NEWLINE

UNDERWRITING MANAGEMENT LTD

REPORT AND ACCOUNTS

DECEMBER 31, 2010

NEWLINE

UNDERWRITING MANAGEMENT LTD

CONTENTS

NEWLINE
UNDERWRITING MANAGEMENT LTD

COMPANY INFORMATION
AT DECEMBER 31, 2010

Incorporated in England

Number 3223686

DIRECTORS	P T Foley S T Fradd S Kapur R B Kastner J R F Micklem C A Overy J W J Spencer B D Young J Christiansen M G Wacek
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 Chartered Accountants and Statutory Auditors Hay's Galleria 1 Hay's Lane London SE1 2RD

NEWLINE

UNDERWRITING MANAGEMENT LTD

DIRECTORS' REPORT

AT DECEMBER 31, 2010

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year ended December 31, 2010

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 £95m for the 2010 year of account (2009 £80m) The capacity for the 2011 year of account is £105m

The Company also provides management services to other group companies, primarily the London branch of Odyssey Reinsurance Company (formerly known as Odyssey America Reinsurance Corp)

RESULTS AND BUSINESS REVIEW

The Company does not charge a fee for managing the syndicate or for providing management services to other group companies Therefore the only income during the year has been the reimbursement of expenses incurred on behalf of other group companies, and investment income on cash balances and UK treasury bills held The profit for the period amounted to £84,490 (2009 £89 loss) The Directors consider that both the level of business and the overall financial position at the end of the year were acceptable No dividends have been paid or proposed during the period

FUTURE OUTLOOK

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

PRINCIPAL RISKS AND UNCERTAINTIES

The process of risk identification 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

Credit risk

Credit risk is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion The key area where the Company is exposed to credit risk is with the reimbursement of expenses from related companies Intercompany balances are monitored monthly, and settled on a quarterly basis

Liquidity risk

Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due The duration of the investment portfolio will be managed to approximate the Company's liabilities, and cash flow is regularly monitored

Operation risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events other than those covered above Many of the operational risks faced by the Company are the same as the Syndicate which 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 ("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, 2010 to the date of this report unless otherwise stated

A A Barnard (resigned 26 March 2010)
R S Donovan (resigned 1 April 2010)
P T Foley
S T Fradd
S Kapur (appointed 21 March 2011)
R B Kastner
J R F Micklem
C A Overy
J W J Spencer (appointed 22 March 2010)
B D Young
J Christiansen (appointed 31 March 2010)
M G Wacek (appointed 22 March 2010)

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

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, 2010 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

NEWLINE

UNDERWRITING MANAGEMENT LTD

DIRECTORS' REPORT
(CONTINUED)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements 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

The directors confirm they have complied with the above requirements in preparing the financial statements

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, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office A resolution proposing their reappointment will be submitted at the annual general meeting

Approved on behalf of the Board

J R F Micklem
Director
6 May 2011

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 December 2010 which comprise the Profit and Loss Account, the Balance Sheet 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 5 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 and express an opinion on 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 2010 and of its profit 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
- 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

Andrew Moore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 May 2011

NEWLINE
UNDERWRITING MANAGEMENT LTD

PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2010

	Notes	2010 £	2009 £
Turnover	1b	**16,038,632**	15,208,511
Operating expenses		**(16,073,561)**	(15,232,702)
OPERATING LOSS	3	**(34,929)**	(24,191)
Interest receivable and similar income	1g	**46,766**	60,261
Unrealised gains on investments	1g	**7,699**	-
Interest payable and similar charges	1g	**(33,269)**	(41,398)
(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		**(13,733)**	(5,328)
Tax on loss on ordinary activities	4	**98,223**	5,239
PROFIT / (LOSS) FOR THE YEAR		**84,490**	(89)

