

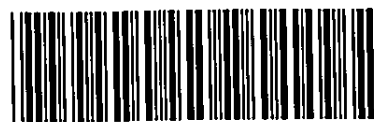
NEWLINE

INSURANCE COMPANY LTD

REPORT AND ACCOUNTS

DECEMBER 31, 2009

THURSDAY



A35 03/06/2010 12
COMPANIES HOUSE

CONTENTS

	Page
COMPANY INFORMATION	2
DIRECTORS' REPORT	3
INDEPENDENT AUDITORS' REPORT	8
PROFIT & LOSS ACCOUNT TECHNICAL ACCOUNT	10
PROFIT & LOSS ACCOUNT NON-TECHNICAL ACCOUNT	11
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	11
BALANCE SHEET	12
NOTES TO THE ACCOUNTS	13

COMPANY INFORMATION

AT DECEMBER 31, 2009

Incorporated in England

Number 4409827

DIRECTORS

R S Donovan
P T Foley
S T Fradd
R B Kastner
J R F Micklem
J W J Spencer
M G Wacek
C A Overy
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, 2009

The Directors present their report and audited financial statements of the Company for the year ended December 31, 2009

PRINCIPAL ACTIVITY

Newline Insurance Company Limited ("NICL") is a UK insurance company that operates under the Newline brand. NICL is a wholly owned subsidiary of Newline Holdings UK Limited ("NHUKL"), which is a wholly owned subsidiary of Odyssey Reinsurance Corporation ("OARC"), part of the Odyssey Re Group ("Group").

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

Motor insurance 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 casualty insurance cover provided by the Company includes the following lines of business -

Crime

This line of 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 robbery, hold-ups, forged documents or computer crime, as well as dishonesty.

Directors' and Officers' Liability

This line of business protects directors and officers against claims that are made during the policy period alleging that they have mismanaged the organisation.

Errors and Omissions

This line of business protects companies against claims made during the policy period by third parties alleging negligence and seeking to hold the company liable.

General Liability

This line of business protects companies against claims made by employees or third parties for losses, that occur during the policy period, arising from employee injuries at work or activities of the company that cause damage to third parties.

Medical Malpractice

This line of business primarily provides coverage for small and medium sized hospital accounts, and groups and individual physicians.

BUSINESS REVIEW

Results and performance

The result for the calendar year is a loss of £397,000 (2008 Loss £171,000). The shareholders' funds for the Company total £25.8m (2008 £26.2m).

Gross written premiums for the year were £31.8m (2008 £27.0m), £4.8m or 17.7% higher, in converted sterling terms. Motor business accounted for £21.3m or 67.0% of the gross written premiums for the year ended December 31, 2009 (2008 £18.1m or 67.1%), with the balance attributable to casualty business. The company entered into a motor coinsurance arrangement in 2007, which has been renewed in each subsequent year. It additionally, began writing Commercial Motor business on its own account in 2008.

DIRECTORS' REPORT*(continued)*

Net earned premiums of £5 1m for the year ended December 31, 2009 (2008 £4 6m) are significantly reduced by an 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 2009 is 110 0% (2008 155 7%), resulting in an underwriting loss excluding investment return of £0 5m (2008 Loss £2 5m)

Business environment

Insurers compete on the basis of various factors including distribution channels, product, price, service, financial strength and reputation. Throughout 2009 the marketplace continued to be highly competitive as new participants entered the market and existing operations attempted 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 competitive environment to persist in 2010 as market participants compete aggressively for business.

Strategy

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 prevailing 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.

Future outlook

Our client focus and core markets continue to be the SME sector, and the UK and Continental Europe. The Company will carry on seeking to take advantage of opportunities in its selected markets and chosen fields of expertise as and when they develop.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. 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. The main risks and uncertainties to our business arise from:

Underwriting and reserving risk

Underwriting risk arises from policies being written at inappropriate rates or terms or losses being greater than expected. Reserving risk arises from the ultimate cost of claims proving to be in excess of current estimates. Management has implemented a range of controls over all aspects of underwriting from a comprehensive strategic plan, through detailed guidelines for each team, to specific authorities for each underwriter. Similarly, the reserve estimates are derived by actuarial review and supported by an internal control framework around the integrity of data, choice of assumptions and actuarial methodologies applied. Annually, the adequacy of reserves is subject to external actuarial review.

DIRECTORS' REPORT*(continued)***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 Group monitors interest rate risk by calculating the mean duration of the investment portfolio and policyholder liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

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 intermediaries, and
- amounts due from investment counterparties.

