 11,807</u>

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The net realized investment gains or losses on disposal of held for trading securities in the table below represent the total gains or losses from the purchase dates of the investments and have been reported in net realized investment gains in the consolidated statements of operations. The change in fair value presented below consists of two components: (i) the reversal of the gain or loss recognized in previous years on securities sold and (ii) the change in fair value resulting from mark-to-market adjustments on contracts still outstanding. The following table sets forth the total net realized investment gains and losses on held for trading securities for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Fixed income securities:			
Net realized investment gains (losses) on disposal	\$ 18,703	\$ (62,683)	\$ (13,227)
Change in fair value	211,758	53,378	(50,425)
Net realized investment gains (losses).....	<u>230,461</u>	<u>(9,305)</u>	<u>(63,652)</u>
Preferred stock:			
Net realized investment losses on disposal.....	—	(3,748)	—
Change in fair value	1,582	8,079	(7,141)
Net realized investment gains (losses).....	<u>1,582</u>	<u>4,331</u>	<u>(7,141)</u>
Equity securities:			
Net realized investment (losses) gains on disposal	(106,335)	14,027	62,577
Change in fair value	26,500	158,433	(206,038)
Net realized investment (losses) gains.....	<u>(79,835)</u>	<u>172,460</u>	<u>(143,461)</u>
Derivative securities:			
Net realized investment (losses) gains on disposal/ settlement	(394,623)	8,718	(32,456)
Change in fair value	129,138	(83,138)	48,221
Net realized investment (losses) gains.....	<u>(265,485)</u>	<u>(74,420)</u>	<u>15,765</u>
Other securities:			
Net realized investment gains on disposal	78,659	27,695	32,537
Change in fair value	42,986	20,941	36,740
Net realized investment gains.....	<u>121,645</u>	<u>48,636</u>	<u>69,277</u>
Total held for trading securities:			
Net realized investment (losses) gains on disposal	(403,596)	(15,991)	49,431
Change in fair value	411,964	157,693	(178,643)
Net realized investment gains (losses).....	<u>\$ 8,368</u>	<u>\$ 141,702</u>	<u>\$ (129,212)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(c) **Unrealized (Depreciation) Appreciation**

The following table sets forth the changes in net unrealized (depreciation) appreciation of investments, and the related tax effect, reflected in accumulated other comprehensive income for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Fixed income securities.....	\$ (407)	\$ (1,407)	\$ (27,720)
Equity securities.....	(48,308)	(14,694)	(55,290)
Other.....	(126)	59	108
Decrease in unrealized net appreciation of investments	(48,841)	(16,042)	(82,902)
Deferred income tax benefit on disposal	10,244	3,295	17,461
Change in net unrealized depreciation of investments included in other comprehensive (loss) income	<u>\$ (38,597)</u>	<u>\$ (12,747)</u>	<u>\$ (65,441)</u>

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

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

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

The Company did not have any fixed income or common stocks, at fair value classified as available for sale, that have been in a continuous unrealized depreciation position for more than 12 months or less than 12 months, as of December 31, 2020 or 2019, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company believes the gross unrealized depreciation for securities classified as available for sale is temporary in nature and has not recorded a realized investment loss related to these securities. Given the size of the Company's investment portfolio and capital position, the Company believes it is likely that it will not be required to sell or liquidate these securities before the fair value recovers the gross unrealized depreciation.

(d) Common Stocks, at Equity

The following table sets forth the components of common stocks, at equity, as of December 31, 2020 and 2019 (in thousands):

	Carrying Value		Goodwill and Other included in Carrying Value		Quoted Market Value		Relative Economic Ownership
	2020	2019	2020	2019	2020	2019	2020
	Atlas Corporation	\$ 533,632	\$ —	\$ (78,347)	\$ —	\$ 445,353	\$ —
Eurobank Ergasias	429,839	—	245,626	—	295,243	—	11.3%
Fairfax India Holdings Corp.....	134,638	116,522	—	—	82,690	110,082	5.8%
Recipe Unlimited Corporation.....	126,251	133,021	99,873	98,121	93,947	108,735	12.9%
EXCO Resources, Inc.....	73,266	74,413	(6,569)	(6,569)	n/a	n/a	14.2%
Dexterra Group Inc.....	54,986	—	—	—	55,939	n/a	17.0%
Helios Fairfax Partners Corporation.....	34,990	103,741	—	2,779	62,060	69,389	10.8%
Zenith National Insurance Corp.....	31,765	36,886	3,928	3,928	n/a	n/a	6.1%
Sigma Companies International Corp...	15,970	20,912	—	—	n/a	n/a	41.9%
2018296 Alberta ULC.....	15,155	14,636	—	—	n/a	n/a	27.3%
Peak Achievement Athletics Inc.	11,348	9,757	469	469	n/a	n/a	3.8%
AGT Food and Ingredients, Inc.	8,878	17,306	419	411	n/a	n/a	7.8%
Sterling Roads Films	2,000	—	—	—	n/a	n/a	20.0%
Apple Bidco Limited.....	—	26,457	—	(944)	n/a	n/a	0.0%
Davos Brands LLC	—	16,132	—	12,824	n/a	n/a	0.0%
Toys "R" Us (Canada) Ltd.....	—	10,497	(827)	(812)	n/a	n/a	28.2%
Total common stocks, at equity	<u>\$ 1,472,718</u>	<u>\$ 580,280</u>	<u>\$ 264,572</u>	<u>\$ 110,207</u>			

Zenith National Insurance Corp., Toys "R" Us (Canada) Ltd. and 2018296 Alberta ULC are wholly-owned subsidiaries of Fairfax, while Fairfax is the controlling or largest shareholder of Eurobank (33.4%), Atlas (44.5%), Fairfax India Holdings Corp. (31.9%), Recipe Limited Corporation (44.8%), Helios Fairfax Partners Corporation (34.2%), Sigma Companies International Corp. (81.1%), AGT Food and Ingredients, Inc. (59.0%), EXCO Resources, Inc. (44.3%), Peak Achievement Athletics Inc. (42.6%), Dexterra Group Inc (49.0%) and Sterling Road Films (20%).

The Company impaired Helios Fairfax Partners to its current market value on September 30, 2020 in the amount of \$34.5 million.

(e) Other Invested Assets

The following table shows the components of other invested assets as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Investment funds and partnerships, at fair value.....	\$ 670,144	\$ 655,717
Investment funds and partnerships, at equity	70,370	64,058
Real estate	300,150	306,475
Affiliate loans.....	204,314	163,437
Derivatives, at fair value	57,833	34,922
Mortgage loans.....	454,666	216,886
Benefit plan funds, at fair value.....	21,760	19,041
Other	—	5,139
Total other invested assets	<u>\$ 1,779,237</u>	<u>\$ 1,465,675</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company's investment funds and partnership investments may be subject to restrictions on redemptions or sales, which are determined by the governing documents thereof, and may limit the Company's ability to liquidate these investments in the short term. Due to a time lag in reporting by a majority of investment fund and partnership fund managers, valuations for these investments are recorded by the Company on a one month or one quarter lag. For the years ended December 31, 2020, 2019 and 2018, the Company recognized net investment income of \$2.3 million, \$98.1 million and \$38.5 million, respectively, from its investment funds and partnership investments. For the years ended December 31, 2020, 2019 and 2018, the Company recognized net realized investment gains of \$93.3 million, \$35.0 million and \$73.8 million, respectively, from its investment funds and partnerships that are held as trading securities. With respect to the Company's \$740.5 million in investments in investment funds and partnerships, the Company has commitments that may require additional funding of up to \$136.1 million.

The Company's investments in real estate consists of land of \$81.9 million and buildings of \$231.7 million as of December 31, 2020 and 2019, less accumulated depreciation of \$13.4 million and \$7.1 million as of December 31, 2020 and 2019, respectively.

The Company's investments in mortgage loans consist of loans collateralized by commercial property in various locations in Canada, Great Britain, Ireland, California, Colorado and Hawaii, as of December 31, 2020.

(f) Derivative Investments

The Company has utilized CPI-linked derivative contracts, total return swaps, forward currency contracts, U.S. Treasury bond forward contracts and various other contracts, to manage against adverse changes in the values of assets and liabilities. These products are typically not directly linked to specific assets or liabilities on the consolidated balance sheets or a forecasted transaction. The following tables set forth the Company's derivative positions, which are included in other invested assets or other liabilities in the consolidated balance sheets, as of December 31, 2020 and 2019, respectively (in thousands):

<u>As of December 31, 2020</u>	<u>Exposure/ Notional Amount</u>	<u>Cost</u>	<u>Fair Value Asset</u>	<u>Fair Value Liability</u>
CPI-linked derivative contracts.....	\$22,467,705	\$ 118,599	\$ 394	\$ —
Call option contracts.....	2,000,000	32,830	3,619	—
Forward currency contracts	977,972	—	23,843	60,969
Long total return swaps.....	349,861	—	29,308	3,133
Put option contracts.....	210,001	2,527	1	—
U.S. Treasury bond forward contracts.....	71,844	—	668	—
Put option contracts – written	20,747	(1,411)	—	29
Total		<u>\$ 152,545</u>	<u>\$ 57,833</u>	<u>\$ 64,131</u>

<u>As of December 31, 2019</u>	<u>Exposure/ Notional Amount</u>	<u>Cost</u>	<u>Fair Value Asset</u>	<u>Fair Value Liability</u>
CPI-linked derivative contracts.....	\$33,365,759	\$ 221,407	\$ 729	\$ —
Forward currency contracts	2,437,500	40,349	2,959	—
Option contracts.....	701,822	—	25,257	37,826
Long total return swaps.....	224,175	—	1,602	55
Short total return swaps.....	129,836	—	4,375	1,194
U.S. Treasury bond forward contracts.....	89,400	—	—	22,506
Total		<u>\$ 261,756</u>	<u>\$ 34,922</u>	<u>\$ 61,581</u>

The Company held long position common stock total return swaps, with a total notional value of \$349.9 million and \$129.8 million as of December 31, 2020 and 2019, respectively, as replications of investments in publicly-listed common stocks. The common stock total return swaps, which are carried at fair value, are recorded in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

the financial statement date. Changes in the fair value of common stock total return swaps are recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

As of December 31, 2019, the Company held short position common stock total return swaps with a notional value of \$89.4 million. The common stock total return swaps are recorded at fair value in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of the financial statement date. Changes in the fair value of the swaps are recorded as realized investment gains or losses in the consolidated statements of operations in the period in which they occur. The Company closed all of its short position common stock total return swap contracts during 2020.

To reduce its exposure to interest rate risk, the Company holds forward contracts to sell long dated U.S. Treasury bonds. These contracts have an average term to maturity of less than one year and may be renewed at market rates. The U.S. Treasury bond forward contracts are recorded at fair value in other invested assets or in other liabilities based on the positive or negative value of the underlying contracts as of the financial statement date, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

As an economic hedge against the potential adverse impact on the Company of decreasing price levels in the economy, the Company has purchased derivative contracts referenced to consumer price indices ("CPI") in various geographic regions in which the Company operates. These contracts had a remaining average life of 2.2 years as of December 31, 2020 and 2019. As the remaining life of a contract declines, the fair value of the contract (excluding the impact of CPI changes) will generally decline. The initial premium paid for the contracts is recorded as a derivative asset and subsequently adjusted for changes in the unrealized fair value of the contracts at each balance sheet date. Changes in the unrealized fair value of the contracts are recorded as realized gains or losses on investments in the Company's consolidated statements of operations with a corresponding adjustment to the carrying value of the derivative asset. In the event of a sale, expiration or early settlement of one of the Company's CPI-linked derivative contracts, the Company would receive the fair value of that contract on the date of the transaction. The Company's maximum potential cash loss is limited to the premiums already paid to enter into the derivative contracts.

The Company has entered into forward currency contracts to manage its foreign currency exchange rate risk on a macro basis. Under a forward currency contract, the Company and the counterparty are obligated to purchase or sell an underlying currency at a specified price and time. Forward currency contracts are recorded at fair value in other invested assets or other liabilities based on the positive or negative value of the underlying contracts as of the financial statement date, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has investments in call options, which are contracts that grant the holder the right (but not the obligation) to purchase a financial instrument at a specified price within a specific time period. Call options, which are included in other invested assets, are recorded at fair value, with changes in the fair value recognized as realized investment gains or losses in the consolidated statement of operations in the period in which they occur.

The Company had investments in warrants, which are contracts that grant the holder the right (but not the obligation) to purchase an underlying financial instrument at a given price and time or at a series of prices and times. Warrants, which were included in other invested assets, are recorded at fair value, with the related changes in fair value recognized as realized investment gains or losses in the consolidated statements of operations in the period in which they occur.

The Company has investments in written put options, which are contracts that grant the holder the right (but not the obligation) to purchase a financial instrument at a specified price within a specific time period. Written put options, which were included in other liabilities, are recorded at fair value, with the changes in the fair value recognized as realized gains or losses in the consolidated statements of operations in the period in which they occur.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company had investments in put options, which are contracts that grant the holder the right (but not the obligation) to sell a financial instrument at a specified price within a specific time period. Put options, which were included in other invested assets, are recorded at fair value, with the changes in the fair value recognized as realized gains or losses in the consolidated statements of operations in the period in which they occur.

