

NEWLINE

UNDERWRITING MANAGEMENT LTD

REPORT AND ACCOUNTS

DECEMBER 31, 2005



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COMPANIES HOUSE 31/10/2006

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COMPANY INFORMATION

AT DECEMBER 31, 2005

Incorporated in England

Number 3223686

DIRECTORS

A A Barnard
S T Fradd
S L Gordon
T O Lillington
J R F Micklem
B D Young

SECRETARY

J R F Micklem

REGISTERED OFFICE

Suite 5/4,
The London Underwriting Centre
3 Minster Court, Mincing Lane
London
EC3R 7DD

BANKERS

National Westminster Bank Plc
City of London Office
PO Box 12258
1 Princes Street
London
EC2R 8PA

AUDITORS

PricewaterhouseCoopers LLP
Southwark Towers
32 London Bridge Street
London
SE1 9SY

DIRECTORS' REPORT

AT DECEMBER 31, 2005

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year ended December 31, 2005.

PRINCIPAL ACTIVITY

The principal activity of the Company is that of a Lloyd's managing agent responsible for the management of Newline Syndicate 1218. Syndicate 1218, whose capacity is 100% provided by Newline Corporate Name Limited, had a capacity of £145m for the 2005 year of account (2004: £145m). The capacity for the 2006 year of account is £100m.

The Company also provides management services to other group companies, primarily the London branch of Odyssey America Reinsurance Corp.

RESULTS AND BUSINESS REVIEW

The Company does not charge a fee for managing the syndicate or for providing management services to other group companies. Therefore the only income during the year has been investment income on cash balances held and profit commission due from Syndicate 1218. The profit for the period after taxation amounted to £5,679,102 (2004 £3,917,149). The Directors consider that both the level of business and the overall financial position at the end of the year were acceptable. No dividends have been paid or proposed during the period.

DIRECTORS

The Directors listed below have held office from January 1, 2005 to the date of this report unless otherwise stated.

A A Barnard	
S T Fradd	
S L Gordon	
T O Lillington	
J R F Micklem	
C D Troiano	Resigned April 21, 2005
B D Young	

None of the Directors had any beneficial interests in the Company during the year covered by this report.

No right to subscribe for shares in, or debentures of the Company was granted to, or exercised by, any Director during the year.

The Company Secretary is J R F Micklem.

DIRECTORS' REPORT

(CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm they have complied with the above requirements in preparing the financial statements.

ELECTIVE RESOLUTION

An election is in force dispensing with the requirement to lay these financial statements before the Company in general meeting. However, Members have the right by giving notice to the Company, to require the financial statements to be laid before a general meeting.

AUDITORS

The Company auditors are PricewaterhouseCoopers LLP. A resolution proposing their reappointment will be submitted at the annual general meeting.

On behalf of the Board



T O Lillington
Director
May 31, 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEWLINE UNDERWRITING MANAGEMENT LIMITED

We have audited the financial statements of Newline Underwriting Management Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
31 May 2006

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2005

	Notes	2005 £	2004 £
TURNOVER		5,671,710	3,913,974
Operating expenses	1c	(1,000)	(1,000)
OPERATING PROFIT		<u>5,670,710</u>	<u>3,912,974</u>
Interest receivable		11,686	10,685
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>5,682,396</u>	<u>3,923,659</u>
Taxation on profit on ordinary activities	3	(3,294)	(6,510)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		5,679,102	3,917,149
Dividends		-	-
RETAINED PROFIT FOR THE YEAR		<u>5,679,102</u>	<u>3,917,149</u>

The Company's turnover and expenses all relate to continuing operations. There were no recognised gains or losses during the period other than those passing through the profit and loss account. There is no difference between the retained profit for the year shown above and that on a historical cost basis. The notes on pages 8 to 13 form part of these accounts.

