

NEWLINE UNDERWRITING MANAGEMENT LIMITED

ANNUAL REPORT AND ACCOUNTS

DECEMBER 31, 2002

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, 2002.

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 £115m for the 2002 year of account (2001: £100m). The capacity for the 2003 year of account is £115m.

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 £10,775, (2001 loss £50,850). 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, 2002 to the date of this report unless otherwise stated.

NAME	DATE OF APPOINTMENT	DATE OF RESIGNATION
A A Barnard		
S T Fradd		
S L Gordon		
T O Lillington	February 14, 2002	
J R F Micklem		
D J Newman		January 31, 2002
D J Reed	February 25, 2002	
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;
- 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

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from January 1, 2003, PricewaterhouseCoopers resigned on February 27, 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the annual general meeting.

On behalf of the Board



T O Lillington

Director

May 30, 2003

NEWLINE UNDERWRITING MANAGEMENT LIMITED

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

We have audited the financial statements on pages 5 to 13 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

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 on page 2.

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.

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 at 31st December 2002 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

May 30, 2003

NEWLINE UNDERWRITING MANAGEMENT LIMITED

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2002

	Notes	2002 £	2001 £
TURNOVER		-	-
Administrative expenses	1c	<u>(1,000)</u>	<u>(64,823)</u>
Operating result		(1,000)	(64,823)
Bank interest receivable		<u>11,775</u>	<u>13,973</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		10,775	(50,850)
Taxation	3	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		10,775	(50,850)
Dividends		-	-
Retained loss for the year		<u>£ 10,775</u>	<u>£ (50,850)</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 loss for the year shown above and that on a historical cost basis. The notes on pages 7 to 12 form part of these accounts.

NEWLINE UNDERWRITING MANAGEMENT LIMITED

BALANCE SHEET

DECEMBER 31, 2002

	Notes	2002 £	2001 £
FIXED ASSETS			
Tangible assets	5	195,080	229,718
CURRENT ASSETS			
Debtors	6	1,295,453	1,335,531
Cash at bank and in hand		<u>342,953</u>	<u>307,304</u>
		1,638,406	1,642,835
CREDITORS: amounts falling due within one year	7	<u>189,695</u>	<u>239,537</u>
NET CURRENT ASSETS		1,448,711	1,403,298
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,643,791</u>	<u>1,633,016</u>
NET ASSETS		<u>1,643,791</u>	<u>1,633,016</u>
CAPITAL AND RESERVES			
Called up share capital	8	1,723,132	1,723,132
Profit and loss account	9	<u>(79,341)</u>	<u>(90,116)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	10	<u>1,643,791</u>	<u>1,633,016</u>

Approved by the board of directors on May 30, 2003



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 cashflow statement.

b) Turnover

Turnover represents profit commissions derived from Corporate Members of Lloyd's. Underwriting profit commissions will be credited in the year in which such amounts are received.

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 £4,400k (2001: £5,000k) was incurred and recharged to the managed syndicate during the year. In addition, £3,000k (2001: £2,200k) was paid by the Company and recharged to Odyssey America Reinsurance Corporation in relation to salary and other overhead costs.

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

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

2. Profit/loss on ordinary activities before taxation

	2002	2001
	£	£
Expenses paid by the Agency and recharged to the Syndicate, included the following:		
Auditors' remuneration	-	1,000
Depreciation	148,505	141,552
Loss on disposal of fixed assets	-	823

3. Taxation on Profit/Loss on ordinary activities

	2002	2001
	£	£
UK corporation tax @ 19.25% (2001 20%)		
Current tax on income for the period	13,911	704
Adjustments in respect of prior periods	815	(704)
Tax relief in respect of other group companies	<u>(14,726)</u>	<u>-</u>
	<u>-</u>	<u>-</u>

Factors affecting the tax charge for the year:

Profit /(loss) on ordinary activities before tax	<u>10,775</u>	<u>(50,850)</u>
Profit /(loss) on ordinary activities multiplied by small business corporate tax in the UK of 19.25% (2001 20%)	2,074	(10,170)
Expenses not deductible for tax purposes	28,599	28,475
Capital allowances	(16,762)	(17,601)
Adjustments to tax charge in respect of previous years	815	(704)
Tax relief in respect of other group companies	<u>(14,726)</u>	<u>-</u>
Current tax charge for the year	<u>-</u>	<u>-</u>

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

4. Directors' Emoluments

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

	2002	2001
	£	£
Emoluments	902,300	614,296
Contributions to pension schemes	<u>131,747</u>	<u>44,192</u>
Total Emoluments	<u>1,034,047</u>	<u>658,488</u>

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

Emoluments	202,632	286,148
Contributions to pension schemes	80,007	18,500

During the year the Company made contributions to defined contribution pension schemes on behalf of 5 (2001:3) 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 2002	50,428	303,901	54,952	86,123	46,113	541,517
Additions	20,835	22,940	9,314	33,778	27,000	113,867
31 December 2002	71,263	326,841	64,266	119,901	73,113	655,384
Depreciation:						
1 January 2002	10,086	203,611	19,354	63,377	15,371	311,799
Charge for the year	14,253	73,996	20,904	14,981	24,371	148,505
31 December 2002	24,339	277,607	40,258	78,358	39,742	460,304
Net book value:						
31 December 2002	46,924	49,234	24,008	41,543	33,371	195,080
31 December 2001	40,342	100,290	35,598	22,746	30,742	229,718

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

6. Debtors

	2002	2001
	£	£
Amount due from Syndicate 1218	269,939	598,021
Amounts due from other group companies	919,622	671,640
Sundry debtors	<u>105,892</u>	<u>65,870</u>
	<u>1,295,453</u>	<u>1,335,531</u>

7. Creditors: amounts falling due within one year

	2002	2001
	£	£
Taxation and social security	164,766	179,814
Other Creditors	<u>24,929</u>	<u>59,723</u>
	<u>189,695</u>	<u>239,537</u>

8. Share Capital

	2002	2001
	£	£
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 (2001: 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)

9. Profit and loss account

	2002	2001
	£	£
Opening balance	(90,116)	(39,266)
Profit/(loss) for the year	<u>10,775</u>	<u>(50,850)</u>
Closing balance	<u>(79,341)</u>	<u>(90,116)</u>

10. Reconciliation of movements in shareholders' funds

	2002	2001
	£	£
Opening shareholders' funds	1,633,016	1,683,866
Profit/(loss) for the year	<u>10,775</u>	<u>(50,850)</u>
Closing shareholders' funds	<u>1,643,791</u>	<u>1,633,016</u>

11. Employees and staff costs

The average number of employees during the period was:

	2002	2001
	Number	Number
Management	5	5
Underwriting	31	22
Claims	4	4
Information technology	3	4
Administration	<u>27</u>	<u>20</u>
	<u>70</u>	<u>55</u>

The employment costs for the period were:

	2002	2001
	£	£
Salaries	4,496,779	3,047,126
Social security costs	478,216	350,419
Pension costs	<u>469,576</u>	<u>277,713</u>
	<u>5,444,571</u>	<u>3,675,258</u>

NEWLINE UNDERWRITING MANAGEMENT LIMITED

NOTES TO THE ACCOUNTS (continued)

12. 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.

13. 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 74% owned by Fairfax Financial Holdings Limited ("Fairfax") of Canada at December 31, 2002. On March 4, 2003 Fairfax increased its ownership to 80.6%.

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