Pursuant to the agreements governing various derivative contracts, the fair value of collateral deposited by the Company with the contracts' counterparties totaled \$116.9 million and \$44.9 million as of December 31, 2020 and 2019, respectively, while the fair value of collateral deposited by various counterparties for the benefit of the Company was \$25.1 million and \$5.2 million as of December 31, 2020 and 2019, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The net realized investment gains or losses on disposal of derivatives in the table below represent the total gains or losses for the years ended December 31, 2020, 2019 and 2018 from the purchase dates of the investments and have been reported in net realized investment gains in the consolidated statements of operations; the change in fair value presented consists of two components: (i) the reversal of the gain or loss recognized in previous years on securities sold and (ii) the change in fair value resulting from mark-to-market adjustments on contracts still outstanding (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
CPI-linked derivative contracts:			
Net realized investment losses on disposal	\$ (102,808)	\$ (8,371)	\$ —
Change in fair value	<u>102,474</u>	<u>5,985</u>	<u>(3,267)</u>
Net realized investment losses	<u>(334)</u>	<u>(2,386)</u>	<u>(3,267)</u>
Forward currency contracts:			
Net realized investment gains on disposal	7,438	17,576	8,636
Change in fair value	<u>(24,991)</u>	<u>(44,495)</u>	<u>50,205</u>
Net realized investment (losses) gains	<u>(17,553)</u>	<u>(26,919)</u>	<u>58,841</u>
U.S. Treasury bond forward contracts:			
Net realized investment (losses) gains on disposal	(18,437)	(5,644)	388
Change in fair value	<u>(879)</u>	<u>2,155</u>	<u>6,297</u>
Net realized investment (losses) gains	<u>(19,316)</u>	<u>(3,489)</u>	<u>6,685</u>
Long total return swaps:			
Net realized investment losses on disposal	(10,040)	(3,282)	(16,258)
Change in fair value	<u>22,994</u>	<u>18,517</u>	<u>(17,722)</u>
Net realized investment gains (losses)	<u>12,954</u>	<u>15,235</u>	<u>(33,980)</u>
Short total return swaps:			
Net realized investment (losses) gains on disposal	(254,189)	15,479	(14,451)
Change in fair value	<u>22,506</u>	<u>(27,997)</u>	<u>6,130</u>
Net realized investment losses	<u>(231,683)</u>	<u>(12,518)</u>	<u>(8,321)</u>
Warrants:			
Net realized investment losses on disposal	—	—	(10,771)
Change in fair value	—	—	<u>6,665</u>
Net realized investment losses	—	—	<u>(4,106)</u>
Put options:			
Net realized investment losses on disposal	(9,671)	(7,040)	—
Change in fair value	<u>(2,527)</u>	—	—
Net realized investment losses	<u>(12,198)</u>	<u>(7,040)</u>	—
Call options:			
Net realized investment losses on disposal	(7,102)	—	—
Change in fair value	<u>8,179</u>	<u>(37,303)</u>	<u>(87)</u>
Net realized investment gains (losses)	<u>1,077</u>	<u>(37,303)</u>	<u>(87)</u>
Put options - written			
Net realized investment gains on disposal	186	—	—
Change in fair value	<u>1,382</u>	—	—
Net realized investment gains	<u>1,568</u>	—	—
Total derivatives:			
Net realized investment (losses) gains on disposal	(394,623)	8,718	(32,456)
Change in fair value	<u>129,138</u>	<u>(83,138)</u>	<u>48,221</u>
Net realized investment (losses) gains	<u>\$ (265,485)</u>	<u>\$ (74,420)</u>	<u>\$ 15,765</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(g) Assets on Deposit

The Company is required to maintain assets on deposit with various regulatory authorities to support its insurance and reinsurance operations. These requirements are generally promulgated in the statutes and regulations of the individual jurisdictions. The assets on deposit are available to settle insurance and reinsurance liabilities. For certain reinsurance contracts, derivative contracts and affiliate guarantees, the Company utilizes trust funds to collateralize its obligations or potential obligations to the ceding companies and counterparties. As of December 31, 2020, restricted assets supporting these deposits and trust fund requirements totaled \$1.3 billion, as depicted in the following table (in thousands):

	Restricted Assets Relating to:						
	Fixed Income Securities	Cash		Common Stocks	Partnerships	Mortgage Loans	Total
		Cash Equivalents Short-term Investments					
U.S. regulatory requirements.....	\$ 70,762	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 70,762
Foreign regulatory/Lloyd's							
Requirements	90,984	268,368	23,555	—	—	—	382,907
Derivative collateral requirements	44,232	72,649	—	—	—	—	116,881
Reinsurance collateral requirements ...	286,698	179,861	207,829	36,403	13,669	—	724,460
Guarantee collateral requirements.....	46,112	2,468	—	—	—	—	48,580
Total.....	<u>\$ 538,788</u>	<u>\$ 523,346</u>	<u>\$ 231,384</u>	<u>\$ 36,403</u>	<u>\$ 13,669</u>	<u>\$ —</u>	<u>\$ 1,343,590</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

5. Accumulated Other Comprehensive Income

The following table shows the components of the change in accumulated other comprehensive income, net of deferred income taxes, for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Beginning balance of unrealized net (depreciation) appreciation on securities			
prior to adjustments.....	\$ (13,381)	\$ 5,205	\$ 58,115
Adjustment for U.S. tax reform	—	—	12,531
Adjustment for ASU 2016-01.....	—	(5,839)	—
Beginning balance of unrealized net (depreciation) appreciation on securities after adjustments.....	(13,381)	(634)	70,646
Ending balance of unrealized net (depreciation) appreciation on securities.....	(51,978)	(13,381)	5,205
Current period change in unrealized net depreciation on securities.....	(38,597)	(12,747)	(65,441)
Beginning balance of foreign currency translation adjustments prior to adjustments.....	2,781	(35,916)	11,197
Adjustment for U.S. tax reform	—	—	2,412
Adjustment for ASU 2016-01.....	—	6,744	—
Beginning balance of foreign currency translation adjustments after adjustments	2,781	(29,172)	13,609
Ending balance of foreign currency translation adjustments	(8,989)	2,781	(35,916)
Current period change in foreign currency translation adjustments	(11,770)	31,953	(49,525)
Beginning balance of benefit plan liabilities prior to adjustments ...	(69,960)	(38,018)	(38,698)
Adjustment for U.S. tax reform	—	—	(8,335)
Beginning balance of benefit plan liabilities after adjustments.....	(69,960)	(38,018)	(47,033)
Ending balance of benefit plan liabilities	(68,530)	(69,960)	(38,018)
Current period change in benefit plan liabilities	1,430	(31,942)	9,015
Other comprehensive loss	\$ (48,937)	\$ (12,736)	\$ (105,951)
Beginning balance of accumulated other comprehensive (loss) income.....	\$ (80,560)	\$ (68,729)	\$ 37,222
Beginning balance adjustment for ASU 2016-01	—	905	—
Adjusted beginning balance.....	(80,560)	(67,824)	37,222
Other comprehensive loss	(48,937)	(12,736)	(105,951)
Ending balance of accumulated other comprehensive loss	\$ (129,497)	\$ (80,560)	\$ (68,729)

In February 2018, the FASB issued ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220)." This ASU allows the effect of remeasuring deferred tax assets and liabilities related to the Tax Cuts and Jobs Act of 2017 with respect to items with accumulated other comprehensive income to be reclassified to retained earnings. The amount of the reclassification is the difference between the amount initially charged or credited directly to other comprehensive income at the previously enacted U.S. federal corporate income tax rate that remains in accumulated other comprehensive income and the amount that would have been charged or credited using the newly enacted 21 percent rate. The Company implemented this ASU in its 2017 consolidated financial statements; the effect of the reclassification was to increase accumulated other comprehensive income and decrease retained earnings by \$6.6 million.

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table shows the components of accumulated other comprehensive income and the related deferred income taxes on each component, as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Gross:		
Unrealized depreciation on securities.....	\$ (65,732)	\$ (16,891)
Foreign currency translation adjustments	(11,378)	3,520
Benefit plan liabilities.....	(86,748)	(88,558)
Total accumulated other comprehensive loss, gross of deferred income taxes	<u>\$ (163,858)</u>	<u>\$ (101,929)</u>
Deferred taxes:		
Unrealized appreciation on securities.....	\$ 13,754	\$ 3,510
Foreign currency translation adjustments	2,389	(739)
Benefit plan liabilities.....	18,218	18,598
Total deferred taxes on accumulated other comprehensive loss.....	<u>\$ 34,361</u>	<u>\$ 21,369</u>

The following table shows the changes in the balances of each component of accumulated other comprehensive income (loss), for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	Unrealized Gains and Losses on Securities	Foreign Currency Items	Benefit Plan Items	Total
Balance, January 1, 2018	\$ 70,646	\$ 13,609	\$ (47,033)	\$ 37,222
Amounts arising during the period	(51,256)	(51,137)	6,204	(96,189)
Reclassification adjustment included in net (loss) income.....	(14,185)	1,612	2,811	(9,762)
Net other comprehensive (loss) income	(65,441)	(49,525)	9,015	(105,951)
Balance, December 31, 2018	5,205	(35,916)	(38,018)	(68,729)
Unrealized - adjustment for ASU 2016-01	(5,839)	6,744	—	905
Adjusted balance, December 31, 2018.....	(634)	(29,172)	(38,018)	(67,824)
Amounts arising during the period	43,773	39,961	(34,108)	49,626
Reclassification adjustment included in net (loss) income.....	(56,520)	(8,008)	2,166	(62,362)
Net other comprehensive (loss) income	(12,747)	31,953	(31,942)	(12,736)
Balance, December 31, 2019	(13,381)	2,781	(69,960)	(80,560)
Amounts arising during the period	(52,474)	(12,842)	(41,558)	(106,874)
Reclassification adjustment included in net income	13,877	1,072	4,709	19,658
Plan amendment arising during the year	—	—	38,279	38,279
Net other comprehensive (loss) income	(38,597)	(11,770)	1,430	(48,937)
Balance, December 31, 2020	<u>\$ (51,978)</u>	<u>\$ (8,989)</u>	<u>\$ (68,530)</u>	<u>\$ (129,497)</u>

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table shows the significant amounts reclassified out of each component of accumulated other comprehensive income for the years ended of December 31, 2020, 2019 and 2018 (in thousands):

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income (a)			Affected Line Item in the Consolidated Statement of Operations Where Net Income is Presented
	2020	2019	2018	
Unrealized net depreciation (appreciation) of securities:				
	\$ 17,566	\$ (71,544)	\$ 17,956	Net realized investment gains (losses)
	(3,689)	15,024	(3,771)	Total federal and foreign income tax (benefit) provision
	<u>\$ 13,877</u>	<u>\$ (56,520)</u>	<u>\$ 14,185</u>	Net income (loss)
Foreign currency translations:				
	\$ 1,357	\$ (10,137)	\$ (2,041)	Net realized investment gains (losses)
	(285)	2,129	429	Total federal and foreign income tax (benefit) provision
	<u>\$ 1,072</u>	<u>\$ (8,008)</u>	<u>\$ (1,612)</u>	Net gain (loss)
Amortization of benefit plan items:				
Net actuarial gain	\$ 5,961	\$ 2,742	\$ (3,563)	Other underwriting expenses (b)
Prior service costs (income)	—	—	5	Other underwriting expenses (b)
	5,961	2,742	(3,558)	Gain (loss) before federal and foreign income tax benefit
	(1,252)	(576)	747	Total federal and foreign income tax (benefit) provision
	<u>\$ 4,709</u>	<u>\$ 2,166</u>	<u>\$ (2,811)</u>	Net gain (loss)
Total reclassifications	<u>\$ 19,658</u>	<u>\$ (62,362)</u>	<u>\$ 9,762</u>	

(a) Amounts in parentheses indicate decreases to the indicated line item of the consolidated statements of operations.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. Unpaid Losses and Loss Adjustment Expenses

Estimates of reserves for unpaid losses and loss adjustment expenses, which relate to loss events that have occurred on or before the balance sheet date, are contingent on many assumptions that may or may not occur in the future. The estimates reflect assumptions regarding initial expectations of losses and patterns of loss reporting, both for claims with higher frequency and lower severity as well as for claims with lower frequency and higher severity associated with individual large loss events, such as earthquakes, windstorms, and floods. The eventual outcome of these loss events may be different from the assumptions underlying the Company's reserve estimates. When the business environment and loss trends diverge from expected trends, the Company may have to adjust its reserves accordingly, potentially resulting in adverse or favorable effects to the Company's financial results. The Company believes that the recorded estimate represents the best estimate of unpaid losses and loss adjustment expenses based on the information available as of December 31, 2020. The estimate is reviewed on a quarterly basis and the ultimate liability may be greater or less than the amounts provided, for which any adjustments will be reflected in the periods in which they become known.