BALANCE SHEET AT DECEMBER 31, 2005

	Notes	2005 £	2004 £
FIXED ASSETS			
Tangible assets	5	222,949	332,765
CURRENT ASSETS			
Debtors:	6		
amounts falling due after one year		4,260,730	3,960,179
amounts falling due within one year		7,107,838	1,393,507
		<u>11,368,568</u>	<u>5,353,686</u>
Cash at bank and in hand		126,069	184,173
		<u>11,494,637</u>	<u>5,537,859</u>
CREDITORS: amounts falling due within one year	8	<u>417,834</u>	<u>249,974</u>
NET CURRENT ASSETS		<u>11,076,803</u>	<u>5,287,885</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,299,752</u>	<u>5,620,650</u>
NET ASSETS		<u>11,299,752</u>	<u>5,620,650</u>
CAPITAL AND RESERVES			
Called up share capital	9	1,723,132	1,723,132
Profit and loss account	10	<u>9,576,620</u>	<u>3,897,518</u>
TOTAL SHAREHOLDERS' FUNDS	11	<u>11,299,752</u>	<u>5,620,650</u>

Approved by the board of directors on May 31, 2006



T O Lillington

Director

The notes on pages 8 to 13 form part of these accounts.

NOTES TO THE ACCOUNTS

AT DECEMBER 31, 2005

1) ACCOUNTING POLICIES

a) Basis of accounting

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

The Company has taken advantage of the exemption from preparing a cash flow statement conferred by Financial Reporting Standard No. 1 on the grounds that it is a wholly owned subsidiary and the parent company, Odyssey America Reinsurance Corporation, produces consolidated accounts including a cash flow statement.

b) Turnover

Turnover represents profit commissions receivable from Corporate Members of Lloyd's. Profit commissions are recognised on an earned basis at inception.

c) Accounting for expenses

Expenditure incurred by the Company has been charged to the managed syndicate as set out in the statement of policy on syndicate expenses. Expenditure of £7,308k (2004: £6,810k) was incurred and recharged to the managed syndicate during the year. In addition, £3,736k (2004: £3,964k) was paid by the Company and recharged to Odyssey America Reinsurance Corporation in relation to salary and other overhead costs.

d) Depreciation

Depreciation of tangible fixed assets is calculated by reference to cost at rates estimated to write off the relevant assets over their expected useful lives, taking into account normal commercial and technical obsolescence.

The annual rates used are:

Computer equipment	33.33% on cost
Office equipment	33.33% on cost
Furniture, fixtures & fittings	20.00% on cost
Leasehold property improvements	Over term of lease
Motor Cars	33.33% on cost

e) Deferred taxation

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise.

Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

NOTES TO THE ACCOUNTS (CONTINUED)

2) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005 £	2004 £
Expenses paid by the Agency and recharged to the Syndicate and other group companies included the following:		
Depreciation	120,463	133,199
Audit fees	406,000	353,000
Non-audit fees	130,000	43,000

3) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of charge / (credit) for the period

	2005 £	2004 £
Current Tax:		
Current tax for the period	-	-
Deferred tax:		
Origination and reversal of timing differences	3,294	6,510
Tax charge / (credit) for the period	3,294	6,510

b) Factors affecting the tax charge for the year:

Profit on ordinary activities before tax	5,682,396	3,923,659
Profit on ordinary activities multiplied by small business corporate tax in the UK of 30% (2004 30%)	1,704,719	1,177,098
Capital allowances for the period in excess of depreciation	11,331	8,324
Group relief at nil consideration	(1,716,050)	(1,185,422)
Current tax for the period (note 3 (a))	-	-

NOTES TO THE ACCOUNTS

(CONTINUED)

4) DIRECTORS' EMOLUMENTS

The total emoluments paid to directors, before recharge to the Syndicate, during the year were:

	2005	2004
	£	£
Emoluments	965,487	1,130,836
Contributions to pension schemes	40,763	49,815
Total Emoluments	<u>1,006,250</u>	<u>1,180,651</u>

The emoluments of directors disclosed above include the following amounts paid to the highest paid director:

Emoluments	429,989	460,686
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During the year the Company made contributions to defined contribution pension schemes on behalf of 3 (2003:4) directors.

