

NEWLINE

UNDERWRITING MANAGEMENT LTD

3223686

REPORT AND ACCOUNTS

DECEMBER 31, 2003



a subsidiary of
Odyssey America Reinsurance Corporation

OdysseyRe

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Registered office as above, Registered in England, Registration no. 3223686

NEWLINE UNDERWRITING MANAGEMENT LIMITED

ANNUAL REPORT AND ACCOUNTS

DECEMBER 31, 2003

Registered No. 3223686

NEWLINE UNDERWRITING MANAGEMENT LIMITED

Directors' Report

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year ended December 31, 2003.

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 £143.75m for the 2003 year of account (2002: £115m). The capacity for the 2004 year of account is £145m.

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. The profit for the period after taxation amounted to £6,995, (2002 £10,775). The Directors consider that both the level of business and the overall financial position at the end of the year were acceptable. No dividends have been paid or proposed during the period.

Directors

The Directors listed below have held office from January 1, 2003 to the date of this report.

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

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

NEWLINE UNDERWRITING MANAGEMENT LIMITED

Directors' Report (continued)

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 D J Reed.

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.

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

28th May, 2004

NEWLINE UNDERWRITING MANAGEMENT LIMITED

Independent auditors' report to the members of Newline Underwriting Management Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 judgements 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.

NEWLINE UNDERWRITING MANAGEMENT LIMITED

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London
SE1 9SY

28 May 2004

NEWLINE UNDERWRITING MANAGEMENT LIMITED

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2003

	Notes	2003 £	2002 £
TURNOVER		-	-
Administrative expenses	1c	(1,647)	(1,000)
Bank interest receivable		8,642	11,775
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		6,995	10,775
Taxation	3	52,715	-
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		59,710	10,775
Dividends		-	-
Retained profit for the year		<u>£ 59,710</u>	<u>£ 10,775</u>

The Company's turnover and expenses all relate to continuing operations. There were no recognised gains or losses during the period other than those passing through the profit and loss account. There is no difference between the retained profit for the year shown above and that on a historical cost basis. The notes on pages 7 to 13 form part of these accounts.

NEWLINE UNDERWRITING MANAGEMENT LIMITED

BALANCE SHEET

DECEMBER 31, 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Tangible assets	5	126,315	195,080
CURRENT ASSETS			
Debtors	6	1,479,088	1,295,453
Cash at bank and in hand		<u>299,439</u>	<u>342,953</u>
		1,778,527	1,638,406
CREDITORS: amounts falling due within one year	8	<u>201,341</u>	<u>189,695</u>
NET CURRENT ASSETS		1,577,186	1,448,711
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,703,501</u>	<u>1,643,791</u>
NET ASSETS		<u>1,703,501</u>	<u>1,643,791</u>
CAPITAL AND RESERVES			
Called up share capital	9	1,723,132	1,723,132
Profit and loss account	10	<u>(19,631)</u>	<u>(79,341)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	10	<u>1,703,501</u>	<u>1,643,791</u>

Approved by the board of directors on 28th May, 2004



T O Lillington
Director

The notes on pages 7 to 13 form part of these accounts.

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS

1. Accounting policies

a) Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with 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 ultimate parent company, Fairfax Financial Holdings Limited, produces consolidated accounts including a cash flow statement.

Change in accounting policy

In preparation of these accounts the company has adopted FRS 5 'Reporting the Substance of Transactions' Application Note G, which is effective for the year ended 31 December 2003.

Previously, profit commissions relating to a syndicate Year of Account have been credited in the year in which such amounts are received; that is, once the Year of Account has been closed.

As a result of adopting FRS 5 Application Note G, profit commissions are now recognised on an earned basis, subject to profit commission only being accrued after the first 12 months of a Year of Account due to the relative uncertainty of its eventual profitability at this time.

There is no impact of this change in accounting policy, either the current or prior year.

b) Turnover

Turnover represents profit commissions receivable from Corporate Members of Lloyd's as set out above.

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 £5,924k (2002: £4,400k) was incurred and recharged to the managed syndicate during the year. In addition, £3,784k (2002: £3,000k) was paid by the Company and recharged to Odyssey America Reinsurance Corporation in relation to salary and other overhead costs.

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

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

Deferred tax is provided for in full on all timing differences. Deferred tax assets are recognised to the extent that it is regarded as more likely than not they will be recovered. Deferred tax is calculated at the rates at which it is expected that the tax liability or benefit will arise. Deferred tax is recognised in the profit and loss account for the period. Deferred tax balances are not discounted.