The Company's estimate of ultimate loss is determined based on a review of the results of several commonly accepted actuarial projection methodologies incorporating the quantitative and qualitative information described above. The specific methodologies the Company utilizes in its loss reserve review process include, but may not be limited to (i) incurred and paid loss development methods, (ii) incurred and paid Bornhuetter Ferguson ("BF") methods and (iii) loss ratio methods. The incurred and paid loss development methods utilize loss development patterns derived from historical loss emergence trends usually based on cedant/insured claim information to determine ultimate loss. These methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. Loss ratio methods multiply expected loss ratios, derived from aggregated analyses of internally developed pricing trends, by earned premium to determine ultimate loss. The incurred and paid BF methods are a blend of the loss development and loss ratio methods. These methods utilize both loss development patterns, as well as expected loss ratios, to determine ultimate loss. When using the BF methods, the initial treaty year ultimate loss is based predominantly on expected loss ratios. As loss experience matures, the estimate of ultimate loss using this methodology is based predominantly on loss development patterns. The Company generally does not utilize methodologies that are dependent on claim counts reported, claim counts settled or claim counts open. Due to the nature of the Company's business, this information is not routinely provided for every treaty/program. Consequently, actuarial methods utilizing this information generally cannot be relied upon by the Company in its loss reserve estimation process. As a result, for much of the Company's business, the separate analysis of frequency and severity of loss activity underlying overall loss emergence trends is not practical. Generally, the Company relies on BF and loss ratio methods for estimating ultimate loss liabilities for more recent treaty years. These methodologies, at least in part, apply a loss ratio, determined from aggregated analyses of internally developed pricing trends across reserve cells, to premium earned on that business. Adjustments to premium estimates generate appropriate adjustments to ultimate loss estimates in the quarter in which they occur, using the BF and loss ratio methods. To estimate losses for more mature treaty years, the Company generally relies on the incurred loss development methodology, which does not rely on premium estimates. In addition, the Company may use other methods to estimate liabilities for specific types of claims. For property catastrophe losses, the Company may utilize vendor catastrophe models to estimate ultimate loss soon after a loss occurs, where loss information is not yet reported to the Company from cedants/insureds. Incurred but not reported reserves are determined by subtracting the total of paid loss and case reserves, including additional case reserves, from ultimate loss.

The Company completes comprehensive loss reserve reviews, which include a reassessment of loss development and expected loss ratio assumptions, on an annual basis. The Company completed this year's annual review in the fourth quarter of 2020. The results of these reviews are reflected in the period in which they are completed. Quarterly, the Company compares actual loss emergence to expectations established by the comprehensive loss reserve review process. In the event that loss trends diverge from expected trends, the Company may have to adjust its reserves for losses and loss adjustment expenses ("LAE") accordingly. Any adjustments will be reflected in the periods in which they become known, potentially resulting in adverse or favorable effects to our financial results. The Company believes that the recorded estimate represents the best estimate of unpaid losses and LAE based on the information available at December 31, 2020. The Company's most significant assumptions underlying its estimate of losses and LAE reserves are as follows: (i) that historical loss emergence trends are indicative of future loss development trends; (ii) that internally developed pricing trends provide a reasonable basis for determining loss ratio expectations for recent underwriting years; and (iii) that no

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

provision is made for extraordinary future emergence of new classes of loss or types of loss that are not sufficiently represented in its historical database or that are not yet quantifiable if not in its database.

U.S. Casualty Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total incurred but not reported ("IBNR") liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the U.S. Casualty Reinsurance line of business for the year ended and as of December 31, 2020 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,								As of December 31, 2020
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	\$ 173,475	\$ 179,282	\$ 185,531	\$ 188,566	\$ 185,102	\$ 171,977	\$ 160,416	\$ 157,240	\$ 19,604
2014	—	185,498	190,946	193,123	193,832	189,183	180,073	176,206	31,968
2015	—	—	191,774	189,549	192,900	195,409	191,416	188,509	20,501
2016	—	—	—	202,289	206,397	209,425	215,396	213,269	29,849
2017	—	—	—	—	224,911	229,958	238,206	243,688	62,821
2018	—	—	—	—	—	259,960	274,182	287,211	108,980
2019	—	—	—	—	—	—	266,667	282,169	150,902
2020	—	—	—	—	—	—	—	288,779	234,646

Total incurred loss and loss adjustment expenses \$1,837,071

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,								
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	
2013	\$ 9,984	\$ 17,035	\$ 46,501	\$ 70,275	\$ 89,405	\$ 102,698	\$ 111,886	\$ 121,338	
2014	—	13,067	30,912	52,326	74,662	92,160	107,407	122,213	
2015	—	—	11,379	29,271	56,207	79,217	111,846	135,032	
2016	—	—	—	18,126	44,246	68,903	102,620	136,165	
2017	—	—	—	—	19,897	42,168	78,251	121,772	
2018	—	—	—	—	—	30,483	63,380	108,248	
2019	—	—	—	—	—	—	24,416	69,092	
2020	—	—	—	—	—	—	—	19,824	

Total paid loss and loss adjustment expenses 833,684

Total incurred loss and loss adjustment expenses 1,837,071

Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013 220,377

Liabilities for loss and allocated loss adjustment expenses, net of reinsurance \$1,223,764

In Year:	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance							
	1	2	3	4	5	6	7	8
Average of each year	8.0%	11.1%	13.3%	13.4%	12.6%	7.7%	4.1%	7.0%

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

U.S. Property Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the U.S. Property Reinsurance line of business for the year ended and as of December 31, 2020 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,								As of December 31, 2020
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	\$ 228,723	\$ 227,622	\$ 215,655	\$ 204,675	\$ 197,291	\$ 197,131	\$ 196,885	\$ 195,295	\$ 364
2014	—	156,711	155,969	142,420	139,211	138,706	138,666	139,007	307
2015	—	—	147,845	142,830	134,926	134,425	133,905	133,895	523
2016	—	—	—	141,626	137,726	136,687	136,811	137,822	1,107
2017	—	—	—	—	319,629	276,053	285,033	284,261	1,257
2018	—	—	—	—	—	285,489	266,038	255,388	5,978
2019	—	—	—	—	—	—	255,198	248,145	16,983
2020	—	—	—	—	—	—	—	364,499	195,550
Total incurred loss and loss adjustment expenses								<u>\$ 1,758,312</u>	

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,							
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020
2013	\$ 90,335	\$ 149,768	\$ 177,272	\$ 188,655	\$ 191,034	\$ 191,628	\$ 193,349	\$ 193,939
2014	—	53,489	96,981	124,648	133,035	135,316	136,543	137,345
2015	—	—	65,688	100,692	117,186	125,750	129,873	131,389
2016	—	—	—	48,509	117,928	122,070	132,132	134,990
2017	—	—	—	—	93,758	237,341	269,187	277,326
2018	—	—	—	—	—	67,361	202,370	228,879
2019	—	—	—	—	—	—	54,932	207,777
2020	—	—	—	—	—	—	—	115,163
Total paid loss and loss adjustment expenses								1,426,808
Total incurred loss and loss adjustment expenses								1,758,312
Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013								<u>1,908</u>
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance								<u>\$ 333,412</u>

In Year:	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance							
	1	2	3	4	5	6	6	7
Average of each year	33.5%	46.3%	10.9%	5.5%	1.3%	0.6%	0.8%	0.4%

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Non-U.S. Casualty Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the Non-U.S. Casualty Reinsurance line of business for the year ended and as of December 31, 2020 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance									As of	
	For the Years Ended December 31,									December 31, 2020	
	2013	2014	2015	2016	2017	2018	2019	2020		Total of IBNR Liabilities Plus Expected Development on Reported Losses	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
2013	\$ 94,258	\$ 91,877	\$ 92,770	\$ 92,439	\$ 81,348	\$ 78,004	\$ 73,250	\$ 72,565	\$	11,050	
2014	—	83,256	84,708	89,751	95,255	93,999	84,775	84,340		18,174	
2015	—	—	81,623	82,495	100,628	99,382	89,839	87,277		18,761	
2016	—	—	—	89,229	95,537	101,036	93,783	91,089		15,060	
2017	—	—	—	—	119,298	122,069	119,461	118,442		37,538	
2018	—	—	—	—	—	135,010	132,783	131,895		47,976	
2019	—	—	—	—	—	—	165,267	162,781		85,975	
2020	—	—	—	—	—	—	—	167,192		128,974	
	Total incurred loss and loss adjustment expenses								\$ 915,581		

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance								
	For the Years Ended December 31,								
	2013	2014	2015	2016	2017	2018	2019	2020	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
2013	\$ 12,665	\$ 22,119	\$ 27,048	\$ 30,787	\$ 35,033	\$ 37,862	\$ 42,063	\$ 44,440	
2014	—	9,044	19,814	25,710	30,627	34,738	39,067	41,835	
2015	—	—	8,161	17,656	24,315	28,321	32,692	35,899	
2016	—	—	—	8,405	22,484	29,174	34,095	39,508	
2017	—	—	—	—	10,335	24,292	34,882	42,950	
2018	—	—	—	—	—	13,528	31,507	44,879	
2019	—	—	—	—	—	—	16,457	35,065	
2020	—	—	—	—	—	—	—	15,205	
	Total paid loss and loss adjustment expenses								299,781
	Total incurred loss and loss adjustment expenses								915,581
	Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013								257,453
	Liabilities for loss and allocated loss adjustment expenses, net of reinsurance								\$ 873,253

In Year:	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance							
	1	2	3	4	5	6	6	7
Average of each year	10.2%	12.9%	8.7%	5.0%	5.6%	3.9%	7.3%	7.8%

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Non-U.S. Property Reinsurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the Non-U.S. Property Reinsurance line of business for the year ended and as of December 31, 2020 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,								As of December 31, 2020
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses
2013	\$ 361,223	\$ 333,642	\$ 309,945	\$ 297,643	\$ 282,609	\$ 277,237	\$ 277,169	\$ 273,947	\$ 2,339
2014	—	345,289	318,662	292,987	273,639	266,549	262,756	260,046	3,801
2015	—	—	355,809	268,403	250,196	235,385	229,750	226,256	5,644
2016	—	—	—	363,840	359,757	335,500	325,886	320,388	17,775
2017	—	—	—	—	380,575	350,776	336,339	332,068	22,027
2018	—	—	—	—	—	401,334	394,782	384,143	40,302
2019	—	—	—	—	—	—	501,289	461,199	54,101
2020	—	—	—	—	—	—	—	585,452	309,696
								Total incurred loss and loss adjustment expenses	<u>\$ 2,843,499</u>

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,								
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	
2013	\$ 49,033	\$ 158,656	\$ 220,087	\$ 243,386	\$ 255,052	\$ 261,521	\$ 265,234	\$ 267,188	
2014	—	66,035	170,602	217,347	231,920	240,014	243,964	247,043	
2015	—	—	52,524	150,746	182,215	192,416	204,510	210,481	
2016	—	—	—	60,100	190,545	233,487	258,289	269,712	
2017	—	—	—	—	62,265	193,857	257,512	283,441	
2018	—	—	—	—	—	51,241	208,307	271,009	
2019	—	—	—	—	—	—	63,607	244,692	
2020	—	—	—	—	—	—	—	90,720	
								Total paid loss and loss adjustment expenses	1,884,286
								Total incurred loss and loss adjustment expenses	2,843,499
Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013								<u>62,127</u>	
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance								<u>\$ 1,021,340</u>	

In Year:	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance							
	1	2	3	4	5	6	7	8
Average of each year	17.4%	40.9%	18.6%	8.7%	4.1%	4.5%	1.8%	1.6%

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

U.S. Casualty Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made) and iv) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the U.S. Casualty Insurance line of business for the year ended and as of December 31, 2020 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,									As of December 31, 2020	
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	
2013	\$ 244,726	\$ 241,873	\$ 238,051	\$ 217,364	\$ 207,109	\$ 206,216	\$ 205,180	\$ 204,319	\$ 6,624	\$ 23,076	
2014	—	294,177	275,305	269,942	259,288	252,427	243,118	238,953	5,008	29,612	
2015	—	—	287,419	286,650	278,209	258,870	250,801	246,180	8,735	27,627	
2016	—	—	—	278,509	278,025	263,819	244,709	238,673	9,309	18,757	
2017	—	—	—	—	341,698	356,730	349,488	328,917	30,588	17,608	
2018	—	—	—	—	—	458,328	476,153	464,897	111,239	18,432	
2019	—	—	—	—	—	—	541,703	546,450	254,348	17,129	
2020	—	—	—	—	—	—	—	580,703	396,928	12,671	

Total incurred loss and loss adjustment expenses \$2,849,092

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,								
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	
2013	\$ 51,986	\$ 86,527	\$ 128,490	\$ 162,146	\$ 174,795	\$ 186,538	\$ 192,374	\$ 194,170	
2014	—	59,690	94,896	143,152	177,765	209,941	221,230	225,533	
2015	—	—	66,555	103,030	154,993	196,107	217,701	224,885	
2016	—	—	—	59,657	100,615	154,153	187,563	207,489	
2017	—	—	—	—	60,032	118,611	191,339	249,507	
2018	—	—	—	—	—	74,198	177,531	271,354	
2019	—	—	—	—	—	—	91,475	191,714	
2020	—	—	—	—	—	—	—	95,102	