The Company places limits on its exposure to a single counterparty or group of counterparties. Reinsurance is used to manage underwriting and reserving 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 contract. In addition, the recent payment history of reinsurers is 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. There are agreed limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

Operational risk

Operational risk arises from a loss resulting from inadequate or failed internal processes, or systems and from external events other than those covered above. The Company has a detailed risk register and procedures for continuously monitoring the impact of such risks and the effectiveness of the controls in place to mitigate them in accordance with the agreed risk appetite.

DIRECTORS' REPORT

(continued)

KEY PERFORMANCE INDICATORS (KPI's)

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

	2009	2008	
Gross Written Premiums	£31.8m	£27.0m	Gross premiums written, including acquisition costs, in respect of insurance contracts
Net written premiums	£5.0m	£4.4m	Gross Written Premiums less outward reinsurance in respect of insurance contracts
Underwriting result	£(0.3)m	£(0.2)m	Balance on technical account for general business
Net loss ratio	79.5%	100.9%	Ratio of net claims incurred to net earned premiums
Combined ratio	110.0%	155.7%	Ratio of net claims, commissions and expenses to net earned premiums

Dividends

The directors do not recommend the payment of a final dividend (2008: £Nil)

DIRECTORS

The Directors listed below have held office from January 1, 2009 to the date of this report unless otherwise stated

A A Barnard	Resigned March 26, 2010
R S Donovan	
P T Foley	Appointed August 19, 2009
S T Fradd	
R B Kastner	
J R F Micklem	
C A Overy	Managing Director
J W J Spencer	Appointed March 22, 2010
M G Wacek	Appointed March 22, 2010
B D Young	

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

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, subject to changes arising on the adoption of new accounting standards in the year,
- 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 confirm they have complied with the above requirements in preparing the financial statements

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 2006. 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.

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, 2009 of which the auditors are unaware, and
- each director has taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company auditors are aware of that information

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 31, 2010

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 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or

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

(continued)

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Andrew Moore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London
March 31, 2010

PROFIT & LOSS ACCOUNT : TECHNICAL ACCOUNT - GENERAL BUSINESS

FOR THE YEAR ENDED DECEMBER 31, 2009

	Notes	2009 £'000	2008 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	4	31,770	26,995
Outwards reinsurance premiums		(26,738)	(22,561)
Net premiums written		<u>5,032</u>	<u>4,434</u>
Change in the gross provision for unearned premiums		(708)	(230)
Change in the provision for unearned premiums, reinsurers' share		798	355
Change in the net provision for unearned premiums		<u>90</u>	<u>125</u>
Earned premiums, net of reinsurance		5,122	4,559
Allocated investment return transferred from the non-technical account		186	2,299
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		(12,522)	(6,111)
Reinsurers' share		10,018	4,880
Net claims paid		<u>(2,504)</u>	<u>(1,231)</u>
Change in the gross provision for claims		(13,226)	(19,032)
Reinsurers' share		11,656	15,661
Change in the net provision for claims		<u>(1,570)</u>	<u>(3,371)</u>
Claims incurred, net of reinsurance		(4,074)	(4,602)
Net operating expenses	7	(1,562)	(2,496)
Balance on the technical account for general business		<u>(328)</u>	<u>(240)</u>

All operations are continuing

The accompanying notes form an integral part of these financial statements

PROFIT & LOSS ACCOUNT : NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2009

	Notes	2009	2008
		£'000	£'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		(328)	(240)
Investment income	9	411	2,120
Unrealised gains on investments	9	-	265
Unrealised (losses) on investments		(82)	-
Investment expenses and charges	9	(143)	(86)
		<u>186</u>	<u>2,299</u>
Allocated investment return transferred to the general business technical account		(186)	(2,299)
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX		(328)	(240)
Tax (charge) credit on (loss) on ordinary activities	6	(69)	69
(LOSS) ON ORDINARY ACTIVITIES AFTER TAX		(397)	(171)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended December 31, 2009

	2009	2008
	£'000	£'000
Loss for the financial year	(397)	(171)
Currency translation differences	38	(77)
TOTAL RECOGNISED GAINS AND LOSSES	(359)	(248)

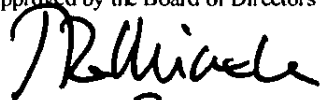
The accompanying notes form an integral part of these financial statements

