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NEWLINE

INSURANCE COMPANY LTD

REPORT AND ACCOUNTS

DECEMBER 31, 2008

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COMPANY INFORMATION
AT DECEMBER 31, 2008

Incorporated in England

Number 4409827

DIRECTORS

AA Barnard
RS Donovan
ST Fradd
RB Kastner
JRF Micklem
CA Overy
BD 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 present their report and audited financial statements of the Company for the year ended December 31, 2008.

PRINCIPAL ACTIVITY

The principal activity of the Company is the underwriting of casualty and motor insurance business in the UK and other EU member States.

The Motor business protects companies and individuals against damage arising out of or in connection with the use of motor vehicles on land including third-party risks and carrier's liability.

The Company's casualty insurance business can be described as follows:-

- 1) **Crime**
The Crime business protects companies against losses that are discovered during the policy period arising from a variety of fraudulent or criminal acts committed by either employees or third parties and includes coverage for robberies, hold-up, forged documents or computer crime as well as dishonesty.
- 2) **Directors' and Officers' Liability**
The Directors' and Officers' liability business protects directors and officers against claims that are made during the policy period alleging that they have mismanaged the organisation.
- 3) **Errors and Omissions**
The Errors and Omissions business protects companies against claims made during the policy period by third parties alleging negligence and seeking to hold the company liable.
- 4) **Employers' and Public Liability**
The Employers' and Public Liability business protects companies for their liability to employees or third parties for losses that occur during the policy period. Claims arise where employees are injured at work or where the companies' activities cause damage to a third party.

BUSINESS REVIEW

The Company wrote gross premiums of £26,995k during the year ended December 31, 2008, of which £26,765k was earned during the year, which is predominantly Motor business, £17,527k. Net earned premiums were £4,559k, which are significantly reduced by the 80% quota share reinsurance arrangement with Odyssey America Reinsurance Corporation that covers all business written by the Company and benefits from the risk programme in place. The combined ratio for 2008 is 155.7% (2007: 118.1%), resulting in an underwriting loss excluding investment return of £2,539k (2007: £292k). Including investment return of £2,299k total loss for the year was £240k (2007: profit £1,288k).

In addition to a motor coinsurance arrangement that commenced in 2007, the company began writing Commercial Motor on its own account in 2008.

BUSINESS ENVIRONMENT

Insurers compete on the basis of various factors including distribution channels, product, price, service, financial strength and reputation. Throughout 2008 the marketplace continued to be highly competitive as new participants entered the market and existing operations attempt to enhance their presence. Our competitors include independent insurance companies, subsidiaries or affiliates of established worldwide insurance companies, and underwriting syndicates at Lloyd's. These competitors have longer operating histories, larger capital bases and greater underwriting, marketing, and administrative resources than the Company.

We expect the competitiveness to continue throughout 2009 as market participants compete aggressively for business.

DIRECTORS' REPORT

CONTINUED

STRATEGY AND FUTURE OUTLOOK

The Company is looking to develop excellent producer relationships which will provide commercial advantage as market conditions become more challenging.

Pricing is a primary means of competition in the insurance business. We emphasise disciplined underwriting over premium growth, concentrating on carefully selecting the risks we insure and determining the appropriate price for such risks. We are committed to maintaining our underwriting standards and as a result, our premium volume will vary based on existing market conditions.

Experience, strict underwriting discipline, analytical tools, and access to real time data are the keys that will enable us to select, price and manage our business successfully. We have put considerable time and effort into developing our systematic approach to underwriting and the appropriate control environment. We have implemented strict review and referral processes, sophisticated and flexible rate engines, rate level monitoring, reporting, involvement of actuarial and claims personnel, which together ensure that underwriting objectives are properly understood and overall profitability is maintained.

The UK and Continental Europe will continue to be our core markets.

PRINCIPAL RISKS AND UNCERTAINTIES

The process of managing risk is addressed through a framework of policies, procedures and internal controls. The main risks and uncertainties to our business arise from:

- inaccurate pricing/managing the insurance cycle;
- actions of our competitors;
- fluctuations in the timing, frequency and severity of claims compared to our expectations; and
- failure of our reinsurers to honour their obligations to us.

All key risks identified 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, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are interest rate risk, credit risk, liquidity risk and group risk.

The Company manages these positions within a framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The principal technique is to match assets to the liabilities arising from insurance contracts by reference to the type of losses payable to policyholders. For each distinct category of liabilities, a separate portfolio of assets is maintained.