Total paid loss and loss adjustment expenses 1,659,754

Total incurred loss and loss adjustment expenses 2,849,092

Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013 9,363

Liabilities for loss and allocated loss adjustment expenses, net of reinsurance \$1,198,701

In Year:	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance							
	1	2	3	4	5	6	7	8
Average of each year	19.6%	18.9%	22.1%	16.8%	9.9%	4.5%	2.5%	0.8%

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

U.S. Property Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance), ii) total IBNR liabilities plus expected development on reported loss, iii) cumulative number of reported loss (determined by the number of events, not claimants, regardless of whether or not any payments were ultimately made) and iv) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the U.S. Property Insurance line of business for the year ended and as of December 31, 2020 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,								As of December 31, 2020	
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
2013	\$ 212,167	\$ 203,970	\$ 197,496	\$ 197,124	\$ 196,391	\$ 196,374	\$ 196,272	\$ 196,351	\$ 1	\$ 10,604
2014	—	227,198	233,124	232,178	231,401	230,867	229,538	229,508	5	12,402
2015	—	—	187,266	197,486	195,061	194,253	193,911	193,990	20	13,916
2016	—	—	—	221,585	209,572	205,659	205,579	205,178	81	14,011
2017	—	—	—	—	230,670	224,065	221,793	221,359	251	19,421
2018	—	—	—	—	—	289,059	267,568	267,160	754	24,860
2019	—	—	—	—	—	—	374,697	371,941	3,064	29,459
2020	—	—	—	—	—	—	—	365,423	94,813	22,976
								Total incurred loss and loss adjustment expenses	<u>\$2,050,910</u>	

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance For the Years Ended December 31,								
	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016 (unaudited)	2017 (unaudited)	2018 (unaudited)	2019 (unaudited)	2020	
2013	\$ 101,466	\$ 190,056	\$ 192,033	\$ 194,391	\$ 195,998	\$ 196,122	\$ 196,126	\$ 196,143	
2014	—	80,295	221,162	228,772	230,614	230,488	229,213	229,236	
2015	—	—	77,398	181,585	193,617	193,539	193,551	193,750	
2016	—	—	—	75,333	199,384	203,238	204,060	204,164	
2017	—	—	—	—	77,377	208,714	217,062	219,374	
2018	—	—	—	—	—	113,119	259,647	263,470	
2019	—	—	—	—	—	—	205,868	358,872	
2020	—	—	—	—	—	—	—	194,751	
								Total paid loss and loss adjustment expenses	1,859,760
								Total incurred loss and loss adjustment expenses	2,050,910
Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013								380	
Liabilities for loss and allocated loss adjustment expenses, net of reinsurance								<u>\$ 191,530</u>	

In Year:	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance							
	1	2	3	4	5	6	7	8
Average of each year	45.1%	50.9%	2.8%	0.7%	0.3%	0.0%	0.0%	0.0%

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Non-U.S. Casualty Insurance

The following tables present i) incurred loss and allocated loss adjustment expenses (net of reinsurance) and ii) total IBNR liabilities plus expected development on reported loss and iii) cumulative paid loss and allocated loss adjustment expenses (net of reinsurance) for the Non-U.S. Casualty Insurance line of business for the year ended and as of December 31, 2020 (in thousands):

Accident Year	Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance									As of
	For the Years Ended December 31,									December 31, 2020
	2013	2014	2015	2016	2017	2018	2019	2020		Total of IBNR Liabilities Plus Expected Development on Reported Losses
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
2013	\$ 87,312	\$ 83,838	\$ 84,287	\$ 85,590	\$ 83,983	\$ 87,932	\$ 81,960	\$ 82,076	\$	11,312
2014	—	87,602	88,889	87,326	84,846	78,702	78,286	78,441		19,177
2015	—	—	87,511	86,119	84,535	77,172	80,044	81,262		28,995
2016	—	—	—	81,750	78,300	81,596	79,862	76,246		27,279
2017	—	—	—	—	91,883	93,689	90,402	87,251		37,025
2018	—	—	—	—	—	104,647	105,084	105,981		43,246
2019	—	—	—	—	—	—	141,357	143,615		85,909
2020	—	—	—	—	—	—	—	173,035		147,895
										Total incurred loss and loss adjustment expenses
										<u>\$827,907</u>

Accident Year	Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance									
	For the Years Ended December 31,									
	2013	2014	2015	2016	2017	2018	2019	2020		
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
2013	\$ 5,781	\$ 9,409	\$ 17,380	\$ 25,775	\$ 35,706	\$ 41,909	\$ 47,917	\$ 57,258		
2014	—	5,081	12,155	20,064	32,630	37,941	44,484	47,824		
2015	—	—	3,894	8,943	19,259	26,497	33,850	41,633		
2016	—	—	—	3,427	10,703	18,471	24,818	37,487		
2017	—	—	—	—	4,135	12,827	21,041	32,249		
2018	—	—	—	—	—	5,037	20,731	38,003		
2019	—	—	—	—	—	—	13,508	35,581		
2020	—	—	—	—	—	—	—	12,223		
										Total paid loss and loss adjustment expenses
										302,258
										Total incurred loss and loss adjustment expenses
										827,907
										Outstanding liabilities for loss and allocated loss adjustment expenses for accident years prior to 2013
										<u>201,142</u>
										Liabilities for loss and allocated loss adjustment expenses, net of reinsurance
										<u>\$ 726,791</u>

In Year:	Average Annual Percentage Payout of Incurred Loss and Allocated Loss Adjustment Expenses by Age, Net of Reinsurance							
	1	2	3	4	5	6	7	8
Average of each year	6.4%	10.4%	9.4%	8.8%	10.6%	7.4%	6.7%	10.1%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The reconciliation of the net incurred and paid claims development tables (preceding) to the liability for unpaid losses and loss adjustment expenses in the consolidated statement of financial position as of December 31, 2020 is as follows (in thousands):

	December 31, 2020
Net unpaid loss and allocated loss adjustment expenses:	
U.S. Casualty Reinsurance.....	\$ 1,223,764
U.S. Property Reinsurance	333,412
Non-U.S. Casualty Reinsurance.....	873,253
Non-U.S. Property Reinsurance	1,021,340
U.S. Casualty Insurance.....	1,198,701
U.S. Property Insurance	191,530
Non-U.S. Casualty Insurance.....	726,791
Unallocated loss adjustment expenses.....	90,744
Workers' compensation discount	(32,248)
Other.....	177,224
Effect of foreign exchange rates	(7,692)
Total unpaid loss and allocated loss adjustment expenses, net of reinsurance.....	<u>5,796,819</u>
Reinsurance recoverable on unpaid losses and loss adjustment expenses:	
U.S. Casualty Reinsurance.....	10,472
U.S. Property Reinsurance	104,700
Non-U.S. Casualty Reinsurance.....	197
Non-U.S. Property Reinsurance	72,580
U.S. Casualty Insurance.....	330,552
U.S. Property Insurance	122,816
Non-U.S. Casualty Insurance.....	353,704
Unallocated loss adjustment expenses.....	300
Effect of foreign exchange rates	(1,744)
Other.....	54,235
Total reinsurance recoverable on unpaid losses	<u>1,047,812</u>
Total gross unpaid loss and loss adjustment expenses.....	<u>\$ 6,844,631</u>

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table sets forth the activity in the liability for unpaid losses and loss adjustment expenses for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Gross unpaid losses and loss adjustment expenses, beginning of year.....	\$ 6,080,670	\$ 5,728,203	\$ 5,463,595
Less: Ceded unpaid losses and loss adjustment expenses, beginning of year.....	894,255	927,035	866,985
Net unpaid losses and loss adjustment expenses, beginning of year	5,186,415	4,801,168	4,596,610
Add: Net incurred losses and loss adjustment expenses related to:			
Current year	2,644,068	2,383,580	2,061,397
Prior years	(219,506)	(229,549)	(345,652)
Total net incurred losses and loss adjustment expenses.....	2,424,562	2,154,031	1,715,745
Less: Net paid losses and loss adjustment expenses related to:			
Current year	574,232	521,425	399,891
Prior years	1,366,281	1,254,766	1,033,807
Total net paid losses and loss adjustment expenses.....	1,940,513	1,776,191	1,433,698
Effect of exchange rate changes	126,355	7,407	(77,489)
Net unpaid losses and loss adjustment expenses, end of year.....	5,796,819	5,186,415	4,801,168
Add: Ceded unpaid losses and loss adjustment expenses, end of year	1,047,812	894,255	927,035
Gross unpaid losses and loss adjustment expenses, end of year.....	<u>\$ 6,844,631</u>	<u>\$ 6,080,670</u>	<u>\$ 5,728,203</u>

Net incurred losses and loss adjustment expenses related to the current year were \$2,644.1 million, \$2,383.6 million and \$2,061.4 million for the years ended December 31, 2020, 2019 and 2018, respectively. The increases in incurred losses and loss adjustment expenses for the years ended December 31, 2020 and December 31, 2019 were principally attributable to increased losses associated with premium growth. The increase in incurred losses and loss adjustment expenses for the year ended December 31, 2018 was principally attributable to increased losses associated with premium growth partially offset by a reduction in current year catastrophe losses. For the years ended December 31, 2020, 2019 and 2018, current year property catastrophe losses were \$196.4 million, \$289.4 million and \$257.4 million, respectively. For the year ended December 31, 2020, current year property catastrophe losses included \$27.3 million related to Hurricane Laura and \$17.7 million related to Midwest Derecho. In addition, for the year ended December 31, 2020, current year losses included \$146.3 million related to the COVID-19 pandemic. For the year ended December 31, 2019, current year property catastrophe losses included \$91.5 million related to Typhoon Hagibis, \$46.5 million related to Typhoon Faxai, and \$25.9 million related to Hurricane Dorian. For the year ended December 31, 2018, current year catastrophe losses included \$35.0 million related to the Northern California Wildfires, \$30.9 million related to Hurricane Michael, \$28.1 million related to Typhoon Jebi, and \$15.0 million related to the Southern California Wildfires.

Net incurred losses and loss adjustment expenses related to prior years included reductions in loss estimates of \$219.5 million, \$229.5 million and \$345.7 million for the years ended December 31, 2020, 2019 and 2018, respectively. The reductions in prior years' incurred losses and loss adjustment expenses were attributable to decreased loss estimates due to loss emergence lower than expectations in most regions and lines of business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net paid losses and loss adjustment expenses related to the current year were \$574.2 million, \$521.4 million and \$399.9 million for the years ended December 31, 2020, 2019 and 2018, respectively. The increase in paid losses and loss adjustment expenses for the year ended December 31, 2020 was principally due increased payments on current year catastrophe losses. The increase in paid losses and loss adjustment expenses for the year ended December 31, 2019 was principally due to Crop business in U.S. Property Insurance. The increase in paid losses and loss adjustment expenses for the year ended December 31, 2018 was principally attributable to increased losses associated with premium growth partially offset by a reduction in current year catastrophe losses.

The effects of exchange rate changes on net unpaid losses and loss adjustment expenses resulted in increases of \$126.4 million and \$7.4 million for the years ended December 31, 2020 and 2019, respectively, and a decrease of \$77.5 million for the year ended December 31, 2018, and were attributable to Non-U.S. Reinsurance and Non-U.S. Insurance.

Ceded unpaid losses and loss adjustment expenses were \$1,047.8 million, \$894.3 million and \$927.0 million as of December 31, 2020, 2019 and 2018, respectively. The increase in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2020 was principally attributable to Insurance business. The decrease in ceded unpaid losses and loss adjustment expenses for the year ended December 31, 2019 was principally attributable to a decrease in ceded unpaid reinsurance recoverables on catastrophe losses.

The Company uses tabular reserving for workers' compensation indemnity loss reserves, which are considered to be fixed and determinable, and discounts such reserves using an interest rate of 3.5%. Workers' compensation indemnity loss reserves have been discounted using the Life Table for Total Population: United States, 2009. Reserves reported at the discounted value were \$46.9 million and \$49.9 million as of December 31, 2020 and 2019, respectively. The amount of case reserve discount was \$13.9 million and \$16.2 million as of December 31, 2020 and 2019, respectively. The amount of incurred but not reported reserve discount was \$18.3 million and \$18.7 million as of December 31, 2020 and 2019, respectively.

The Company is not materially exposed to asbestos and environmentally-related liabilities and does not establish a specific reserve for such exposures.

