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3223686

NEWLINE

UNDERWRITING MANAGEMENT LTD

**REPORT AND ACCOUNTS**  
*DECEMBER 31, 2007*

THURSDAY



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**COMPANY INFORMATION**  
*AT DECEMBER 31, 2007*

Incorporated in England

Number 3223686

**DIRECTORS**

A A Barnard  
R S Donovan  
S T Fradd  
S L Gordon  
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, 2007*

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year ended December 31, 2007

**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 £85m for the 2007 year of account (2006 £100m) The capacity for the 2008 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 investment income on cash balances and UK treasury bills held plus profit commission due from Syndicate 1218. From the 2006 year of account onwards no profit commission has been charged to Syndicate 1218. The profit for the period after taxation amounted to £3,096,823 (2006: £1,605,467). 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.

**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. Accordingly, the principal risks and uncertainties of the group, which include those of the Company, are discussed on page 5 of the annual report of Newline Holdings UK Ltd which does not form part of this report.

**KEY PERFORMANCE INDICATORS ("KPIs")**

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

**DIRECTORS**

The Directors listed below have held office from January 1, 2007 to the date of this report unless otherwise stated.

A A Barnard  
R S Donovan  
S T Fradd  
S L Gordon  
R B Kastner (appointed 31/07/2007)  
T O Lillington (resigned 17/10/2007)  
C A Overy (appointed 31/07/2007)  
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, 2007 of which the auditors are unaware, and
- the director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

### **ELECTIVE RESOLUTION**

An election is in force dispensing with the requirement to lay these financial statements before the Company in general meeting. However, Members have the right by giving notice to the Company, to require the financial statements to be laid before a general meeting.

### **AUDITORS**

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

On behalf of the Board



**J R F Micklem**  
*Director*  
May 29, 2008

**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 31<sup>st</sup> December 2007 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 2007 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 UK*

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London  
May 29, 2008

## PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2007

	Notes	2007 £	2006 £
<b>TURNOVER</b>		4,196,853	2,303,025
Operating expenses	1c	(1,011)	(1,000)
<b>OPERATING PROFIT</b>		<u>4,195,842</u>	<u>2,302,025</u>
Interest receivable		243,260	15,271
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>4,439,102</u>	<u>2,317,296</u>
Taxation on profit on ordinary activities	3	<u>(1,342,279)</u>	<u>(711,829)</u>
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<u><u>3,096,823</u></u>	<u><u>1,605,467</u></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 8 to 13 form part of these accounts.

# NEWLINE

UNDERWRITING MANAGEMENT LTD

## BALANCE SHEET AT DECEMBER 31, 2007

	Notes	2007 £	2006 £
<b>FIXED ASSETS</b>			
Tangible assets	5	95,167	171,312
<b>CURRENT ASSETS</b>			
Investments		8,685,701	-
Debtors:			
amounts falling due after one year		39,390	2,198,530
amounts falling due within one year		8,498,804	5,796,101
	6	<u>8,538,194</u>	<u>7,994,631</u>
Cash at bank and in hand		<u>4,672,552</u>	<u>5,707,775</u>
		21,896,447	13,702,406
<b>CREDITORS</b> amounts falling due within one year	8	<u>5,989,572</u>	<u>968,499</u>
<b>NET CURRENT ASSETS</b>		15,906,875	12,733,907
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>16,002,042</u>	<u>12,905,219</u>
<b>NET ASSETS</b>		<u>16,002,042</u>	<u>12,905,219</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	9	1,723,132	1,723,132
Profit and loss account	10	<u>14,278,910</u>	<u>11,182,087</u>
<b>TOTAL SHAREHOLDERS' FUNDS</b>	11	<u>16,002,042</u>	<u>12,905,219</u>

Approved by the board of directors on May 29, 2008



J R F Micklem  
Director

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



## NOTES TO THE ACCOUNTS

AT DECEMBER 31, 2007

### 1) ACCOUNTING POLICIES

#### *a) Basis of accounting*

These financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards

The Company has taken advantage of the exemption from preparing a cash flow statement conferred by Financial Reporting Standard No 1 on the grounds that it is a wholly owned subsidiary and the parent company, Odyssey America Reinsurance Corporation, produces consolidated accounts including a group cash flow statement.

#### *b) Turnover*

Turnover represents profit commissions receivable from managed syndicate 1218 Profit commissions are recognised on an earned basis

#### *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 recharged to this and other related companies in relation to salary and other overhead costs is as follows the managed syndicate £7,862k (2006 £7,260k), Odyssey America Reinsurance Corporation £3,804k (2006 £3,686k), Newline Insurance Company Limited £712k (2006 £77k)

#### *d) Depreciation*

Depreciation of tangible fixed assets is calculated by reference to cost at rates estimated to write off the relevant assets over their expected useful lives, taking into account normal commercial and technical obsolescence

The annual rates used are.