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the policyholder liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. As the business develops, a gap between the mean duration of the assets and the estimated mean duration of the liabilities will be minimised by means of buying and selling fixed interest securities of different durations.

DIRECTORS' REPORT

CONTINUED

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company will be exposed to credit risk are:

- reinsurers' share of insurance liabilities,
- amounts due from reinsurers in respect of claims already paid,
- amounts due from insurance contract holders, and
- amounts due from insurance intermediaries.

The Company places limits on its exposure to a single counterparty, or group.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any reinsurance contract. In addition, the recent payment history of reinsurers and security rating are used to update the reinsurance purchasing strategy.

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 maturity of its insurance and other liabilities. Revised ultimate loss and cash flow patterns are regularly monitored and updated as appropriate.

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

The Board monitors the progress of the Company by reference to the following KPI's:

	2008	2007
Net written premiums (Gross premiums written less outwards reinsurance premiums)	£4,434k	£3,459k
Net loss ratio (Ratio of net claims incurred to net earned premiums)	101.0%	100.3%
Combined ratio (Ratio of net claims incurred, commissions and expenses to net earned premiums)	155.7%	118.1%
Underwriting result (Balance on the technical account for general business excluding investment return)	£(2,539)k	£(292)k

DIRECTORS' REPORT

CONTINUED

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 5 March 2009)
R B Kastner
J R F Micklem
C A Overy
B D Young Managing Director

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

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 financial statements on the basis that the Company will write future business unless it is inappropriate to presume that the Company will continue to do so.

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 auditors are aware of that information.

DIRECTORS' REPORT

CONTINUED

AUDITORS

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

On behalf of the Board



J R F Micklem

Director

March 30, 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEWLINE INSURANCE COMPANY LTD

We have audited the financial statements of Newline Insurance Company Limited for the year ended 31st December 2008 which comprise the Profit and Loss Account, the Balance Sheet, Statement of Total Recognised Gains and Losses 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 in the Directors' Report.

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 loss 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

Chartered Accountants and Registered Auditors

London

30 March 2009

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

TECHNICAL ACCOUNT – GENERAL BUSINESS

	Notes	2008 £'000	2007 £'000
Earned Premiums, net of Reinsurance			
Gross premiums written	2	26,995	20,004
Outwards reinsurance premiums		(22,561)	(16,545)
Net premiums written		<u>4,434</u>	<u>3,459</u>
Change in the gross provision for unearned premiums		(230)	(10,594)
Change in the provision for unearned premiums, reinsurers' share		355	8,751
		<u>125</u>	<u>(1,843)</u>
Earned premiums, net of reinsurance		4,559	1,616
Allocated investment return transferred from the non-technical account		2,299	1,580
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(6,111)	(215)
Reinsurers' share		4,880	172
		<u>(1,231)</u>	<u>(43)</u>
Change in the provision for claims:			
Gross amount		(19,032)	(8,410)
Reinsurers' share		15,661	6,832
		<u>(3,371)</u>	<u>(1,578)</u>
Claims incurred, net of reinsurance		(4,602)	(1,621)
Net operating expenses	5	(2,496)	(287)
Balance on the technical account for general business		<u>(240)</u>	<u>1,288</u>

The notes on pages 12 to 18 form part of these accounts.

All operations are continuing.

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

NON-TECHNICAL ACCOUNT

	Notes	2008	2007
		£'000	£'000
BALANCE ON THE GENERAL BUSINESS TECHNICAL ACCOUNT		(240)	1,288
Investment income	7	2,120	1,640
Unrealised gains on investments	7	265	-
Investment expenses and charges	7	(86)	(60)
Allocated investment return transferred to the general business technical account		(2,299)	(1,580)
(LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		(240)	1,288
Taxation	4	69	(386)
(LOSS)/ PROFIT ON ORDINARY ACTIVITIES AFTER TAX		(171)	902

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended December 31, 2008

	2008	2007
	£'000	£'000
Profit for the financial year	(171)	902
Currency translation differences	(77)	(2)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	(248)	900

The notes on pages 12 to 18 form part of these accounts.