7. Reinsurance and Retrocessions

The Company utilizes reinsurance and retrocessional agreements to reduce and spread the risk of loss on its insurance and reinsurance business and to limit exposure to multiple claims arising from a single occurrence. The Company is subject to accumulation risk with respect to catastrophic events involving multiple treaties, facultative certificates and insurance policies. To protect against these risks, the Company purchases catastrophe excess of loss protection. The retention, the level of capacity purchased, the geographical scope of the coverage and the costs vary from year to year. Additionally, the Company purchases specific protections related to the insurance business underwritten in both the U.S. and abroad.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

There is credit risk with respect to reinsurance, which would result in the Company recording a charge to earnings in the event that such reinsuring companies are unable, at some later date, to meet their obligations under the reinsurance agreements in force. Reinsurance recoverables are recorded as assets and a reserve for uncollectible reinsurance recoverables is established based on the Company's evaluation of each reinsurer's or retrocessionaire's ability to meet its obligations under the agreements. Premiums written and earned are stated net of reinsurance ceded in the consolidated statements of operations. Direct, reinsurance assumed, reinsurance ceded and net amounts for the years ended December 31, 2020, 2019 and 2018 follow (in thousands):

	Year Ended December 31,		
	2020	2019	2018
Premiums Written			
Direct	\$ 2,232,629	\$ 1,967,401	\$ 1,626,198
Add: assumed	2,214,048	1,848,558	1,702,430
Less: ceded	657,126	422,190	430,808
Net	<u>\$ 3,789,551</u>	<u>\$ 3,393,769</u>	<u>\$ 2,897,820</u>
Premiums Earned			
Direct	\$ 2,055,922	\$ 1,784,599	\$ 1,491,083
Add: assumed	2,065,821	1,779,967	1,652,231
Less: ceded	535,103	385,413	387,885
Net	<u>\$ 3,586,640</u>	<u>\$ 3,179,153</u>	<u>\$ 2,755,429</u>

The total amount of reinsurance recoverable on paid and unpaid losses as of December 31, 2020 and 2019 was \$1,214.5 million and \$979.5 million, respectively. The reserve for uncollectible reinsurance recoverable was \$9.7 million and \$11.7 million, as of December 31, 2020 and 2019, respectively, and has been netted against reinsurance recoverables on loss payments in the consolidated balance sheets.

8. Reinsurance Recoverables

The Company's ten largest reinsurers represent 70.6% of its total reinsurance recoverables as of December 31, 2020. Amounts due from all other reinsurers are diversified, with no other individual reinsurer representing more than \$25.1 million, or 2.1%, of reinsurance recoverables as of December 31, 2020, and the average balance is less than \$2.3 million. The Company held total collateral of \$276.4 million as of December 31, 2020, representing 22.8% of total reinsurance recoverables. The following table shows the total amount as of December 31, 2020 that is recoverable from each of the Company's ten largest reinsurers for paid and unpaid losses, the amount of collateral held and each reinsurer's A.M. Best rating (in thousands):

<u>Reinsurer</u>	<u>Reinsurance Recoverable</u>	<u>% of Total</u>	<u>Collateral</u>	<u>A.M. Best Rating</u>
Federal Crop Insurance Corporation	\$ 244,145	20.2%	\$ —	NR
Lloyd's Syndicates (excluding Brit PLC Syndicate 2987)	210,323	17.3	3,005	A
Markel CatCo Reinsurance Ltd.	118,010	9.7	117,903	NR
CRC Reinsurance Limited	79,240	6.5	79,240	NR
Markel Global Reinsurance Company	48,555	4.0	—	A
Berkley Insurance Company	43,034	3.5	—	A+
Hannover Rueck SE	36,384	3.0	223	A+
Swiss Reinsurance America Corporation	26,860	2.2	—	A+
Everest Reinsurance (Bermuda) Ltd.	25,797	2.1	—	A+
Brit (Lloyd's Syndicate 2987)	25,209	2.1	954	A
Sub-total	857,557	70.6	201,325	
All other	356,916	29.4	75,027	
Total	<u>\$ 1,214,473</u>	<u>100.0%</u>	<u>\$ 276,352</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Several individual reinsurers are part of the same corporate group. The following table shows the five largest aggregate amounts that are recoverable from all individual entities that form part of the same corporate group as of December 31, 2020 and the amount of collateral held from each group (in thousands):

<u>Reinsurer</u>	Reinsurance		Collateral
	Recoverable	% of Total	
Federal Crop Insurance Corporation.....	\$ 244,145	20.2%	\$ —
Lloyd's Syndicates (excluding Brit PLC Syndicate 2987).....	210,323	17.3	3,005
Markel Corporation.....	183,060	15.0	117,911
Fairfax Financial Holdings Ltd.	134,512	11.1	82,920
WR Berkley Corporation	43,034	3.5	—
Sub-total	815,074	67.1	203,836
All other	399,399	32.9	72,516
Total	<u>\$ 1,214,473</u>	<u>100.0%</u>	<u>\$ 276,352</u>

Reinsurance recoverables were \$979.5 million and collateral was \$296.5 million, or 30.3% of the reinsurance recoverable balance, as of December 31, 2019.

The Company is the beneficiary of letters of credit, cash and other forms of collateral to secure certain amounts due from its reinsurers. Collateral held by the Company as of December 31, 2020 was comprised of the following forms (in thousands):

<u>Form of Collateral</u>	% of	
	Collateral	Recoverables
Trust agreements	\$ 133,876	11.0%
Funds withheld from reinsurers	88,904	7.3
Letters of credit	53,572	4.5
Total	<u>\$ 276,352</u>	<u>22.8%</u>

Each reinsurance contract between the Company and the reinsurer describes the losses that are covered under the contract and terms upon which payments are to be made. The Company often has the ability to utilize collateral to settle unpaid balances due under its reinsurance contracts when it determines that the reinsurer has not met its contractual obligations. Letters of credit are for the sole benefit of the Company to support the obligations of the reinsurer, providing the Company with the unconditional ability, in its sole discretion, to draw upon the letters of credit in support of any unpaid amounts due under the relevant contracts. Cash and investments supporting funds withheld from reinsurers are included in the Company's invested assets. Funds withheld from reinsurers are typically used to automatically offset payments due to the Company in accordance with the terms of the relevant reinsurance contracts. Amounts held under trust agreements are typically comprised of cash and investment grade fixed income securities and are not included in the Company's invested assets. The ability of the Company to draw upon funds held under trust agreements to satisfy any unpaid amounts due under the relevant reinsurance contracts is typically unconditional and at the sole discretion of the Company.

9. Debt Obligations, Common Shares and Non-Controlling Interest – Preferred Shares of Subsidiaries

Debt Obligations

The amortized cost by component of the Company's debt obligations as of December 31, 2020 and 2019 were as follows (in thousands):

	December 31, 2020	December 31, 2019
Series A Floating Rate Senior Debentures due 2021	\$ 49,998	\$ 49,971
Series C Floating Rate Senior Debentures due 2021	39,986	39,971
Total debt obligations	<u>\$ 89,984</u>	<u>\$ 89,942</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On November 28, 2006, the Company completed the private sale of a \$40.0 million aggregate principal amount of floating rate senior debentures, Series C, due December 15, 2021 (the “Series C Notes”). Interest on the Series C Notes accrues at a rate per annum equal to the three-month London Interbank Offer Rate (“LIBOR”), reset quarterly, plus 2.50%, and is payable quarterly in arrears on March 15, June 15, September 15 and December 15 of each year. The Company has the option to redeem the Series C Notes at par, plus accrued and unpaid interest, in whole or in part on any interest payment date. For the years ended December 31, 2020 and 2019, the average annual interest rate on the Series C Notes was 3.22% and 4.94%, respectively.

On February 22, 2006, the Company issued a \$50.0 million aggregate principal amount of floating rate senior debenture Series A, due March 15, 2021 (the “Series A Notes”), pursuant to a private placement offering. Interest on the Series A Notes is due quarterly in arrears on March 15, June 15, September 15 and December 15 of each year at an interest rate equal to the three-month LIBOR, reset quarterly, plus 2.20%. The Series A Notes are callable by the Company on any interest payment date at their par value, plus accrued and unpaid interest. For the years ended December 31, 2020 and 2019, the average annual interest rate on Series A Notes was 2.92% and 4.64%, respectively.

As of December 31, 2020 and 2019, the estimated fair value of the Company’s debt obligations was \$91.0 million and \$92.6 million, respectively. The estimated fair value is based on quoted market prices of the Company’s debt, where available, for debt similar to the Company’s, and discounted cash flow calculations.

Common Shares

The Company issued 2,582 common shares to OUSHI during the fourth quarter of 2019, in exchange for a \$225.5 million capital contribution.

The Company did not issue any common shares during the years ended December 31, 2020 and 2018.

The Company did not declare or pay any common share dividends during the year ended December 31, 2020. The Company declared and paid \$50.0 million in common share dividends during the year ended December 31, 2019. The Company declared and paid \$100.0 million in common share dividends during the year ended December 31, 2018.

Non-Controlling Interest – Preferred Shares of Subsidiaries

TIG Insurance Company (“TIG”), a Fairfax affiliate, holds all 23,807 shares of Hudson’s 5.5% Series A preferred stock with a liquidation preference of \$1,000 per share and an aggregate book value of \$23.8 million, and all 5,492 shares of Greystone’s 5.5% Series A preferred stock, with a liquidation preference of \$1,000 per share and an aggregate book value of \$5.5 million. The shares are not redeemable by Hudson or Greystone prior to January 1, 2031. On or after January 1, 2031, the shares are redeemable, in whole or in part, by Hudson or Greystone. On October 5, 2020, Greystone’s Board of Directors declared a preferred dividend to TIG in the amount of \$0.3 million, which was paid on October 21, 2020 and Hudson’s Board of Directors declared a preferred dividend to TIG in the amount of \$1.3 million, which was paid on November 2, 2020. On October 9, 2019, Greystone’s Board of Directors declared a preferred dividend to TIG in the amount of \$0.3 million, which was paid on October 23, 2019 and Hudson’s Board of Directors declared a preferred dividend to TIG in the amount of \$1.3 million, which was paid on October 24, 2019. On October 4, 2018, Greystone’s Board of Directors declared a preferred dividend to TIG in the amount of \$0.3 million, which was paid on October 22, 2018. On December 6, 2018, Hudson’s Board of Directors declared a preferred dividend to TIG in the amount of \$1.3 million, which was paid on December 21, 2018. The aggregate amount of the preferred shares of Hudson and Greystone owned by TIG is presented on the balance sheet as non-controlling interest – preferred shares of subsidiaries in the amount of \$29.3 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

10. Federal and Foreign Income Taxes

The components of the federal and foreign income tax provision included in the consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current:			
United States	\$ (22,140)	\$ 71,233	\$ 19,516
Foreign	1,638	35,579	31,555
Total current income tax (benefit) provision	<u>(20,502)</u>	<u>106,812</u>	<u>51,071</u>
Deferred:			
United States tax expense (benefit)	49,548	(1,987)	(28,134)
United States change in valuation allowance on certain foreign tax credits	—	28,124	—
Foreign tax expense (benefit)	7,390	(5,200)	242
Total deferred income tax provision (benefit)	<u>56,938</u>	<u>20,937</u>	<u>(27,892)</u>
Total federal and foreign income tax provision	<u>\$ 36,436</u>	<u>\$ 127,749</u>	<u>\$ 23,179</u>

Deferred federal and foreign income taxes reflect the tax impact of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. Components of federal and foreign income tax assets and liabilities as of December 31, 2020 and 2019 are as follows (in thousands):

	<u>2020</u>	<u>2019</u>
Unpaid losses and loss adjustment expenses	\$ 54,084	\$ 48,583
Unearned premiums	51,988	44,011
Reserve for potentially uncollectible balances	2,982	2,981
Pension and benefit accruals	29,867	27,952
Investments	40,371	108,869
Foreign tax credit	51,017	50,860
Other	—	5,084
Total deferred tax assets	<u>230,309</u>	<u>288,340</u>
Less valuation allowance	(28,124)	(28,124)
Deferred tax assets after valuation allowance	<u>202,185</u>	<u>260,216</u>
Deferred acquisition costs	54,706	48,430
Foreign deferred items	7,723	15,113
Other	20	—
Total deferred tax liabilities	<u>62,449</u>	<u>63,543</u>
Net deferred tax assets	139,736	196,673
Deferred income taxes on accumulated other comprehensive income (loss)	34,361	21,369
Deferred federal and foreign income tax asset	174,097	218,042
Current federal and foreign income tax receivable (payable)	54,613	(4,575)
Federal and foreign income taxes receivable	<u>\$ 228,710</u>	<u>\$ 213,467</u>

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table reconciles federal and foreign income taxes at the statutory federal income tax rate to the Company's tax provision and effective tax rate for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	2020		2019		2018	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Income before income tax.....	<u>\$296,543</u>		<u>\$533,140</u>		<u>\$246,954</u>	
Income tax provision computed at the						
U.S. statutory tax rate on income	\$ 62,274	21.0%	\$111,959	21.0%	\$ 51,860	21.0%
(Decrease) increase in income tax resulting from:						
Dividend received deduction	(6,147)	(2.1)	(4,400)	(0.8)	(1,499)	(0.6)
Tax-exempt income.....	(814)	(0.3)	(719)	(0.1)	(3,325)	(1.3)
Proration recovery of tax preferred income	215	0.1	205	0.0	831	0.3
Foreign tax expense	774	0.3	1,300	0.2	380	0.2
State tax expense	(455)	(0.2)	483	0.1	1,226	0.5
True-up of prior year taxes.....	(4,243)	(1.4)	(5,659)	(1.1)	(7,434)	(3.0)
Write-off of subsidiary NOL DTL.....	—	—	(3,473)	(0.7)	—	—
U.S. tax reform - tax rate adjustment	(11,145)	(3.8)	(2,249)	(0.4)	(22,156)	(9.0)
Change in valuation allowance.....	—	—	28,124	5.3	—	—
Other, net.....	(4,023)	(1.3)	2,178	0.5	3,296	1.3
Total federal and foreign income tax provision.....	<u>\$ 36,436</u>	<u>12.3%</u>	<u>\$127,749</u>	<u>24.0%</u>	<u>\$ 23,179</u>	<u>9.4%</u>

Pre-tax income (loss) generated in the United States was \$140.5 million, \$515.9 million, and \$132.0 million for the years ended December 31, 2020, 2019 and 2018, respectively. Foreign pre-tax income was \$156.1 million, \$17.2 million and \$115.0 million for the years ended December 31, 2020, 2019 and 2018, respectively.

