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NEWLINE

UNDERWRITING MANAGEMENT LTD

REPORT AND ACCOUNTS

DECEMBER 31, 2008

NEWLINE
UNDERWRITING MANAGEMENT LTD

CONTENTS

COMPANY INFORMATION
AT DECEMBER 31, 2008

Incorporated in England

Number 3223686

DIRECTORS	A A Barnard R S Donovan S T Fradd R B Kastner C A Overy 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 Hay's Galleria 1 Hay's Lane London SE1 2RD

DIRECTORS' REPORT
AT DECEMBER 31, 2008

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year ended December 31, 2008.

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 £80m for the 2008 year of account (2007: £85m). The capacity for the 2009 year of account is £80m.

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 the reimbursement of expenses incurred on behalf of other group companies, investment income on cash balances and UK treasury bills held, plus a gain on disposal of fixed assets. The profit for the period after taxation amounted to £246,642 (2007: £3,096,823). 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.

FUTURE OUTLOOK

The Company will continue to provide management services to Syndicate 1218 and other group companies.

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately. All key risks identified by the group have been fully documented and assessed. The control environment operating around these key risks is regularly reviewed to ensure that controls are operating effectively.

Financial risk management objectives

The Company is exposed to financial risk through its financial assets and liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising as they fall due. The most important components of this financial risk are credit risk, liquidity risk and group risk.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The key area where the Company is exposed to credit risk is with the reimbursement of expenses from related companies. Intercompany balances are monitored monthly, and settled on a quarterly basis.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The duration of the investment portfolio will be managed to approximate the Company's liabilities, and cash flow is regularly monitored.

Group risk

Group risk is the potential impact of risks arising in other parts of the Group. The Company's appetite for group risk is not set in overall terms, but is considered by the Board in the context of the Company's position in the Fairfax Group. The Company considers its exposure to other companies in the Fairfax Group by taking into account the Fairfax Group governance structures.

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, 2008 to the date of this report unless otherwise stated.

A A Barnard
R S Donovan
S T Fradd
S L Gordon (resigned 5th March 2009)
R B Kastner
C A Overy
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.

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.

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, 2008 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.

Approved on behalf of the Board

J R F Micklem
Director
May 1, 2009

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 2008 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 2008 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
May 1, 2009

NEWLINE
UNDERWRITING MANAGEMENT LTD

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2008

	Notes	2008 £	2007 Restated £
Turnover	1b	-	4,196,853
Operating expenses	1c	**(13,090,334)**	(12,436,799)
Other operating income	2	**13,073,673**	12,435,788
OPERATING PROFIT	3	**(16,661)**	4,195,842
Gain on disposal of fixed asset		**10,889**	-
Interest receivable and similar income		**416,712**	249,649
Interest payable and similar charges		**(19,564)**	(6,389)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**391,376**	4,439,102
Tax on profit on ordinary activities	4	**(144,734)**	(1,342,279)
PROFIT FOR THE FINANCIAL YEAR		**246,642**	3,096,823

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 9 to 14 form part of these accounts.

BALANCE SHEET
AT DECEMBER 31, 2008

	Notes	2008 £	2007 £
FIXED ASSETS			
Tangible assets	8	**89,071**	95,167
CURRENT ASSETS			
Debtors:	9	**9,829,996**	8,538,194
Investments		**8,111,545**	8,685,701
Cash at bank and in hand		**1,373,150**	4,672,552
		19,314,691	21,896,447
CREDITORS: amounts falling due within one year	11	**3,155,078**	5,989,572
NET CURRENT ASSETS		**16,159,613**	15,906,875
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,248,684**	16,002,042
NET ASSETS		**16,248,684**	16,002,042
CAPITAL AND RESERVES			
Called up share capital	12	**1,723,132**	1,723,132
Profit and loss account	13	**14,525,552**	14,278,910
TOTAL SHAREHOLDERS' FUNDS	14	**16,248,684**	16,002,042

Approved on behalf of the board of directors on May 1, 2009

J R F Micklem
Director

The notes on pages 9 to 14 form part of these accounts.

NOTES TO THE ACCOUNTS
AT DECEMBER 31, 2008

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
In 2007, turnover consisted of profit commission from Syndicate 1218, a related company. That was the last year in which profit commission was payable, and hence the Company has no turnover in 2008.

c) Other operating income and expenses
Other operating income consists of the reimbursement of expenses from other group undertakings recharged to them in accordance with intercompany agreements.

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	20.00% on cost
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.

f) Comparatives
Certain comparatives have been restated during the year in order to make them more comparable with the current year. There has been no impact on profit for the year or net assets as a result of the restatement.

NOTES TO THE ACCOUNTS
(CONTINUED)

2) OTHER OPERATING INCOME

Expenditure recharged to other group undertakings in relation to salary and other overhead costs is as follows:

	2008 £	2007 £
Syndicate 1218	**6,431,911**	7,862,059
Odyssey America Reinsurance Corporation	**3,860,826**	3,803,664
Newline Insurance Company Limited	**2,645,631**	57,601
Newline Corporate Name Limited	**135,305**	712,464
	13,073,673	12,435,788

3) OPERATING PROFIT

	2008 £	2007 £
Operating profit is stated after charging:		
Depreciation of tangible fixed assets		
- owned assets	95,240	95,432
Services provided by the Company's auditor		
Fees payable for the audit	**10,000**	1,000

4) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of charge for the period

	2008 £	2007 £
Current Tax:		
Current tax for the period	**118,026**	1,343,557
Deferred tax:		
Origination and reversal of timing differences	**26,708**	(1,278)
Tax charge / (credit) for the period	**26,708**	(1,278)
Total tax charge for the period	**144,734**	1,342,279

b) Factors affecting the tax charge for the year:

