NEWLINE

UNDERWRITING MANAGEMENT LTD

REPORT AND ACCOUNTS

DECEMBER 31, 2006

NEWLINE
UNDERWRITING MANAGEMENT LTD

CONTENTS

COMPANY INFORMATION
AT DECEMBER 31, 2006

Incorporated in England

Number 3223686

DIRECTORS	A A Barnard R S Donovan 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, 2006

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year ended December 31, 2006

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 £100m for the 2006 year of account (2005 £145m) The capacity for the 2007 year of account is £85m

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 From the 2006 year of account onwards no profit commission will be charged to Syndicate 1218 The profit for the period after taxation amounted to £1,605,467 (2005 £5,679,102) 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

PRINCIPLE RISKS AND UNCERTAINTIES

From the perspective of the company, the principle risks and uncertainties are integrated with the principle risks of the group and are not managed separately Accordingly, the principle risks and uncertainties of the group, which include those of the Company, are discussed on page 5 of the annual report of Newline Holdings UK Ltd which does not form part of this report

KEY PERFORMANCE INDICATORS ("KPIs")

Given the straightforward nature of the business, the Board are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

DIRECTORS

The Directors listed below have held office from January 1, 2006 to the date of this report unless otherwise stated

A A Barnard
R S Donovan (appointed November 21, 2006)
S T Fradd
S L Gordon
T O Lillington
J R F Micklem
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

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

STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of this report confirms that

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended December 31, 2006 of which the auditors are unaware, and
- the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

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, 2007

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 31st December 2006 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
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
31 May 2007

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2006

	Notes	2006 £	2005 £
TURNOVER		2,303,025	5,671,710
Operating expenses	1c	(1,000)	(1,000)
OPERATING PROFIT		2,302,025	5,670,710
Interest receivable		15,271	11,686
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,317,296	5,682,396
Taxation on profit on ordinary activities	3	(711,829)	(3,294)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,605,467	5,679,102

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

NEWLINE
UNDERWRITING MANAGEMENT LTD

BALANCE SHEET
AT DECEMBER 31, 2006

	Notes	2006 £	2005 £
FIXED ASSETS			
Tangible assets	5	**171,312**	222,949
CURRENT ASSETS			
Debtors	6		
amounts falling due after one year		**2,198,530**	4,260,730
amounts falling due within one year		**5,796,101**	7,107,838
		7,994,631	11,368,568
Cash at bank and in hand		**5,707,775**	126,069
		13,702,406	11,494,637
CREDITORS amounts falling due within one year	8	**968,499**	417,834
NET CURRENT ASSETS		**12,733,907**	11,076,803
TOTAL ASSETS LESS CURRENT LIABILITIES		**12,905,219**	11,299,752
NET ASSETS		**12,905,219**	11,299,752
CAPITAL AND RESERVES			
Called up share capital	9	**1,723,132**	1,723,132
Profit and loss account	10	**11,182,087**	9,576,620
TOTAL SHAREHOLDERS' FUNDS	11	**12,905,219**	11,299,752

Approved by the board of directors on May 31, 2007

T O Lillington
Director

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

NOTES TO THE ACCOUNTS
AT DECEMBER 31, 2006

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 group cash flow statement

b) Turnover
Turnover represents profit commissions receivable from managed syndicate 1218 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 £7,260k (2005 £7,308k) was incurred and recharged to the managed syndicate during the year In addition, £3,686k (2005 £3,736k) 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

	2006	2005
	£	£
Expenses paid by the Agency and recharged to the Syndicate and other group companies included the following		
Depreciation	125,646	120,463
Profit on disposal of fixed assets	16,342	-
Audit fees	410,105	406,000
Non-audit fees	108,351	130,000

3) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

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

	2006	2005
Current Tax.	£	£
Current tax for the period	707,030	-
Deferred tax.		
Origination and reversal of timing differences	4,799	3,294
Tax charge / (credit) for the period	4,799	3,294
Total tax charge for the period	711,829	3,294

b) Factors affecting the tax charge for the year:

	2006	2005
Profit on ordinary activities before tax	2,317,296	5,682,396
Profit on ordinary activities multiplied by small business corporate tax in the UK of 30% (2005 30%)	695,189	1,704,719
Capital allowances for the period in excess of depreciation	11,841	11,331
Group relief at nil consideration	-	(1,716,050)
Current tax for the period (note 3 (a))	707,030	-