The Company has claimed the benefit of a foreign tax credit ("FTC") in the tax years ended December 31, 2020, 2019 and 2018.

The Company is included in the United States tax group of Fairfax (US) Inc. ("Fairfax (US)"). The method of allocation among the companies is subject to a written agreement. Tax payments are made to, or refunds received from, Fairfax (US) in amounts equal to the amounts as if separate income tax returns were filed with federal taxing authorities.

The United States Tax Cuts and Jobs Act (the "Act") was signed into law on December 22, 2017. The Act included a minimum base erosion and anti-abuse tax ("BEAT") on certain payments to foreign affiliates and a US tax on foreign earnings for certain global intangible low-taxed income ("GILTI"). The Company has evaluated the accounting policy election related to the BEAT and GILTI provisions and has concluded both will be treated as period costs. As a result, no related deferred taxes were recorded.

The effects of the Act related to loss reserve discounting included a special transition rule allowing for the changes to loss reserve discounting as of December 31, 2017 to be spread ratably over 8 years. During 2019 the Internal Revenue Service ("IRS") issued final regulations and Revenue Procedure 2019-31 resulting in a \$2.0 million increase to the initial computation. The Company will recognize the adjusted benefit of \$11.4 million ratably from years ending December 31, 2018 to December 31, 2025.

The Company paid federal and foreign income taxes of \$37.6 million, \$104.3 million and \$83.4 million for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, the Company had a current tax receivable of \$54.6 million, which included \$38.1 million receivable from Fairfax (US) and a net receivable of \$16.5 million to various foreign governments. As of December 31, 2019, the Company had a current

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

tax payable of \$4.6 million, which included \$2.7 million receivable from Fairfax (US) and a net payable of \$7.3 million to various foreign governments. The Company files income tax returns with various federal, state and foreign jurisdictions.

The Company's U.S. federal income tax returns for tax years prior to 2019 are closed. The IRS is expected to complete their audit of the Company's 2019 returns during 2021. Effective for 2018 and 2019 tax years, the Company participates in the IRS's Compliance Assurance Program ("CAP"). Under CAP, the IRS begins their examination of the tax year before the income tax return is filed. The goal of CAP is to expedite the exam process and reduce the level of uncertainty regarding a taxpayer's filing positions by examining significant transactions and events as they occur. The IRS has not proposed any material adjustments as part of the Company's ongoing examinations. Effective for tax year 2020 the IRS changed requirements for continued participation in CAP, the Company no longer participates in the program and will be subject to the normal IRS audit selection process. Income tax returns filed with various state and foreign jurisdictions remain open to examination in accordance with individual statutes.

The Company has elected to recognize accrued interest and penalties associated with uncertain tax positions as part of the income tax provision. The Company does not have any material unrecognized tax benefits and has not recognized any accrued interest or penalties associated with uncertain tax positions.

For federal income tax return purposes, the Company has FTC carryovers of \$51.0 million, of which \$2.6 million, \$18.4 million, \$5.6 million, \$21.5 million and \$2.9 million expire in 2026, 2027, 2028, 2029 and 2030 respectively.

When necessary, valuation allowances are established to reduce the deferred tax assets to amounts that are "more likely than not" to be realized. In assessing the need for a valuation allowance, the Company considers all available evidence for each tax jurisdiction, including past operating results, estimates of future taxable income, and the feasibility of tax planning strategies. The Company assessed the realization of its FTC carryovers based on currently enacted U.S. and foreign tax laws and determined that it is "more likely than not" that FTC carryovers related to foreign branch income will not be utilized prior to their expiration. As a result, a valuation allowance of \$28.1 million was recorded against the FTC carryovers, which is included in the Company's 2019 effective tax rate reconciliation as change in valuation allowance. The amount of the deferred tax asset considered realizable, however, could change if future taxable income during the carryforward period differs from current estimates. After considering the realization of its FTC carryovers related to current foreign branch income, the Company had no material change to the previously recorded valuation allowance for tax year ended December 31, 2020.

11. Commitments and Contingencies

(a) Contingencies

The Company participates in Lloyd's through its 100% ownership of the capital provider for Newline Syndicate (1218), for which the Company directly or indirectly provides 100% of the capacity. The results of Newline Syndicate (1218) are consolidated in the financial statements of the Company. In support of Newline Syndicate (1218)'s capacity at Lloyd's, the Company has pledged securities and cash with a fair value of \$402.9 million as of December 31, 2020 in a deposit trust account in favor of the Society and Council of Lloyd's. The securities may be substituted with other securities at the discretion of the Company, subject to approval by Lloyd's. The securities are carried at fair value and are included in investments and cash in the Company's consolidated balance sheets. Interest earned on the securities is included in investment income. The pledge of assets in support of Newline Syndicate (1218) provides the Company with the ability to participate in writing business through Lloyd's, which remains an important part of the Company's business. The pledged assets effectively secure the contingent obligations of Newline Syndicate (1218) should it not meet its obligations. The Company's contingent liability to the Society and Council of Lloyd's is limited to the aggregate amount of the pledged assets. The Company has the ability to remove funds at Lloyd's annually, subject to certain minimum amounts required to support outstanding liabilities as determined under risk-based capital models and approved by Lloyd's. The funds used to support outstanding liabilities are adjusted annually and the obligations of the Company to support these liabilities will continue until they are settled or the liabilities are reinsured by a third party approved by Lloyd's. The Company expects to continue to actively operate Newline Syndicate (1218) and support its requirements at Lloyd's and Company believes that Newline Syndicate (1218) maintains sufficient

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

liquidity and financial resources to support its ultimate liabilities and the Company does not anticipate that the pledged assets will be utilized.

ORC agreed to guarantee the performance of all the insurance and reinsurance contract obligations of Compagnie Transcontinentale de Réassurance (“CTR”), a former subsidiary of Fairfax, in the event CTR became insolvent and CTR was not otherwise indemnified under its guarantee agreement with a Fairfax affiliate. CTR was dissolved and its assets and liabilities were assumed by subsidiaries of Fairfax that have the responsibility for the run-off of its liabilities. Fairfax has agreed to indemnify ORC for all its obligations incurred under its guarantee. The Company’s potential exposure in connection with this agreement stems from the remaining gross reserves relating to these liabilities, which are estimated to be \$50.4 million as of December 31, 2020. The Company believes that the financial resources of the Fairfax subsidiaries that have assumed CTR’s liabilities provide adequate protection to satisfy the obligations that are subject to this guarantee. The Company does not expect to make payments under this guarantee and does not consider its potential exposure under this guarantee to be material to its consolidated financial position.

ORC has agreed to guarantee the payment of all of the insurance contract obligations (the “Subject Contracts”), whether incurred before or after the agreement, of Falcon Insurance Company (Hong Kong) Limited (“Falcon”), a subsidiary of Fairfax Asia, in the event Falcon becomes insolvent. The guarantee by ORC was made to assist Falcon in writing business through access to ORC’s financial strength ratings and capital resources. ORC is paid a fee for this guarantee of one quarter of one percent of all gross premiums earned associated with the Subject Contracts on a quarterly basis. For each of the years ended December 31, 2020, 2019 and 2018, Falcon paid \$0.1 million to ORC in connection with this guarantee. ORC’s potential exposure in connection with this agreement is estimated to be \$152.9 million, based on Falcon’s loss reserves at December 31, 2020. Fairfax has agreed to indemnify ORC for any obligation under this guarantee. The Company believes that the financial resources of Falcon provide adequate protection to support its liabilities in the ordinary course of business. The Company anticipates that Falcon will meet all of its obligations in the normal course of business and does not expect to make any payments under this guarantee. The Company does not consider its potential exposure under this guarantee to be material to its consolidated financial position.

During 2015, in consideration for an appropriate fee, ORC agreed to guarantee the payment of certain obligations of TIG with respect to a certain contract of reinsurance of asbestos, pollution and health hazard claims (the “APH contract”) entered into by TIG with an unrelated third party. The guarantee was made to enable TIG to access ORC’s financial strength ratings and capital resources for securing the APH Contract. ORC’s maximum exposure in connection with this guarantee is \$350.0 million; as of December 31, 2020, the Company’s estimated exposure under the guarantee is \$32.2 million, based on TIG’s loss reserves for the APH Contract at December 31, 2020. The Company i) believes that the financial resources of TIG provide adequate protection to support its liabilities in the ordinary course of business; ii) anticipates that TIG will meet all of its obligations in the normal course of business; and iii) does not expect to make any payments under this guarantee.

The Company and its subsidiaries are involved, from time to time, in ordinary litigation, arbitration proceedings and regulatory assessments as part of the Company’s business operations. In the Company’s opinion, the outcome of these actions, individually or collectively, is not likely to result in outcomes that would be material to the financial condition or results of operations of the Company.

(b) *Commitments*

The Company and its subsidiaries lease office space and furniture and equipment under long-term operating leases expiring through the year 2033. Minimum annual rentals follow (in thousands):

	<u>Amount</u>
2021	\$ 10,711
2022	10,339
2023	10,271
2024	10,160
2025	8,790
2026 and thereafter	44,550
Total	<u>\$ 94,821</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company leases certain office and retail space held as an investment under various operating leases. Lease income for the years ended December 31, 2020, 2019 and 2018 was \$35.6 million, \$37.0 million and \$5.6 million, respectively. Future rental income from these leases are as follows (in thousands):

	<u>Amount</u>
2021	\$ 27,074
2022	25,341
2023	23,881
2024	16,703
2025	13,876
2026 and thereafter	82,427
Total	<u>\$ 189,302</u>

Rental expense, before sublease income under these operating leases, was \$18.1 million, \$15.9 million and \$12.2 million for the years ended December 31, 2020, 2019 and 2018, respectively. The Company recovered less than \$0.1 million for the years ended December 31, 2020 and 2019. The Company recovered \$0.1 million for the year ended December 31, 2018.

The adoption of ASU 2016-02 and ASU 2018-11, both entitled “Leases”, did not have a material effect on the Company’s results of operations or liquidity. Additional information regarding the Company’s operating leases are as follows (in thousands):

	<u>As of</u> <u>12/31/2020</u>	<u>As of</u> <u>12/31/2019</u>
Operating lease right of use asset.....	\$ 66,093	\$ 60,722
Operating lease liabilities.....	\$ 82,557	\$ 67,071
Weighted average remaining operating lease term	5 years	4 years
Weighted average discount rate on operating leases	4.18%	4.45%

Maturities of the existing lease liabilities are expected to occur as follows:

2021	10,413
2022	9,716
2023	9,681
2024	9,822
2025	8,675
Thereafter	<u>44,925</u>
Undiscounted lease payments.....	93,232
Less: present value adjustment	<u>10,675</u>
Total operating lease liability	<u>\$ 82,557</u>

12. Statutory Information and Dividend Restrictions

ORC, the Company’s principal operating subsidiary, is subject to state regulatory restrictions that limit the maximum amount of dividends payable. In any 12-month period, ORC may pay dividends equal to the greater of (i) 10% of statutory capital and surplus as of the prior year end or (ii) net income for such prior year, without prior approval of the Insurance Commissioner of the State of Connecticut (the “Connecticut Commissioner”). Connecticut law further provides that (i) ORC must report to the Connecticut Commissioner, for informational purposes, all dividends and other distributions within five business days after the declaration thereof and at least ten days prior to payment and (ii) ORC may not pay any dividend or distribution in excess of its earned surplus, defined as the insurer’s “unassigned funds surplus” reduced by 25% of unrealized appreciation in value or revaluation of assets or unrealized profits on investments, as reflected in its most recent statutory annual statement on file with the Connecticut Commissioner, without the Connecticut Commissioner’s approval. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

maximum ordinary dividend capacity available during 2021, without prior approval, is \$362.4 million. ORC declared and paid to OGHl dividends of \$200.0 million, \$50.0 million and \$150.0 million during the years ended December 31, 2020, 2019 and 2018, respectively. Hudson declared and paid dividends on its preferred shares owned by TIG of \$1.3 million during each of the years ended December 31, 2020, 2019 and 2018. Greystone declared and paid dividends on its preferred shares owned by TIG of \$0.3 million during each of the years ended December 31, 2020, 2019 and 2018.