5) TANGIBLE FIXED ASSETS

	Short Leaseholds £	Computer Equipment £	Office Equipment £	Furniture, Fixtures & Fittings £	Motor Cars £	Total £
Cost or valuation:						
January 01, 2005	247,074	347,582	79,875	267,036	73,113	1,014,680
Additions	-	17,100	1,414	9,489	-	28,003
Disposals	-	-	-	(17,356)	-	(17,356)
December 31, 2005	<u>247,074</u>	<u>364,682</u>	<u>81,289</u>	<u>259,169</u>	<u>73,113</u>	<u>1,025,327</u>
Depreciation:						
January 01, 2005	89,579	307,060	72,438	139,725	73,113	681,915
Charge for the year	49,492	26,599	5,674	42,169	-	123,934
Disposals	-	-	-	(3,471)	-	(3,471)
December 31, 2005	<u>139,071</u>	<u>333,659</u>	<u>78,112</u>	<u>178,423</u>	<u>73,113</u>	<u>802,378</u>
Net book value:						
December 31, 2005	108,003	31,023	3,177	80,746	-	222,949
December 31, 2004	157,495	40,522	7,437	127,311	-	332,765

NOTES TO THE ACCOUNTS (CONTINUED)

6) DEBTORS

	2005	2004
	£	£
Profit commission due from Syndicate 1218	9,585,683	3,913,974
Other amounts due from Syndicate 1218	-	432,148
Amounts due from other group companies	1,633,533	859,774
Deferred tax asset	42,911	46,205
Sundry debtors	106,441	101,585
	<u>11,368,568</u>	<u>5,353,686</u>
Amounts falling due after more than one year included above are:		
Profit commission due from Syndicate 1218	4,217,819	3,913,974
Deferred tax asset	42,911	46,205
	<u>4,260,730</u>	<u>3,960,179</u>

7) DEFERRED TAX ASSET

	2005	2004
	£	£
Deferred tax asset at start of period	46,205	52,715
Movement in the year	(3,294)	(6,510)
Deferred tax asset at end of period	<u>42,911</u>	<u>46,205</u>
Deferred tax asset relates to the following		
Accelerated capital allowances	<u>42,911</u>	<u>46,205</u>

8) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005	2004
	£	£
Taxation and social security	240,264	190,522
Amounts due to Syndicate 1218	92,825	-
Amounts due to other group companies	19,578	-
Other creditors	65,167	59,452
	<u>417,834</u>	<u>249,974</u>

NOTES TO THE ACCOUNTS
(CONTINUED)

9) SHARE CAPITAL

	2005 £	2004 £
Authorised 3,000,000 ordinary shares of £1 each	<u>3,000,000</u>	<u>3,000,000</u>
Allotted, called up and fully paid 2005: 1,723,132 (2004: 1,723,132) ordinary shares of £1 each	<u>1,723,132</u>	<u>1,723,132</u>

10) PROFIT AND LOSS ACCOUNT

	2005 £	2004 £
Opening balance	3,897,518	(19,631)
Profit for the year	<u>5,679,102</u>	<u>3,917,149</u>
Closing balance	<u>9,576,620</u>	<u>3,897,518</u>

11) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2005 £	2004 £
Opening shareholders' funds	5,620,650	1,703,501
Profit for the year	<u>5,679,102</u>	<u>3,917,149</u>
Closing shareholders' funds	<u>11,299,752</u>	<u>5,620,650</u>

NOTES TO THE ACCOUNTS (CONTINUED)

12) EMPLOYEES AND STAFF COSTS

The average number of employees during the period was:

	2005	2004
	Number	Number
Management	6	6
Underwriting	35	35
Claims	8	7
Information technology	4	4
Administration	25	25
	<u>78</u>	<u>77</u>

The employment costs for the period were:

	2005	2004
	£	£
Salaries	5,471,155	5,580,852
Social security costs	602,219	588,508
Pension costs	425,610	413,203
	<u>6,498,984</u>	<u>6,582,563</u>

The Company contributes to a Group Personal Pension Plan which is on a defined contribution basis. Employees may, but are not obliged to, contribute to the scheme.

13) RELATED PARTY TRANSACTIONS

As permitted by Financial Reporting Standard 8 the Company has taken advantage of the exemption from disclosure of transactions with other group companies.

14) PARENT UNDERTAKINGS

The immediate parent is Newline Holdings UK Limited ("NHUKL"), a company incorporated in Great Britain. NHUKL is a wholly owned subsidiary of Odyssey America Reinsurance Corp. part of the Odyssey Re Group which was 80.1% owned by Fairfax Financial Holdings Limited ("Fairfax") of Canada at December 31, 2005.

Copies of the consolidated financial statements of Fairfax Financial Holdings Limited can be obtained from its head office at 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada M5J 2N7.