BALANCE SHEET

AT DECEMBER 31, 2009

		2009	2008
	Notes	£'000	£'000
ASSETS			
Investments			
Financial investments	10	50,095	53,904
Reinsurers' share of technical provisions			
Provision for unearned premiums		11,871	11,189
Claims outstanding		35,322	24,188
Debtors			
Arising out of direct insurance operations, due from intermediaries		7,852	6,657
Other debtors		424	1,176
Other assets			
Cash at bank and in hand		6,278	2,177
Prepayments and accrued income			
Accrued interest and rent		22	78
Deferred acquisition costs		1,826	1,976
Other prepayments and accrued income		68	26
Total assets		113,758	101,371
LIABILITIES			
Capital and reserves			
Called up share capital	11	25,000	25,000
Profit & loss account	12	843	1,202
Total shareholders' funds	13	25,843	26,202
Technical provisions			
Provision for unearned premiums		13,942	13,377
Claims outstanding		42,144	29,566
Creditors			
Arising out of direct insurance operations, due to intermediaries		1,447	799
Arising out of reinsurance operations		157	5,514
Other creditors including taxation and social security		143	469
Amount due to Group undertakings	14	27,358	22,872
Accruals and deferred income			
		2,724	2,572
Total liabilities		113,758	101,371

Approved by the Board of Directors on March 31, 2010



J R F Micklem
Director

The notes on pages 13 to 20 form part of these accounts

The accompanying notes form an integral part of these financial statements

**NOTES TO THE ACCOUNTS
AT DECEMBER 31, 2009****1) BASIS OF PREPARATION**

The financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies and groups and 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

2) REPORTING BASIS

The result for the year is determined on the annual basis of accounting in accordance with UK GAAP

3) ACCOUNTING POLICIES***a) Basis of accounting******Premiums written***

Premiums written 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. Premiums are stated gross of acquisition costs payable, and exclude taxes and duties levied on them

Insurance Contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Group considers significant insurance risk to exist where there is a reasonable possibility of a significant loss arising on the occurrence of an insured event. The Group's insurance products are classified as insurance contracts

The financial statements have been prepared on an annual basis of accounting whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows

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 the basis of established earning patterns or a time apportionment basis as appropriate

Acquisition costs

Acquisition costs which represent commissions and other related expenses, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date

Reinsurance premium ceded

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured

Reinsurance

Contracts entered into by the Group with reinsurers, under which the Group is compensated for losses on one or more contracts issued by the Group 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 Group under which the contract holder is another

NOTES TO THE ACCOUNTS

3) ACCOUNTING POLICIES (continued)

a) Basis of accounting (continued)

Reinsurance (continued)

insurer (inwards reinsurance) are included with insurance contracts, provided there is significant transfer of insurance risk

Claims incurred

Gross 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.

Claims provisions and related reinsurance recoveries

Provision is made 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.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claim has happened. Classes of business where IBNR proportion of the total reserve is high will typically display greater variation between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, 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 create distortion 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 company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods,
- changes in the legal environment,
- the effects of inflation,
- changes in the mix of business,
- changes in underlying terms and conditions,
- the impact of large losses, and
- 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 large 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.

NOTES TO THE ACCOUNTS

3) ACCOUNTING POLICIES (continued)

a) Basis of accounting (continued)

Unexpired risk provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums, after the deduction of any acquisition costs deferred

b) Financial investments

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

c) Investment return

Investment return comprises all investment income, interest receivable and dividends received 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 arise from the difference between proceeds and valuation at the previous year end, or cost if there has been no previous revaluation.

Investment expenses and charges comprise investment management expenses and losses on the realisation of investments. Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price.

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.

Investment income 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 relate to the technical account.

d) Foreign currencies

The UK Pound sterling currency is the functional and presentation currency of the Company.

Income and expenditure 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. 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 are included in the technical account within net operating expenses.

Exchange differences arising from translating the opening balance sheet to closing rates of exchange and the result from average rates of exchange to closing rates of exchange are taken through the balance sheet within shareholders' funds and reflected in the statement of total recognised gains and losses.

e) Net operating expenses

Where expenses are incurred by a Group entity on the administration of the Company, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for

NOTES TO THE ACCOUNTS

3) ACCOUNTING POLICIES (continued)

e) Net operating expenses (continued)

other Group entities and the Company are apportioned between the group entities and the Company depending on the amount of work performed, resources used and the volume of business transacted

f) 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

g) 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.