Computer equipment	33 33% on cost
Office equipment	33 33% on cost
Furniture, fixtures & fittings	20 00% on cost
Leasehold property improvements	Over term of lease
Motor Cars	33 33% on cost

#### *e) Deferred taxation*

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account Deferred tax is calculated at the rates at which it is expected that the tax will arise

Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses Deferred tax balances are not discounted

## NOTES TO THE ACCOUNTS (CONTINUED)

### 2) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2007 £	2006 £
Profit on ordinary activities before taxation is stated after charging the following:		
Audit fees	<u>1,000</u>	<u>1,000</u>

### 3) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

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

	2007 £	2006 £
Current Tax:		
Current tax for the period	<u>1,343,557</u>	<u>707,030</u>
Deferred tax:		
Origination and reversal of timing differences	<u>(1,278)</u>	<u>4,799</u>
Tax charge / (credit) for the period	<u>(1,278)</u>	<u>4,799</u>
Total tax charge for the period	<u>1,342,279</u>	<u>711,829</u>

#### b) Factors affecting the tax charge for the year:

Profit on ordinary activities before tax	<u>4,439,102</u>	<u>2,317,296</u>
Profit on ordinary activities multiplied by small business corporate tax in the UK of 30% (2006 30%)	<u>1,331,731</u>	<u>695,189</u>
Capital allowances for the period in excess of depreciation	<u>11,826</u>	<u>11,841</u>
Current tax for the period (note 3 (a))	<u>1,343,557</u>	<u>707,030</u>

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 4) DIRECTORS' EMOLUMENTS

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

	2007	2006
	£	£
Emoluments	1,141,201	888,024
Contributions to pension schemes	51,187	43,143
Total Emoluments	<u>1,192,388</u>	<u>931,167</u>

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

Emoluments	470,304	364,100
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During the year the Company made contributions to defined contribution pension schemes on behalf of 5 (2006 3) directors.

### 5) TANGIBLE FIXED ASSETS

	Short Leaseholds £	Computer Equipment £	Office Equipment £	Furniture, Fixtures & Fittings £	Motor Cars £	Total £
<b>Cost:</b>						
January 01, 2007	247,074	84,286	101,211	259,319	40,000	731,890
Additions	-	4,250	-	15,037	-	19,287
Disposals	-	-	-	-	-	-
December 31, 2007	<u>247,074</u>	<u>88,536</u>	<u>101,211</u>	<u>274,356</u>	<u>40,000</u>	<u>751,177</u>
<b>Depreciation:</b>						
January 01, 2007	178,477	75,751	86,659	206,357	13,334	560,578
Charge for the year	35,162	8,534	7,512	30,891	13,333	95,432
Disposals	-	-	-	-	-	-
December 31, 2007	<u>213,639</u>	<u>84,285</u>	<u>94,171</u>	<u>237,248</u>	<u>26,667</u>	<u>656,010</u>
<b>Net book value:</b>						
December 31, 2007	<u>33,435</u>	<u>4,251</u>	<u>7,040</u>	<u>37,108</u>	<u>13,333</u>	<u>95,167</u>
December 31, 2006	<u>68,597</u>	<u>8,535</u>	<u>14,552</u>	<u>52,962</u>	<u>26,666</u>	<u>171,312</u>

## NOTES TO THE ACCOUNTS (CONTINUED)

### 6) DEBTORS

	2007	2006
	£	£
Profit commission due from Syndicate 1218	6,357,271	6,520,844
Other amounts due from Syndicate 1218	884,676	743,593
Amounts due from other group companies	1,150,992	610,419
Deferred tax asset	39,390	38,112
Sundry debtors	105,865	81,663
	<u>8,538,194</u>	<u>7,994,631</u>
Amounts falling due after more than one year included above are:		
Profit commission due from Syndicate 1218	-	2,160,418
Deferred tax asset	39,390	38,112
	<u>39,390</u>	<u>2,198,530</u>

### 7) DEFERRED TAX ASSET

	2007	2006
	£	£
Deferred tax asset at start of period	38,112	42,911
Movement in the year	1,278	(4,799)
Deferred tax asset at end of period	<u>39,390</u>	<u>38,112</u>
Deferred tax asset relates to the following		
Accelerated capital allowances	<u>39,390</u>	<u>38,112</u>

### 8) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007	2006
	£	£
Taxation and social security	1,546,149	787,129
Amounts due to other group companies	16,011	19,057
Amounts payable for securities purchased	4,354,181	-
Other creditors	73,231	162,313
	<u>5,989,572</u>	<u>968,499</u>

**NOTES TO THE ACCOUNTS**  
(CONTINUED)

**9) SHARE CAPITAL**

	2007 £	2006 £
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 2007: 1,723,132 (2006 1,723,132) ordinary shares of £1 each	<u>1,723,132</u>	<u>1,723,132</u>

**10) PROFIT AND LOSS ACCOUNT**

	2007 £	2006 £
Opening balance	11,182,087	9,576,620
Profit for the year	<u>3,096,823</u>	<u>1,605,467</u>
Closing balance	<u>14,278,910</u>	<u>11,182,087</u>

**11) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	2007 £	2006 £
Opening shareholders' funds	12,905,219	11,299,752
Profit for the year	<u>3,096,823</u>	<u>1,605,467</u>
Closing shareholders' funds	<u>16,002,042</u>	<u>12,905,219</u>

## NOTES TO THE ACCOUNTS (CONTINUED)

### 12) EMPLOYEES AND STAFF COSTS

The average number of employees during the period was

	2007 Number	2006 Number
Management	6	7
Underwriting	34	34
Claims	9	8
Information technology	4	4
Administration	27	26
	<u>80</u>	<u>79</u>

The employment costs for the period were:

	2007 £	2006 £
Salaries	6,062,248	5,318,414
Social security costs	699,040	614,174
Pension costs	476,219	436,197
	<u>7,237,507</u>	<u>6,368,785</u>

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

### 13) RELATED PARTY TRANSACTIONS

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

### 14) PARENT UNDERTAKINGS

The immediate parent is Newline Holdings UK Limited ("NHUKL"), a company incorporated in Great Britain. NHUKL is a wholly owned subsidiary of Odyssey America Reinsurance Corp part of the Odyssey Re Group which was 60.66% owned by Fairfax Financial Holdings Limited ("Fairfax") of Canada at December 31, 2007.

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