The following is the consolidated statutory basis net income and policyholders' surplus of ORC and its subsidiaries, for each of the years ended and as of December 31, 2020, 2019 and 2018 (in thousands):

	2020	2019	2018
Net income.....	\$ (108,039)	\$ 317,879	\$ 302,562
Policyholders' surplus	3,666,493	3,518,242	3,336,595

13. Related Party Transactions

The Company has entered into various reinsurance arrangements with Fairfax and its affiliates. The amounts included in or deducted from income, expense, assets and liabilities in the accompanying consolidated financial statements with respect to reinsurance assumed and ceded from and to affiliates as of and for the years ended December 31, 2020, 2019 and 2018, follow (in thousands):

	2020	2019	2018
Assumed:			
Premiums written.....	\$ 182,879	\$ 92,225	\$ 75,672
Premiums earned	144,822	82,125	81,975
Losses and loss adjustment expenses	108,916	66,579	59,295
Acquisition costs.....	22,530	16,201	14,749
Reinsurance payable on paid losses	11,709	5,838	6,873
Reinsurance balances receivable.....	44,919	28,108	22,033
Unpaid losses and loss adjustment expenses.....	211,148	167,154	158,833
Unearned premiums	71,286	32,953	22,751
Ceded:			
Premiums written.....	\$ 89,842	\$ 56,189	\$ 44,805
Premiums earned	71,597	46,279	41,883
Losses and loss adjustment expenses	58,117	21,956	12,989
Acquisition costs.....	15,899	8,183	7,020
Ceded reinsurance balances payable	6,135	4,598	4,316
Reinsurance recoverables on paid losses.....	1,957	1,181	950
Reinsurance recoverables on unpaid losses.....	137,146	106,695	99,673
Unearned premiums	46,773	28,433	18,489

The Company's subsidiaries have entered into investment management agreements with Fairfax and its wholly-owned subsidiary, Hamblin Watsa Investment Counsel Ltd. These agreements generally provide for an annual base fee, calculated and paid quarterly based upon each subsidiary's average invested assets for the preceding three months, and an incentive fee, which is payable if realized gains on equity investments exceed certain benchmarks. These agreements may be terminated by either party on 30 days' notice. For the years ended December 31, 2020, 2019 and 2018, total fees, including incentive fees, of \$17.3 million, \$18.7 million and \$22.4 million, respectively, are included in the consolidated statements of operations.

Included in other expenses, net, for the years ended December 31, 2020, 2019 and 2018, are charitable contribution expenses of \$2.7 million, \$5.2 million and \$2.5 million, respectively, primarily representing amounts to be funded by OGHl to the Odyssey Group Foundation, a not-for-profit entity through which the Company provides funding to charitable organizations active in the communities in which the Company operates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Due to expense sharing and investment management agreements with Fairfax and its affiliates, the Company has accrued, on its consolidated balance sheet, amounts receivable from affiliates of \$3.1 million and \$2.9 million as of December 31, 2020 and 2019, respectively, and amounts payable to affiliates of \$0.3 million and \$2.3 million as of December 31, 2020 and 2019, respectively.

Between 2017 and 2020, the Company loaned an affiliate, Farmers Edge Inc. (“Farmers Edge”), \$74.2 million. The loans bear interest at 12% per annum and are due on June 30, 2021. The Farmers Edge loans contain a conversion feature where the Company has the option (but not the obligation) to convert all or part of the unpaid principal amount and the accrued and unpaid interest on the loans as of the conversion into common shares at the conversion price.

On January 22, 2018, the Company loaned an affiliate, EXCO Resources, Inc. (“EXCO”), \$59.4 million in the form of a senior secured debtor-in-possession revolving credit facility loan. The notes bear interest at 4.9% per annum on Tranche A and 5.9% per annum on Tranche B and had a maturity date of January 22, 2019, with a maturity extension clause until July 22, 2019. The EXCO loans were repaid on June 28, 2019.

On February 13, 2020 and March 9, 2020, the Company loaned Fairfax (US), \$130.0 million and \$30.0 million, respectively, at interest rates of 1.59% and 1.50% per annum, respectively. The loans were repaid on March 19, 2020. On July 9, 2019 and October 8, 2019, the Company loaned Fairfax (US), \$100.0 million and \$50.0 million, respectively, at interest rates of 2.13% and 1.69% per annum, respectively. The loans were repaid on September 27, 2019 and December 27, 2019, respectively. On August 10, 2018 and October 29, 2018, the Company loaned to Fairfax (US), \$50.0 million and \$50.0 million, respectively, at interest rates of 2.42% and 2.55% per annum, respectively. The loans were repaid on September 28, 2018 and December 19, 2018, respectively.

During 2020 and 2019, the Company loaned an affiliate, Sigma Co International Corp, \$6.1 million. The loan bears interest at 5.0% and has a maturity date of June 19, 2024.

On April 17, 2019, the Company loaned an affiliate, AGT Food and Ingredients Inc. (“AGT”), \$70.8 million. The loan to AGT bears interest at 6.0% and has a maturity date of April 16, 2020. The loan may be successively extended an additional 364 days with written notice. The maturity on this loan was extended to April 16, 2021.

On April 17, 2019, the Company loaned an affiliate, Alliance Pulse Processors Inc. (“Alliance”), \$16.7 million. The loan to Alliance bears interest at 6.0% and has a maturity date of April 16, 2020. The loan may be successively extended an additional 364 days with written notice. The maturity on this loan was extended to April 16, 2021.

On January 28, 2020, the Company loaned an affiliate, Toys “R” Us (Canada) Ltd. (“Toys”), 18.9 million. The loan to Toys bears interest at 9.5% and has a maturity date of January 28, 2023.

In the ordinary course of the Company’s investment activities, the Company makes investments in investment funds, limited partnerships and other investment vehicles in which Fairfax or its affiliates may also be investors.

14. Employee Benefits

The Company provides its employees with benefits through various plans as described below.

Defined Benefit Pension Plan

The Company maintains a qualified, non-contributory, defined benefit pension plan (the “Pension Plan”) covering substantially all employees in the United States hired prior to August 1, 2011 who have reached age twenty-one. Employer contributions to the Pension Plan are in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following tables set forth the Pension Plan's unfunded status and accrued pension cost recognized in the Company's consolidated financial statements as of December 31, 2020 and 2019 (in thousands):

	2020	2019
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 242,035	\$ 195,448
Service cost	10,052	8,669
Interest cost	7,708	8,123
Actuarial loss	34,086	36,196
Benefits paid	(9,926)	(6,401)
Benefit obligation at end of year	<u>283,955</u>	<u>242,035</u>
Change in Plan assets:		
Fair value of Pension Plan assets at beginning of year	140,500	127,183
Actual appreciation on Pension Plan assets	1,389	11,918
Actual contributions during the year	18,600	7,800
Benefits paid	(9,926)	(6,401)
Fair value of Pension Plan assets at end of year	<u>150,563</u>	<u>140,500</u>
Funded status and accrued pension cost	<u>\$ (133,392)</u>	<u>\$ (101,535)</u>

The net amount reported in the consolidated balance sheets related to the accrued pension cost for the Pension Plan of \$133.4 million and \$101.5 million, as of December 31, 2020 and 2019, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss related to the Pension Plan is \$108.2 million and \$72.6 million, before taxes, as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the fair value and percentage of fair value of the total Pension Plan assets by type of investment are as follows (in thousands):

	As of December 31,			
	2020		2019	
Equity securities	\$ 129,622	86.1%	\$ 102,627	73.0%
Mutual funds - fixed income securities	17,486	11.6	25,585	18.2
Money market	3,455	2.3	12,288	8.8
Fair value of Plan assets	<u>\$ 150,563</u>	<u>100.0%</u>	<u>\$ 140,500</u>	<u>100.0%</u>

The Pension Plan seeks to maximize the economic value of its investments by applying a long-term, value-oriented approach to optimize the total investment returns of the Pension Plan's invested assets. Assets are transferred and allocated among various investment vehicles, when appropriate. The long-term rate of return assumption is based on this flexibility to adjust to market conditions. The actual return on assets has historically been in line with the Company's assumptions of expected returns. The Company contributed \$18.6 million to the Pension Plan during the year ended December 31, 2020. During each of the years ended December 31, 2019 and 2018, the Company contributed \$7.8 million to the Pension Plan. The Company currently expects to make a contribution to the Pension Plan of \$7.8 million during 2021.

The Company accounts for its Pension Plan assets at fair value as required by GAAP. The Company has categorized its Pension Plan assets, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy, using the three-level hierarchy approach described in Note 3.

Quoted market prices are used for determining the fair value of the Company's Pension Plan assets. The majority of these Pension Plan assets are common stocks and mutual funds that are actively traded in a public market. The Pension Plan's money market account, for which the cost basis approximates fair value, is also classified as a Level 1 investment. As of December 31, 2020, a majority of the Pension's assets were categorized as Level 1 assets except for the investments measured using NAV.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In accordance with ASU 2015-07, investments that are measured at fair value using NAV per share (or its equivalent) as a practical expedient, have not been classified in the fair value hierarchy. The Company reclassified the hedge fund from Level 3 assets to NAV during the year ended December 31, 2020. As of December 31, 2020, \$23.9 million of investments reported as equity securities are not included within the fair value hierarchy tables.

The Company's Level 3 Pension Plan assets were valued by a third party, providing a net asset value, by using valuation techniques that include unobservable inputs. Generally, hedge funds invest in securities that trade in active markets, and as a result, their net asset values reflect their fair values. As of December 31, 2018, the Pension Plan investments that are classified as Level 3 had a fair value of \$12.9 million. For the year ended December 31, 2018, there was a decrease in the market value of \$1.6 million for the Pension Plan investments that were classified as Level 3. The Plan did not have Level 3 investments as of December 31, 2019. The Plan did have Level 3 investments as of December 31, 2018.

The following table provides a summary of changes in the fair value of Level 3 financial assets for the years ended December 31, 2020 and 2019 (in thousands):

	<u>Hedge Fund</u>
Balance, January 1, 2019.....	\$ 12,938
Reclassify from Level 3 to NAV	(12,938)
Balance, December 31, 2019 and 2020.....	<u>\$ —</u>

The following table provides a summary of the Plan's investment that is measured at fair value using reported NAV per share as a practical expedient for the year ended December 31, 2020 (in thousands):

Investment	Fair Value Estimated Using Net Asset Value per Share as of December 31, 2020				
	Fair Value	Unfunded Commitment	Settlement Terms	Redemption Frequency	Redemption Notice Period Frequency
India Fund.....	<u>\$ 23,909</u>	<u>\$ —</u>	(1)	Monthly	60 days + month end

(1) The last business day of each month.

The NAV of each share is determined by dividing the NAV of that class of share by the number of redeemable participating preference shares in issue in that class of shares. The Plan invests in a fund that is valued at NAV per share as a practical expedient.

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

	<u>Targeted Asset Allocation %</u>
Equities.....	80.00
Mutual funds - fixed income securities	20.00
Total target asset allocations	<u>100.00</u>

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	2.50%	3.25%
Rate of compensation increase	3.60%	3.60%

The discount rate represents the Company's estimate of the interest rate at which the Pension Plan's benefits could be effectively settled. The discount rates are used in the measurement of the Pension Plan's accumulated benefit obligations and the service and interest cost components of net periodic Pension Plan benefit cost.

ODYSSEY GROUP HOLDINGS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 is comprised of the following (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net Periodic Benefit Cost:			
Service cost	\$ 10,052	\$ 8,669	\$ 9,739
Interest cost	7,708	8,123	7,607
Return on Plan assets.....	(8,311)	(7,544)	(8,483)
Recognized actuarial loss	5,499	2,714	2,933
Net periodic benefit cost	<u>\$ 14,948</u>	<u>\$ 11,962</u>	<u>\$ 11,796</u>

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic cost are expected to be \$9.4 million and \$0.0 million, respectively, for the year ended December 31, 2021.

The amortization period for unamortized pension costs and credits, including prior service costs, if any, and actuarial gains and losses, is based on the remaining service period for those employees expected to receive pension benefits. Actuarial gains and losses result when actual experience differs from that assumed or when actuarial assumptions are changed.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Change in accumulated other comprehensive loss:			
Beginning balance	\$ 72,644	\$ 43,536	\$ 43,612
Actuarial loss and return on plan assets arising during the year	41,007	31,822	2,857
Amortization of actuarial gain recognized in net periodic costs	(5,498)	(2,714)	(2,933)
Accumulated other comprehensive loss at end of year	<u>\$ 108,153</u>	<u>\$ 72,644</u>	<u>\$ 43,536</u>

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Discount rate	3.25%	4.25%	3.75%
Rate of compensation increase	3.60%	3.60%	3.80%
Expected long term rate of return on Pension Plan assets	6.00%	6.00%	6.00%

The accumulated benefit obligation for the Pension Plan was \$247.2 million and \$211.5 million as of the December 31, 2020 and 2019 measurement dates, respectively.