2. Profit on ordinary activities before taxation

	2003 £	2002 £
Expenses paid by the Agency and recharged to the Syndicate and other group companies included the following:		
Depreciation	127,172	148,505
Audit fees	159,000	148,500
Non-audit fees	77,400	56,100

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

3. Taxation on Profit on ordinary activities

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

	2003	2002
Current tax:	£	£
Current tax on income for the period	-	(815)
Adjustments in respect of prior periods	-	815
Total current tax (note 3(b))	-	-
Deferred tax:		
Origination and reversal of timing differences	(52,715)	-
Tax charge /(credit) for the period	(52,715)	-

Factors affecting the tax charge for the year:

Profit on ordinary activities before tax	<u>6,995</u>	<u>10,775</u>
Profit on ordinary activities multiplied by small business corporate tax in the UK of 30% (2002 19.25%)	2,099	2,074
Expenses not deductible for tax purposes	-	28,599
Capital allowances	-	(16,762)
Capital allowances for the period in excess of depreciation	14,311	-
Group relief at nil consideration	(16,410)	(14,726)
Adjustments to tax charge in respect of previous periods	-	815
Current tax for the period (note 3(a))	-	-

4. Directors' Emoluments

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

	2003	2002
	£	£
Emoluments	881,494	902,300
Contributions to pension schemes	<u>49,356</u>	<u>131,747</u>
Total Emoluments	<u>930,850</u>	<u>1,034,047</u>

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

Emoluments	276,150	202,632
Contributions to pension schemes	0	80,007

During the year the Company made contributions to defined contribution pension schemes on behalf of 4 (2002:5) directors.

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

5. Tangible fixed assets

	Short Leaseholds £	Computer Equipment £	Office Equipment £	Furniture, Fixtures and Fittings £	Motor Cars £	Total £
Cost or valuation:						
1 January 2003	71,263	326,841	64,266	119,901	73,113	655,384
Additions	8,636	4,076	8,904	39,987	-	61,603
Disposals	-	-41,956	-	-	-	-41,956
31 December 2003	79,899	288,961	73,170	159,888	73,113	675,031
Depreciation:						
1 January 2003	24,339	277,607	40,258	78,358	39,742	460,304
Charge for the year	15,794	42,864	23,872	20,271	24,371	127,172
Disposals	-	-38,760	-	-	-	-38,760
31 December 2003	40,133	281,711	64,130	98,629	64,113	548,716
Net book value:						
31 December 2003	39,766	7,250	9,040	61,259	9,000	126,315
31 December 2002	46,924	49,234	24,008	41,543	33,371	195,080

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

6. Debtors

	2003	2002
	£	£
Amount due from Syndicate 1218	910,004	269,939
Amounts due from other group companies	450,587	919,622
Deferred tax asset	52,715	-
Sundry debtors	<u>65,782</u>	<u>105,892</u>
	<u>1,479,088</u>	<u>1,295,453</u>

7. Deferred Tax Asset

	2003	2002
	£	£
Deferred tax asset at start of period	-	-
Movement in the year	<u>52,715</u>	<u>-</u>
Deferred tax asset at end of period	<u>52,715</u>	<u>-</u>

Deferred tax asset relates to the following:

Accelerated capital allowances	<u>52,715</u>	<u>-</u>
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8. Creditors: amounts falling due within one year

	2003	2002
	£	£
Taxation and social security	179,960	164,766
Other Creditors	<u>21,381</u>	<u>24,929</u>
	<u>201,341</u>	<u>189,695</u>

9. Share Capital

	2003	2002
	£	£
Authorised 3,000,000 ordinary shares of £1 each	<u>3,000,000</u>	<u>3,000,000</u>
Allotted, called up and fully paid 1,723,132 (2002: 1,723,132) ordinary shares of £1 each	<u>1,723,132</u>	<u>1,723,132</u>

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

10. Profit and loss account

	2003 £	2002 £
Opening balance	(79,341)	(90,116)
Profit for the year	<u>59,710</u>	<u>10,775</u>
Closing balance	<u>(19,631)</u>	<u>(79,341)</u>

11. Reconciliation of movements in shareholders' funds

	2003 £	2002 £
Opening shareholders' funds	1,643,791	1,633,016
Profit for the year	<u>59,710</u>	<u>10,775</u>
Closing shareholders' funds	<u>1,703,501</u>	<u>1,643,791</u>

12. Employees and staff costs

The average number of employees during the period was:

	2003 Number	2002 Number
Management	7	5
Underwriting	32	31
Claims	6	4
Information technology	4	3
Administration	<u>26</u>	<u>27</u>
	<u>75</u>	<u>70</u>

The employment costs for the period were:

	2003 £	2002 £
Salaries	5,045,059	4,496,779
Social security costs	522,065	478,216
Pension costs	<u>404,099</u>	<u>469,576</u>
	<u>5,971,223</u>	<u>5,444,571</u>

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

13. Related party transactions

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

14. Parent Undertakings

The immediate parent is Newline Holdings UK Limited ("NHUKL"), a company incorporated in Great Britain. NHUKL is a wholly owned subsidiary of Odyssey America Reinsurance Corp. part of the Odyssey Re Group which was 80.6% owned by Fairfax Financial Holdings Limited ("Fairfax") of Canada at December 31, 2003.

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