NEWLINE

INSURANCE COMPANY LTD

BALANCE SHEET AT DECEMBER 31, 2008

		2008	2007
	Notes	£'000	£'000
ASSETS			
Investments			
Other financial investments	8	53,904	36,803
Reinsurers' share of technical provisions			
Provision for unearned premiums		11,189	10,540
Claims outstanding		24,188	7,396
Debtors			
Debtors arising out of direct insurance operations			
- intermediaries		6,657	6,022
Other debtors		1,176	-
Other assets			
Cash at bank and in hand		2,177	1,537
Prepayments and accrued income			
Accrued interest and rent		78	50
Deferred acquisition costs		1,976	1,823
Other prepayments and accrued income		26	10
Total assets		101,371	64,181
LIABILITIES			
Capital and reserves			
Called up share capital	9	25,000	25,000
Profit & loss account	10	1,202	1,450
Total shareholders' funds	11	26,202	26,450
Technical provisions			
Provision for unearned premiums		13,377	12,781
Claims outstanding		29,566	9,119
Creditors			
Creditors arising out of direct insurance operations		799	173
Creditors arising out of reinsurance insurance operations		5,514	281
Other creditors including taxation and social security		469	479
Amount due to Group undertakings		22,872	12,423
Accruals and deferred income		2,572	2,475
Total liabilities		101,371	64,181

Approved by the Board of Directors on March 30, 2009


J R F Micklem
Director

NOTES TO THE ACCOUNTS

AT DECEMBER 31, 2008

1) ACCOUNTING POLICIES

a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 ("The Act") in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP") dated December 2005, as amended in December 2006.

No cash flow statement is presented since FRS 1 (revised) exempts the Company from the requirement to do so as the consolidated financial statements of Odyssey America Reinsurance Corporation includes a group cash flow statement.

b) Basis of accounting

All classes of insurance business written are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

Insurance Contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline the Company defines as significant insurance risk the possibility of having to pay benefit on the occurrence of an insured in event that are at least 10% more than the benefits payable if the insured event did not occur. The Company's insurance products are classified as insurance contracts.

Premiums written

Premiums written, which are stated gross of acquisition costs, relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company.

Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

Acquisition costs

Acquisition costs which represent commissions and other related expenses are deferred over the period in which the related premiums are earned.

Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

NOTES TO THE ACCOUNTS
CONTINUED**1) ACCOUNTING POLICIES (continued)*****c) Basis of accounting (continued)******Claims provisions and related reinsurance recoveries***

Provision is made at year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different to the original liability established.

Where possible multiple techniques are adopted to estimate the required level of provisions, these are generally based upon statistical analysis of historical information which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- Changes in the legal environment
- The effects of inflation
- Changes in the mix of business
- The impact of large losses
- Movements in industry benchmarks

Large claims impacting a class of business are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these claims.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having a due regard to collectability.

Reinsurance

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk.

d) Other financial investments

Listed and other traded investments are stated at market value on the balance sheet date. Unrealised gains and losses are recognised in the profit and loss account.

e) Investment return

Investment return comprises all investment income and interest receivable plus realised gains and losses on the disposal of investments and movements in unrealised gains and losses, net of investment expenses. Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price.

NOTES TO THE ACCOUNTS

CONTINUED

1) ACCOUNTING POLICIES (continued)

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or if they have previously been valued, their valuation at the previous balance sheet date, together with a reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current year.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments related to the technical account.

f) Net operating expenses

Operating expenses are recognised when incurred.

g) Foreign currencies

The Company operates in three currencies – UK Pounds sterling, US Dollars and Euros. The financial statements of the Company are presented in Pounds sterling, which is the Company's reporting currency.

Transactions in US Dollars and Euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are translated at the rates of exchange ruling at the date the transaction is processed. All monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the balance sheet date.

Realised exchange differences when translating other foreign currency transactions into functional currencies are included in the technical account.

Exchange differences to translate the opening balances in foreign currencies to closing rates of exchange and the result from average rates of exchange to closing rates of exchange are taken through the statement of total recognised gains and losses.

h) Taxation

UK taxation in the profit and loss account is based on the underwriting result and other income and charges of the year as determined in accordance with the relevant tax legislation, together with adjustments for prior years.

NOTES TO THE ACCOUNTS CONTINUED

i) 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.