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

The notes on pages 9 to 17 form part of these accounts

NEWLINE
UNDERWRITING MANAGEMENT LTD

BALANCE SHEET
AT DECEMBER 31, 2010
Company number - 3223686

	Notes	**2010**	2009
		£	£
FIXED ASSETS			
Tangible assets	8	**227,378**	115,857
CURRENT ASSETS			
Debtors	9	**4,032,776**	2,609,899
Investments	1f, 13	**9,146,508**	12,776,640
Cash at bank and in hand		**3,824,614**	2,709,706
		17,003,898	18,096,245
CREDITORS amounts falling due within one year	11	**898,191**	1,963,507
NET CURRENT ASSETS		**16,105,707**	16,132,738
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,333,085**	16,248,595
NET ASSETS		**16,333,085**	16,248,595
CAPITAL AND RESERVES			
Called up share capital	14	**1,723,132**	1,723,132
Profit and loss account	15	**14,609,953**	14,525,463
TOTAL SHAREHOLDERS' FUNDS	16	**16,333,085**	16,248,595

Approved on behalf of the board of directors on 6 May 2011

J R F Micklem
Director

The notes on pages 9 to 17 form part of these accounts

NOTES TO THE ACCOUNTS
AT DECEMBER 31, 2010

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 2006 and applicable accounting standards in the United Kingdom

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
The Company's turnover consists of the reimbursement of expenses from other group undertakings recharged to them in accordance with intercompany agreements

c) Depreciation
Depreciation of tangible fixed assets is calculated using the straight line half-year convention method 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, fittings & equipment	20 00% on cost
Leasehold property improvements	20 00% on cost

d) 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

e) Stock based compensation plans

Prior to 22nd October 2009, Odyssey Re Holdings Corp (ORH), of which the Company is a subsidiary, operated a restricted share plan, which provided for the grant of restricted shares of common stock to employees On 21st October 2009 Fairfax became the sole shareholder of ORH, and the plan was revised to a Restricted Share and Equity Value plan Under this plan, each Restricted Equity Value Right (REVR) has a fair value equal to the total shareholders' equity of ORH attributable to the common equity as of the last day of the most recent completed quarter, divided by 58,443,149 (which is the number of common shares outstanding as at 30th September 2009) Upon vesting, the participant automatically receives a single sum cash payment equal to the REVR value, less any applicable withholding taxes The fair value of REVRs is amortised to compensation expense on a straight line basis over their related vesting period The fair value of any REVRs granted at the start of the scheme will not change for the purposes of the amortisation charge borne by the Company, and any additional costs arising from revisions in the book value is reflected in the accounts of ORH, to recognise that any appreciation in the award value is driven by events outside the normal operating activities of the Company

NOTES TO THE ACCOUNTS
(CONTINUED)

1) ACCOUNTING POLICIES (CONTINUED)

f) 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

g) Investment return

Investment receivable and other similar income comprises all investment income, interest receivable and dividends received plus realised gains and losses on the disposal of investments 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 include 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, the valuation at the previous balance sheet date

2) TURNOVER

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

	2010	2009
	£	£
Syndicate 1218	**8,940,472**	8,725,491
Syndicate 1218 (Newline Asia)	**663,438**	415,102
Odyssey America Reinsurance Corporation	**3,289,523**	3,748,956
Newline Insurance Company Limited	**2,829,132**	2,067,528
Newline Corporate Name Limited	**310,714**	246,026
Newline Holdings UK Limited	**2,065**	2,042
Newline Underwriting Limited	**3,032**	3,366
Newline Asia	**256**	-
	16,038,632	15,208,511

3) OPERATING LOSS

	2010	2009
	£	£
Operating loss is stated after charging		
Depreciation of tangible fixed assets		
- owned assets	**66,034**	46,322
Services provided by the Company's auditor		
Fees payable for the audit	**10,000**	12,050

NOTES TO THE ACCOUNTS
(CONTINUED)

4) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

a) Analysis of charge for the period

	2010 £	2009 £
Current tax		
Current tax for the period	-	-
Adjustments in respect of prior periods	(96,541)	(7,088)
Total current tax credit	(96,541)	(7,088)
Deferred tax		
Deferred tax for the period	(1,682)	1,849
Total deferred tax credit	(1,682)	(5,239)
Total tax credit for the period	(98,223)	(5,239)

b) Factors affecting the tax charge for the year.