NOTES TO THE ACCOUNTS
(CONTINUED)

4) DIRECTORS' EMOLUMENTS

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

	2006	2005
	£	£
Emoluments	**888,024**	965,487
Contributions to pension schemes	**43,143**	40,763
Total Emoluments	**931,167**	1,006,250

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

Emoluments	**364,100**	429,989

During the year the Company made contributions to defined contribution pension schemes on behalf of 3 (2005 3) directors

5) TANGIBLE FIXED ASSETS

	Short Leaseholds	Computer Equipment	Office Equipment	Furniture, Fixtures & Fittings	Motor Cars	Total
	£	£	£	£	£	£
Cost or valuation						
January 01, 2006	247,074	364,682	81,289	259,169	73,113	1,025,327
Additions	-	4,250	21,121	11,327	40,000	76,698
Disposals	-	(284,646)	(1,199)	(11,177)	(73,113)	(370,135)
December 31, 2006	247,074	84,286	101,211	259,319	40,000	731,890
Depreciation.						
January 01, 2006	139,071	333,659	78,111	178,424	73,113	802,378
Charge for the year	39,406	26,657	9,747	36,502	13,334	125,646
Disposals	-	(284,565)	(1,199)	(8,569)	(73,113)	(367,446)
December 31, 2006	178,477	75,751	86,659	206,357	13,334	560,578
Net book value						
December 31, 2006	68,597	8,535	14,552	52,962	26,666	171,312
December 31, 2005	108,003	31,023	3,178	80,745	-	222,949

NOTES TO THE ACCOUNTS
(CONTINUED)

6) DEBTORS

	2006	2005
	£	£
Profit commission due from Syndicate 1218	6,520,844	9,585,683
Other amounts due from Syndicate 1218	743,593	-
Amounts due from other group companies	610,419	1,633,533
Deferred tax asset	38,112	42,911
Sundry debtors	81,663	106,441
	7,994,631	11,368,568
Amounts falling due after more than one year included above are		
Profit commission due from Syndicate 1218	2,160,418	4,217,819
Deferred tax asset	38,112	42,911
	2,198,530	4,260,730

7) DEFERRED TAX ASSET

	2006	2005
	£	£
Deferred tax asset at start of period	42,911	46,205
Movement in the year	(4,799)	(3,294)
Deferred tax asset at end of period	38,112	42,911
Deferred tax asset relates to the following		
Accelerated capital allowances	38,112	42,911

8) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006	2005
	£	£
Taxation and social security	787,129	240,264
Amounts due to Syndicate 1218	-	92,825
Amounts due to other group companies	19,057	19,578
Other creditors	162,313	65,167
	968,499	417,834

NOTES TO THE ACCOUNTS
(CONTINUED)

9) SHARE CAPITAL

	2006	2005
	£	£
Authorised		
3,000,000 ordinary shares		
of £1 each	**3,000,000**	3,000,000
Allotted, called up and fully paid		
2006 1,723,132 (2005 1,723,132)		
ordinary shares of £1 each	**1,723,132**	1,723,132

10) PROFIT AND LOSS ACCOUNT

	2006	2005
	£	£
Opening balance	**9,576,620**	3,897,518
Profit for the year	**1,605,467**	5,679,102
Closing balance	**11,182,087**	9,576,620

11) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2006	2005
	£	£
Opening shareholders' funds	**11,299,752**	5,620,650
Profit for the year	**1,605,467**	5,679,102
Closing shareholders' funds	**12,905,219**	11,299,752

NOTES TO THE ACCOUNTS
(CONTINUED)

12) EMPLOYEES AND STAFF COSTS

The average number of employees during the period was

	2006 Number	2005 Number
Management	7	6
Underwriting	34	35
Claims	8	8
Information technology	4	4
Administration	26	25
	79	78

The employment costs for the period were

	2006 £	2005 £
Salaries	5,318,414	5,471,155
Social security costs	614,174	602,219
Pension costs	436,197	425,610
	6,368,785	6,498,984

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 59 6% owned by Fairfax Financial Holdings Limited ("Fairfax") of Canada at December 31, 2006

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