4) 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. An analysis of the underwriting result before investment return is as follows:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
2009					
<i>Direct insurance</i>					
Third party liability	8,562	8,828	(6,221)	(643)	(2,367)
Motor	21,297	20,444	(18,704)	(729)	(1,091)
Total direct	29,859	29,272	(24,925)	(1,372)	(3,458)
<i>Reinsurance acceptances</i>	1,911	1,790	(823)	(190)	(808)
Total	31,770	31,062	(25,748)	(1,562)	(4,266)

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000
2008					
<i>Direct insurance</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

NOTES TO THE ACCOUNTS

5) MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUSTANDING

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

6) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2009	2008
	£'000	£'000
6 (a) Analysis of charge for the year		
Current tax charge (credit) on (loss) on ordinary activities	-	(69)
Adjustment in respect of prior periods	69	-
Tax charge (credit) on ordinary activities	<u>69</u>	<u>(69)</u>
6 (b) Factors affecting the tax charge		
(Loss) on ordinary activities before tax	<u>(328)</u>	<u>(240)</u>
UK corporation tax at 28.0% (2008 28.5%)	(92)	(69)
Tax losses not recognised	92	-
Adjustment in respect of prior periods	69	-
United Kingdom Corporation Tax	<u>69</u>	<u>(69)</u>

Corporation tax was reduced from 30% to 28% on April 6, 2008 and as a result of this a composite rate of 28.5% was used for calendar year ended December 31, 2008. Additionally, the Company had corporation tax losses in 2008 which were intended to be utilised by other group companies as group relief.

There is an unrecognised deferred tax asset of £92,000 (2008 £Nil) as at the balance sheet date which relates to tax losses. The deferred tax asset has not been recognised as it is not anticipated there will be sufficient taxable profits in the near future within the company to utilise the tax losses.

NOTES TO THE ACCOUNTS

7) NET OPERATING EXPENSES

	2009 £' 000	2008 £' 000
Acquisition costs	4,457	4,024
Change in deferred acquisition costs	143	(153)
Administrative expenses	2,857	3,585
Reinsurers' commissions and profit participations	(5,895)	(4,960)
	<u>1,562</u>	<u>2,496</u>

Total commissions for direct insurance accounted for in the year amounted to £4 1m (2008 £ 3 8m)

Administrative expenses include amounts expended in respect of auditors' remuneration for the provision of the following services

	2009 £' 000	2008 £' 000
Audit	39	37
Other services pursuant to legislation	26	25
	<u>65</u>	<u>62</u>

8) 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 1m has been borne by the Company for these services during 2009 (2008 £2 0m). All employees are employed by Newline Underwriting Management Limited ("NUML").

9) INVESTMENT INCOME

	2009 £'000	2008 £'000
Investment income		
Income from financial investments	<u>411</u>	<u>2,120</u>
	<u>411</u>	<u>2,120</u>
Total investment expenses and charges		
Investment management expenses, including charges	<u>143</u>	<u>86</u>
	<u>143</u>	<u>86</u>
Unrealised gains on investments	-	265
Unrealised (losses) on investments	<u>(82)</u>	<u>-</u>
	<u>(82)</u>	<u>265</u>
Total investment income	<u>186</u>	<u>2,299</u>

NOTES TO THE ACCOUNTS

10) FINANCIAL INVESTMENTS

	2009 £'000	2008 £'000	2009 £'000	2008 £'000
	Market value	Market value	Cost	Cost
Holdings in collective investment schemes	-	2,321	-	2,321
Debt securities and other fixed income securities	50,095	51,583	49,708	51,318
	<u>50,095</u>	<u>53,904</u>	<u>49,708</u>	<u>53,639</u>

11) SHARE CAPITAL

	2009 £	2008 £
Authorised:		
Ordinary shares of £1 each	40,000,000	40,000,000
Called up, allotted and fully paid:		
Ordinary shares of £1 each	25,000,000	25,000,000

12) PROFIT AND LOSS ACCOUNT

	2009 £'000	2008 £'000
Opening balance	1,202	1,450
(Loss) for the year	(397)	(171)
Currency translation differences	38	(77)
Closing balance	<u>843</u>	<u>1,202</u>

13) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUND

	2009 £'000	2008 £'000
Opening shareholders' funds	26,202	26,450
(Loss) for the year	(397)	(171)
Currency translation differences	38	(77)
Closing shareholders' funds	<u>25,843</u>	<u>26,202</u>

NOTES TO THE ACCOUNTS

14) AMOUNTS DUE TO GROUP UNDERTAKINGS

	2009	2008
	£'000	£'000
Inter Company	1,465	1,565
Deposits received from reinsurers'	<u>25,893</u>	<u>21,307</u>
	<u>27,358</u>	<u>22,872</u>

15) PARENT COMPANY

The immediate parent of the Company is Newline Holdings UK Limited ("NHUKL"), a company incorporated in Great Britain. NHUKL is a wholly owned subsidiary of Odyssey America Reinsurance Corp ("OARC") part of the Odyssey Re Group. The ultimate parent is Fairfax Financial Holdings Limited ("Fairfax"), a company incorporated in Canada.

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.

16) 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.