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

<u>Year</u>	<u>Amount</u>
2021	\$ 11,658
2022	11,873
2023	12,494
2024	13,736
2025	14,373
2026 – 2030	82,930

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Excess Benefit Plans

The Company maintains two non-qualified excess benefit plans (the “Excess Plans”) that provide more highly compensated officers and employees in the United States hired prior to August 1, 2011 with defined retirement benefits in excess of qualified plan limits imposed by federal tax law. The following tables set forth the combined amounts recognized for the Excess Plans in the Company’s consolidated financial statements as of December 31, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 31,094	\$ 26,833
Service cost	1,275	1,100
Interest cost	969	1,098
Actuarial loss	8,972	3,671
Benefits paid	(504)	(1,608)
Benefit obligation at end of year	<u>41,806</u>	<u>31,094</u>
Change in Excess Plans’ assets:		
Fair value of Excess Plans’ assets at beginning of year	—	—
Actual contributions during the year	504	1,608
Benefits paid	(504)	(1,608)
Fair value of Excess Plans’ assets at end of year	—	—
Funded status and accrued pension cost	<u>\$ (41,806)</u>	<u>\$ (31,094)</u>

The net amount reported in the consolidated balance sheets related to the accrued pension cost for the Excess Plans of \$41.8 million and \$31.1 million, as of December 31, 2020 and 2019, respectively, is included in other liabilities. The unamortized amount of accumulated other comprehensive loss related to the Excess Plan is \$14.2 million and \$5.6 million, before taxes, as of December 31, 2020 and 2019, respectively.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	2.50%	3.25%
Rate of compensation increase	3.60%	3.60%

The discount rate represents the Company’s estimate of the interest rate at which the Excess Plans’ benefits could be effectively settled. The discount rates are used in the measurement of the Excess Plans’ accumulated benefit obligations and the service and interest cost components of net periodic Excess Plans’ benefit cost.

Net periodic benefit cost included in the Company’s consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 is comprised of the following (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net Periodic Benefit Cost:			
Service cost	\$ 1,275	\$ 1,100	\$ 1,410
Interest cost	969	1,098	1,011
Recognized net actuarial loss	301	27	279
Recognized prior service cost	—	—	(5)
Net periodic benefit cost	<u>\$ 2,545</u>	<u>\$ 2,225</u>	<u>\$ 2,695</u>

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic costs are expected to be \$1.3 million and less than \$0.0 million, respectively, for the year ended December 31, 2021.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company expects to contribute \$4.7 million to the Excess Plans during the year ended December 31, 2021, which represents the amount necessary to fund the 2021 expected benefit payments.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Change in accumulated other comprehensive loss:			
Beginning balance	\$ 5,563	\$ 1,919	\$ 5,270
Actuarial loss (gain) arising during the year	8,972	3,671	(3,077)
Amortization of actuarial gain recognized in net periodic costs	(301)	(27)	(279)
Amortization of prior service costs recognized in net periodic costs ..	—	—	5
Accumulated other comprehensive loss at end of year	<u>\$ 14,234</u>	<u>\$ 5,563</u>	<u>\$ 1,919</u>

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Discount rate	3.25%	4.25%	3.75%
Rate of compensation increase	3.60%	3.60%	3.80%

The accumulated benefit obligation for the Excess Plans was \$33.2 million and \$26.1 million as of December 31, 2020 and 2019, respectively.

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

<u>Year</u>	<u>Amount</u>
2021	\$ 4,711
2022	4,369
2023	3,835
2024	4,314
2025	3,760
2026 – 2030	18,385

Postretirement Benefit Plan

The Company provides certain health care and life insurance (“postretirement”) benefits for retired employees in the United States. Substantially all employees in the United States hired prior to August 1, 2011 may become eligible for these benefits if they reach retirement age while working for the Company. The Company’s cost for providing postretirement benefits other than pensions is accounted for in accordance with ASC 715, “Compensation – Retirement Benefits.” The following tables set forth the amounts recognized for the postretirement benefit plan in the Company’s consolidated financial statements as of December 31, 2020 and 2019 (in thousands):

	<u>2020</u>	<u>2019</u>
Change in accumulated post retirement obligation:		
Accumulated postretirement obligation at beginning of year	\$ 92,123	\$ 79,183
Service cost	2,890	3,715
Interest cost	2,963	3,330
Actuarial loss	2,626	7,681
Plan amendment	(48,454)	—
Benefits paid	(1,769)	(1,980)
Participant contributions	173	140
Retiree Drug Subsidy receipts	—	54
Accumulated post retirement obligation at end of year	<u>50,552</u>	<u>92,123</u>
Funded status and accrued prepaid pension cost	<u>\$ (50,552)</u>	<u>\$ (92,123)</u>

The net amount reported in the consolidated balance sheets related to the accrued benefit cost for the postretirement plan of \$50.6 million and \$92.1 million, as of December 31, 2020 and 2019, respectively, is included

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

in other liabilities. The liability for accumulated other comprehensive (income) loss related to the postretirement plan is \$(35.6) million and \$10.4 million, before taxes, as of December 31, 2020 and 2019, respectively. The postretirement plan was amended during the year ended December 31, 2020 to provide Medicare eligible participants a flat dollar stipend for supplemental Medicare coverage. The flat dollar stipend is assumed to increase 5% every three years. This plan amendment reduced the postretirement plan obligation by \$48.5 million as of December 31, 2020.

The weighted average assumptions used to calculate the benefit obligation as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Discount rate	2.50%	3.25%
Rate of compensation increase	3.80%	3.80%

The discount rate represents the Company's estimate of the interest rate at which the postretirement benefit plan benefits could be effectively settled. The discount rates are used in the measurement of the postretirement accumulated postretirement benefit obligations and the service and interest cost of net periodic postretirement benefit cost.

Net periodic benefit cost included in the Company's consolidated statements of operations for the years ended December 31, 2020, 2019 and 2018 is comprised of the following (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net Periodic Benefit Cost:			
Service cost	\$ 2,890	\$ 3,715	\$ 4,007
Interest cost	2,963	3,330	3,010
Recognized actuarial loss	162	—	351
Net periodic benefit cost	<u>\$ 6,015</u>	<u>\$ 7,045</u>	<u>\$ 7,368</u>

The amortization of actuarial losses and of prior service costs (currently reflected in accumulated other comprehensive income) as components of net periodic costs are expected to be \$1.1 million and \$(11.0) million, respectively, for the year ended December 31, 2021.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Change in accumulated other comprehensive loss:			
Beginning balance.....	\$ 10,354	\$ 2,673	\$ 10,655
Prior service cost - plan amendment.....	(48,454)	—	—
Actuarial loss (gain) arising during the year	2,626	7,681	(7,631)
Amortization of actuarial gain recognized in net periodic costs	(162)	—	(351)
Accumulated other comprehensive (income) loss at end of year ..	<u>\$ (35,636)</u>	<u>\$ 10,354</u>	<u>\$ 2,673</u>

The weighted average assumptions used to calculate the net periodic benefit cost for the years ended December 31, 2020, 2019 and 2018 are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Discount rate	3.25%	4.25%	3.75%
Rate of compensation increase	3.80%	3.80%	3.80%

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

<u>Year</u>	<u>Amount</u>
2021.....	\$ 1,806
2022.....	2,026
2023.....	2,183
2024.....	2,346
2025.....	2,549
2026 – 2030	14,689

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 5.47% in 2021, gradually decreasing to 4.50% in 2038 and remaining constant thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation by \$6.9 million (13.63% of the benefit obligation as of December 31, 2020) and the service and interest cost components of net periodic postretirement benefit costs by \$1.4 million for the year ended December 31, 2020. Decreasing the assumed health care cost trend rates by one percentage point in each year would decrease the accumulated postretirement benefit obligation and the service and interest cost components of net periodic postretirement benefit cost for the year ended December 31, 2020 by \$5.7 million and \$1.0 million, respectively.

Other Plans

The Company also maintains a defined contribution profit sharing plan for all eligible employees. Each year, the Board of Directors may authorize payment of an amount equal to a percentage of each participant’s basic annual earnings based on the results of the Company for that year. These amounts are credited to the employees’ accounts maintained by a third party, which has contracted to provide benefits under the plan. No additional discretionary contributions were authorized for the years ended December 31, 2020, 2019 or 2018.

The Company maintains a qualified deferred compensation plan pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended. Employees may contribute up to 50% of base salary on a pre-tax basis, subject to annual maximum contributions set by law (\$19,500 in 2021 plus an additional \$6,500 if an employee is age 50 or older). The Company contributes an amount equal to 100% of each employee’s pre-tax contribution up to certain limits. The maximum matching contribution is 4.0% of annual base salary, with certain government-mandated restrictions on contributions to highly compensated employees. The Company also maintains a non-qualified deferred compensation plan to allow for contributions in excess of qualified plan limitations. The Company’s contributions to both of these plans, which totaled \$3.8 million, \$3.4 million, and \$3.1 million for the years ended December 31, 2020, 2019 and 2018, respectively, are included primarily in other underwriting expenses in the consolidated statements of operations.

All employees in the United States hired on or after August 1, 2011 are eligible for an annual profit sharing contribution, subject to the profit sharing plan limitations. The Company makes this contribution regardless of whether or not elective deferrals were made during the year. The profit sharing contribution is paid each January and uses the prior year’s 401(k) compensation (base pay, short-term disability earnings and any overtime earnings) to determine the actual contribution for each employee. These profit sharing contributions are calculated as a percentage of earnings at the end of each year and allocated to participant accounts in January of the following year, with contribution percentages based upon each employee’s years of service as follows:

<u>Years of Service</u>	<u>Percent</u>
Less than or equal to 5 years	6%
More than 5 years but less than or equal to 15.....	7%
More than 15 years.....	8%

The profit sharing contribution amounts vest based upon the following vesting schedule:

<u>Years of Service</u>	<u>Percent</u>
Less than 2 years.....	0%
2 years but less than 3	20%
3 years but less than 4	40%
4 years but less than 5	60%
5 years but less than 6	80%
6 years or more.....	100%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

15. Stock-Based Compensation Plans***Fairfax Restricted Share Plan and Share Option Plan***

In 1999, Fairfax established the Fairfax Financial 1999 Restricted Share Plan (the “Fairfax Restricted Share Plan”) and the Share Option Plan (the “Option Plan”) (collectively, the “Fairfax Plans”), in which the Company participates. The Fairfax Plans generally provide officers, key employees and directors who were employed by or provided services to the Company with awards of restricted shares or stock options (with a grant price of zero) of Fairfax common stock (collectively, “Restricted Share Awards”). The Restricted Share Awards generally vest over five years. The Company had 470,684 Restricted Share Awards outstanding as of December 31, 2020.

The fair value of the Restricted Share Awards is estimated on the date of grant based on the market price of Fairfax’s stock and is amortized to compensation expense on a straight-line basis over the related vesting periods. The Company purchases Fairfax common stock on the open market to cover the grant of a Restricted Share Award and reflects such purchase as a reduction in the Company’s additional paid-in capital. As of December 31, 2020, there was \$39.9 million of unrecognized compensation cost related to unvested Restricted Share Awards granted from the Fairfax Plans that was netted against additional paid-in capital, which is expected to be recognized over a remaining weighted-average vesting period of 2.4 years. The total fair values of the Restricted Share Awards granted for the years ended December 31, 2020, 2019 and 2018 were \$19.9 million, \$17.8 million and \$18.8 million, respectively. As of December 31, 2020, the aggregate fair value of the Restricted Share Awards outstanding was \$120.6 million. For the years ended December 31, 2020, 2019 and 2018, the Company recognized expense related to the Fairfax Plans of \$16.8 million, \$16.0 million and \$17.2 million, respectively.

The following table summarizes activity for the Fairfax Plans for the year ended December 31, 2020:

	Shares / Options	Weighted- Average Value at Grant Date
Awards outstanding as of December 31, 2019	341,821	\$ 481.83
Granted	59,982	331.37
Vested	(53,603)	463.35
Forfeited.....	(2,126)	420.62
Unallocated	124,610	300.66
Awards outstanding as of December 31, 2020.....	<u>470,684</u>	<u>\$ 417.08</u>
Vested and exercisable as of December 31, 2020	<u>58,387</u>	<u>\$ 498.32</u>

Employee Share Purchase Plans

Under the terms of the Odyssey Re Holdings Corp. (Non-Qualified) 2010 Employee Share Purchase Plan (the “2010 ESPP”), eligible employees are given the election to purchase Fairfax common shares in an amount up to 10% of their annual base salary. The Company matches these contributions by purchasing, on the employee’s behalf, a number of Fairfax’s common shares equal in value to 30% of the employee’s contribution. In the event that the Company achieves a net combined ratio in any calendar year that is less than the lesser of i) 100% or ii) the average of the reported net combined ratios of the ten (10) most recent calendar years prior to the current calendar year, additional shares are purchased by the Company for the employee’s benefit, in an amount equal in value to 20% of the employee’s contribution during that year. During the year ended December 31, 2020, the Company purchased 25,688 Fairfax common shares on behalf of employees pursuant to the 2010 ESPP, at an average purchase price of \$327.81. The compensation expense recognized by the Company for purchases of Fairfax’s common shares under the 2010 ESPP was \$1.8 million, \$1.8 million and \$1.5 million for the years ended December 31, 2020, 2019 and 2018, respectively.