	2010 £	2009 £
Profit / (Loss) on ordinary activities before tax	(13,733)	(5,328)
Profit / (Loss) on ordinary activities multiplied by corporate tax rate in the UK of 28%	(3,845)	(1,492)
Effects of		
Adjustments to tax charge in respect of previous period	(96,541)	(7,088)
Current year tax losses not relieved and carried forward	3,845	1,492
Current tax charge for the period (note 4(a))	(96,541)	(7,088)

NOTES TO THE ACCOUNTS
(CONTINUED)

5) EMPLOYEES AND STAFF COSTS

The average number of employees during the period was:

	2010 Number	2009 Number
Management	**6**	6
Underwriting	**43**	42
Claims	**13**	10
Information technology	**5**	4
Administration	**32**	32
	99	94

The employment costs for the period were

	2010 £	2009 £
Salaries	**7,869,801**	7,312,236
Social security costs	**1,079,684**	1,043,320
Pension costs	**694,535**	583,169
	9,644,020	8,938,725

Pension costs represent the Company's contributions to a Group Personal Pension Plan, which is on a defined contribution basis and maintained by Scottish Widows Employees may, but are not obliged to, contribute to the scheme The Company's contributions are paid one month in arrears, with an outstanding liability as at 31st December 2010 of £128,483 (31st December 2009 £61,083)

6) RESTRICTED STOCK PAYMENTS

Restricted Equity Value Rights

The fair value of new and existing awards is amortised to compensation expense on a straight line basis over the related vesting periods No REVRs were granted during 2010 other than the initial awards

Restricted Equity Value Rights (continued)

The following table summarises the REVR activity in 2010

	No of REVR units	Weighted average price (£)
REVR units awarded as of 31st December 2009	44,214	36 85
Granted	14,621	38 04
Vested	(31,672)	38 07
Forfeited	(2,437)	39 69
REVR units outstanding as of 31st December 2010	24,726	31 90

NOTES TO THE ACCOUNTS
(CONTINUED)

6) RESTRICTED STOCK PAYMENTS (CONTINUED)

The Company's measurement of the fair value of the REVRs granted at the start of the scheme will not change for the purposes of the amortisation charge borne by the Company, and any additional costs arising from revisions in book value per REVR is reflected in the accounts of Odyssey Re Holdings Corp This is in order to recognise that any appreciation in the award value is driven by events outside the normal operational activities of Newline Underwriting Management Limited

The charge to Newline Underwriting Management Limited during the year 2010 was £442,682

As at 31st December the outstanding liability to Newline Underwriting Management Limited was £nil, with a weighted average remaining life of 14 months The liability in respect of the scheme is shown in the financial statements of the individual entities to which the liability relates as follows, Syndicate 1218 (£151,465), Newline Insurance Company Limited (£26,729) and Odyssey America Reinsurance Corp (£23,373) Prior to the inception of the REVR scheme, the Company had no outstanding liabilities for restricted stock payments as all such liabilities were recognised in the accounts of Odyssey Re Holdings Corp

Any liability between Newline Underwriting Management Limited and OdysseyRe Holdings Corp is settled on a quarterly basis Therefore there is no long term obligation between the companies

7) DIRECTORS' EMOLUMENTS

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

	2010	2009
	£	£
Emoluments	**1,173,862**	819,988
Contributions to pension schemes	**81,191**	65,562
Total Emoluments	**1,255,053**	885,550

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

Emoluments	**443,481**	323,532

During the year the Company made contributions to defined contribution pension schemes on behalf of 4 (2009 5) directors Refer to note 5 for further details