2) SEGMENTAL INFORMATION

All business has been underwritten in the United Kingdom which has been treated as one geographical segment for the purposes of Statement of Standard Accounting Practice Number 25. Segmental information in the format required by the Companies Act 1985 is as follows:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
2008					
<i>Direct business</i>					
Third party liability	7,581	8,155	(8,763)	(2,272)	1,716
Motor	18,129	17,527	(15,616)	(4,882)	1,325
Total direct	25,710	25,682	(24,379)	(7,154)	3,041
<i>Reinsurance acceptances</i>	1,285	1,083	(764)	(302)	253
Total	26,995	26,765	(25,143)	(7,456)	3,294

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
2007					
<i>Direct business</i>					
Third party liability	7,465	5,739	(6,143)	(1,245)	1,231
Motor	11,887	3,415	(2,313)	(740)	(246)
Total direct	19,352	9,154	(8,456)	(1,985)	985
<i>Reinsurance acceptances</i>	652	256	(169)	(55)	(22)
Total	20,004	9,410	(8,625)	(2,040)	963

3) MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

There were no material movements in prior years' provision for claims outstanding.

NOTES TO THE ACCOUNTS

(CONTINUED)

4) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

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

	2008	2007
	£'000	£'000
Current tax on income for the period (note 4(b))	(69)	386
Tax charge on ordinary activities	<u>(69)</u>	<u>386</u>

(b) Factors affecting the tax charge for the period:

(Loss)/ Profit on ordinary activities before tax	<u>(240)</u>	<u>1,288</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax (28.5%)	(69)	386
Current tax for the period (note 4(a))	<u>(69)</u>	<u>386</u>

The company has made current year losses, which will be utilised by other group companies as group relief.

5) NET OPERATING EXPENSES

	2008	2007
	£' 000	£' 000
Acquisition costs	4,024	2,855
Change in deferred acquisition costs	(153)	(1,701)
Administrative expenses	3,585	886
Reinsurers commissions and profit participations	<u>(4,960)</u>	<u>(1,753)</u>
	<u>2,496</u>	<u>287</u>

Total commissions for direct insurance accounted in the year amounted to £3,802k (2007: £ 1,107k)

Auditors' remuneration

During the year the Company obtained the following services from the Company's auditor at costs as detailed below:

	2008	2007
	£' 000	£' 000
Audit services		
Fees payable to the Company's auditor for the audit of the Company	<u>62</u>	<u>50</u>
	<u>62</u>	<u>50</u>

NOTES TO THE ACCOUNTS (CONTINUED)

6) DIRECTORS' EMOLUMENTS AND STAFF COSTS

No amounts were charged directly to the Company in the period in respect of directors' services. The Company shares underwriting and administration staff with Newline Syndicate 1218. A management charge of £2,023k has been borne by the Company for these services during 2008 (2007: £453k).

7) INVESTMENT RETURN

	2008 £'000	2007 £'000
Investment income		
Income from financial investments	2,120	1,640
	<u>2,120</u>	<u>1,640</u>
Net unrealised gains on investments		
Unrealised gains on investments	265	-
	<u>265</u>	<u>-</u>
Investment expenses and charges		
Investment management expenses, including charges	(86)	(60)
	<u>(86)</u>	<u>(60)</u>

8) OTHER FINANCIAL INVESTMENTS

	2008 £'000	2007 £'000	2008 £'000	2007 £'000
	Market value		Cost	
Holdings in collective investment schemes	2,321	11,904	2,321	11,904
Debt securities and other fixed income securities	51,583	24,899	51,318	24,899
	<u>53,904</u>	<u>36,803</u>	<u>53,639</u>	<u>36,803</u>

9) SHARE CAPITAL

	£	£
Authorised:		
Ordinary shares of £1 each	40,000,000	40,000,000
Allotted, called up and fully paid:		
Ordinary shares of £1 each	25,000,000	25,000,000

NOTES TO THE ACCOUNTS

(CONTINUED)

10) PROFIT AND LOSS ACCOUNT

	2008	2007
	£'000	£'000
Opening balance	1,450	550
(Loss)/ Profit for the financial year	(171)	902
Currency translation differences	(77)	(2)
Closing balance	1,202	1,450

11) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUND

	2008	2007
	£'000	£'000
Opening shareholders' funds	26,450	25,550
(Loss)/ Profit for the financial year	(171)	902
Currency translation differences	(77)	(2)
Closing shareholders' funds	26,202	26,450

12) TRANSACTIONS WITH RELATED PARTIES

As permitted by FRS 8 the Group has taken advantage of the exemption from disclosure of transactions with other members of the Odyssey Re Group.

13) ULTIMATE HOLDING COMPANY

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

Copies of the consolidated financial statements of Odyssey Re Holdings Corporation can be obtained from its head office at 140 Broadway, 39th Floor, New York, NY 10005.

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