	2008	2007
Profit on ordinary activities before tax	**391,376**	4,439,102
Profit on ordinary activities multiplied by corporate tax rate in the UK of 28.5% (2007: 30%)	**111,532**	1,331,731
Deductible income	**(1,633)**	-
Non-deductible expenses	**2,019**	-
Capital allowances for the period in excess of depreciation	**6,108**	11,826
Current tax for the period (note 4 (a))	**118,026**	1,343,557

NOTES TO THE ACCOUNTS
(CONTINUED)

5) EMPLOYEES AND STAFF COSTS

The average number of employees during the period was:

	2008 Number	2007 Number
Management	6	6
Underwriting	39	34
Claims	9	9
Information technology	4	4
Administration	29	27
	87	80

The employment costs for the period were:

	2008 £	2007 £
Salaries	6,642,199	6,062,248
Social security costs	865,572	699,040
Pension costs	510,345	476,219
	8,018,116	7,237,507

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

6) RESTRICTED STOCK PAYMENTS

Odyssey Re Holdings Corp., of which Newline Underwriting Management Limited is a subsidiary, operates a Restricted Share Plan, which provides for the grant of restricted shares of its common stock to directors, officers and key employees. Shares granted under the plan generally vest and become exercisable in equal instalments over three or five years from the grant dates. Awards under the plan may not exceed an aggregate of 10% of Odyssey Re Holdings Corp.'s issued and outstanding shares of common stock as of the last business day of the previous calendar year.

The fair value of restricted share awards is estimated on the day of the grant based on the market price of the stock, and is amortised to compensation expense on a straight line basis over the related vesting periods.

Since the second half of 2007 a proportion of this expense has been recharged to Newline Underwriting Management Limited, based on an allocation of 57,507 shares granted quarterly. The amount recharged in 2008 was £305,664 (2007: £133,826).

NOTES TO THE ACCOUNTS
(CONTINUED)

7) DIRECTORS' EMOLUMENTS

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

	2008	2007
	£	£
Emoluments	**1,183,716**	1,141,201
Contributions to pension schemes	**61,735**	51,187
Total Emoluments	**1,245,451**	1,192,388

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

Emoluments	**332,631**	470,304

During the year the Company made contributions to defined contribution pension schemes on behalf of 4 (2007:5) directors. Refer to note 5 for further details.

8) TANGIBLE FIXED ASSETS

	Leasehold Improvement	**Computer Equipment**	**Office Equipment**	**Furniture, Fixtures & Fittings**	**Motor Cars**	**Total**
	£	**£**	**£**	**£**	**£**	**£**
Cost:						
January 01, 2008	247,074	88,536	101,211	274,356	40,000	751,177
Additions	13,526	-	-	76,729	-	90,255
Disposals	-	(62,935)	(22,683)	-	(40,000)	(125,618)
December 31, 2008	260,600	25,601	78,528	351,085	-	715,814
Depreciation:						
January 01, 2008	213,639	84,285	94,171	237,248	26,667	656,010
Charge for the year	36,140	2,834	7,040	37,004	12,222	95,240
Disposals	-	(62,935)	(22,683)	-	(38,889)	(124,507)
December 31, 2008	249,779	24,184	78,528	274,252	-	626,743
Net book value:						
January 01, 2008	33,435	4,251	7,040	37,108	13,333	95,167
December 31, 2008	10,821	1,417	-	76,833	-	89,071

NOTES TO THE ACCOUNTS
(CONTINUED)

9) DEBTORS

	2008	2007
	£	£
Amounts owed by group undertakings	**9,721,322**	8,392,939
Deferred tax asset	**12,682**	39,390
Sundry debtors	**95,992**	105,865
	9,829,996	8,538,194
Amounts falling due after more than one year included above are:		
Deferred tax asset	**12,682**	39,390

10) DEFERRED TAX ASSET

	2008	2007
	£	£
Deferred tax asset at start of period	**39,390**	38,112
Movement in the year	**(26,708)**	1,278
Deferred tax asset at end of period	**12,682**	39,390
Deferred tax asset relates to the following		
Accelerated capital allowances	**12,682**	39,390

11) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008	2007
	£	£
Bank loans and overdraft	**91,678**	-
Taxation and social security	**1,058,982**	1,546,149
Amounts due to group undertakings	**1,869,227**	16,011
Amounts payable for securities purchased	-	4,354,181
Other creditors	**135,191**	73,231
	3,155,078	5,989,572

NOTES TO THE ACCOUNTS
(CONTINUED)

12) SHARE CAPITAL

	2008 £	2007 £
Authorised 3,000,000 ordinary shares of £1 each	**3,000,000**	3,000,000
Allotted, called up and fully paid 2008: 1,723,132 (2007: 1,723,132) ordinary shares of £1 each	**1,723,132**	1,723,132

13) PROFIT AND LOSS ACCOUNT

	2008 £	2007 £
Opening balance	**14,278,910**	11,182,087
Profit for the year	**246,642**	3,096,823
Closing balance	**14,525,552**	14,278,910

14) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2008 £	2007 £
Opening shareholders' funds	**16,002,042**	12,905,219
Profit for the year	**246,642**	3,096,823
Closing shareholders' funds	**16,248,684**	16,002,042

15) 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.

16) ULTIMATE CONTROLLING PARTY

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 70.4% owned by Fairfax Financial Holdings Limited ("Fairfax") of Canada at December 31, 2008.

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.