NOTES TO THE ACCOUNTS
(CONTINUED)

8) TANGIBLE FIXED ASSETS

	Leasehold Improvements	Computer Equipment	Office Equipment	Fixtures, Fittings and Equipment	Total
	£	£	£	£	£
Cost:					
January 1, 2010	285,704	49,545	92,552	361,121	788,922
Additions	-	121,367	-	56,188	177,555
December 31, 2010	**285,704**	**170,912**	**92,552**	**417,309**	**966,477**
Depreciation:					
January 1, 2010	257,505	33,582	83,203	298,775	673,065
Charge for the year	7,726	25,389	4,675	28,244	66,034
December 31, 2010	**265,231**	**58,971**	**87,878**	**327,019**	**739,099**
Net book value:					
January 1, 2010	28,199	15,963	9,349	62,346	115,857
December 31, 2010	**20,473**	**111,941**	**4,674**	**90,290**	**227,378**

9) DEBTORS

	2010	2009
	£	£
Amounts owed by group undertakings	**3,681,895**	2,530,489
Deferred tax asset	**12,515**	10,833
Sundry debtors	**338,366**	68,577
	4,032,776	2,609,899

Amounts falling due after more than one year included in the above are

Deferred tax asset	**12,515**	10,833

NOTES TO THE ACCOUNTS
(CONTINUED)

10) DEFERRED TAX ASSET

	2010 £	2009 £
Deferred tax at start of period	**10,833**	12,682
Movement in the year	**1,682**	(1,849)
Deferred tax asset at end of period	**12,515**	10,833

Deferred tax asset relates to the following

	2010 £	2009 £
Accelerated capital allowances	**(15,837)**	2,861
Trade losses c/fwd	**28,352**	7,972
Total deferred tax asset	**12,515**	10,833

11) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £	2009 £
Bank loans and overdraft	**339,116**	213,928
Taxation and social security	**239,110**	324,969
Amounts due to group undertakings	**-**	1,208,768
Other creditors	**319,965**	215,842
	898,191	1,963,507

12) INVESTMENT INCOME

	2010 £	2009 £
Income receivable and similar income		
Income received and receivable from financial investments	**46,766**	60,261
Unrealised gains on investments	**7,699**	-
	54,465	60,261
Interest payable and similar charges		
Investment management expenses, including charges	**(33,269)**	(41,398)

NOTES TO THE ACCOUNTS
(CONTINUED)

13) INVESTMENTS

	2010 £ Market value	2009 £ Market value	2010 £ Cost	2009 £ Cost
Debt securities and other fixed income securities	**9,146,508**	12,776,640	**9,138,809**	12,769,225

14) SHARE CAPITAL

	2010 £	2009 £
Authorised		
3,000,000 ordinary shares of £1 each	**3,000,000**	3,000,000
Allotted, called up and fully paid		
2010 1,723,132 (2009 1,723,132) ordinary shares of £1 each	**1,723,132**	1,723,132

15) PROFIT AND LOSS ACCOUNT

	2010 £	2009 £
Opening balance	**14,525,463**	14,525,552
Profit / (loss) for the year	**84,490**	(89)
Closing balance	**14,609,953**	14,525,463

16) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2010 £	2009 £
Opening shareholders' funds	**16,248,595**	16,248,684
Profit / (loss) for the year	**84,490**	(89)
Closing shareholders' funds	**16,333,085**	16,248,595

17) 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

NOTES TO THE ACCOUNTS
(CONTINUED)

18) ULTIMATE CONTROLLING PARTY

The immediate parent is Newline Holdings UK Limited ("NHUKL"), a company incorporated in Great Britain NHUKL is a wholly owned subsidiary of Odyssey Reinsurance Company (formerly known as Odyssey America Reinsurance Corp), part of the Odyssey Re Group which was 100% owned by Fairfax Financial Holdings Limited ("Fairfax") of Canada at December 31, 2010 Fairfax is the ultimate parent company

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