

NEWLINE

UNDERWRITING MANAGEMENT LTD

REPORT AND ACCOUNTS

DECEMBER 31, 2004



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COMPANY INFORMATION

AT DECEMBER 31, 2004

Incorporated in England

Number 3223686

DIRECTORS

A A Barnard
S T Fradd
S L Gordon
T O Lillington
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
Southwark Towers
32 London Bridge Street
London
SE1 9SY

DIRECTORS' REPORT*AT DECEMBER 31, 2004*

The Directors have pleasure in submitting the Annual Report and Accounts of the Company for the year ended December 31, 2004.

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 £145m for the 2004 year of account (2003: £143.75m). The capacity for the 2005 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 and profit commission due from Syndicate 1218. The profit for the period after taxation amounted to £3,917,149 (2003 £59,710). 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, 2004 to the date of this report unless otherwise stated.

A A Barnard	
S T Fradd	
S L Gordon	
T O Lillington	
J R F Micklem	
D J Reed	Resigned October 8, 2004
C D Troiano	Resigned April 21, 2005
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.

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

31st May, 2005

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 director's 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.

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31st December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

31st May 2005

PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2004

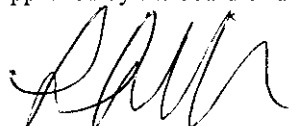
	Notes	2004 £	2003 £
TURNOVER		3,913,974	-
Operating expenses	1c	(1,000)	(1,647)
OPERATING PROFIT		<u>3,912,974</u>	<u>(1,647)</u>
Interest receivable		10,685	8,642
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>3,923,659</u>	<u>6,995</u>
Taxation on profit on ordinary activities	3	(6,510)	52,715
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		3,917,149	59,710
Dividends		-	-
RETAINED PROFIT FOR THE YEAR		<u>3,917,149</u>	<u>59,710</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.

BALANCE SHEET AT DECEMBER 31, 2004

	Notes	2004 £	2003 £
FIXED ASSETS			
Tangible assets	5	332,765	126,315
CURRENT ASSETS			
Debtors:	6		
amounts falling due after one year		3,960,179	52,715
amounts falling due within one year		1,393,507	1,426,373
		<u>5,353,686</u>	<u>1,479,088</u>
Cash at bank and in hand		<u>184,173</u>	<u>299,439</u>
		5,537,859	1,778,527
CREDITORS: amounts falling due within one year	8	<u>249,974</u>	<u>201,341</u>
NET CURRENT ASSETS		5,287,885	1,577,186
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,620,650</u>	<u>1,703,501</u>
NET ASSETS		<u>5,620,650</u>	<u>1,703,501</u>
CAPITAL AND RESERVES			
Called up share capital	9	1,723,132	1,723,132
Profit and loss account	10	<u>3,897,518</u>	<u>(19,631)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	11	<u>5,620,650</u>	<u>1,703,501</u>

Approved by the board of directors on 31st May, 2005



T O Lillington
Director

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

NOTES TO THE ACCOUNTS

AT DECEMBER 31, 2004

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 cash flow statement.

Change in accounting policy

In preparation of the 2003 accounts the Company adopted FRS 5 'Reporting the Substance of Transactions' Application Note G. As a result of this, profit commissions were recognised in the 2003 accounts on an earned basis subject to the commissions being accrued after the first 12 months of a Year of Account. This 12 month delay in recognition was due to the substantial growth of new business to the Syndicate relating to the 2003 Year of Account, which in turn resulted in some uncertainty at inception over the eventual profitability.

Uncertainty over the profitability of the Syndicate's current business has diminished to the extent that it is now management's view that, for the 2004 and future Years of Account, the relating profit commission should be recognised at inception.

Therefore, in preparation of these accounts, the Company has changed its accounting policy in respect of the timing of the recognition of profit commission. Profit commissions are now recognised on an earned basis at inception.

This change in policy resulted in an additional £927k profit commission being recognised in the period. This increased profit after tax by £927k and net assets by the same amount. The impact on profit after tax and net assets for the year ended 31st December 2003 was zero due to deficits brought forward. As such the comparatives do not need restating.

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 £6,810k (2003: £5,924k) was incurred and recharged to the managed syndicate during the year. In addition, £3,964k (2003: £3,784k) 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

NOTES TO THE ACCOUNTS (CONTINUED)

1) ACCOUNTING POLICIES (continued)

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.

2) PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2004 £	2003 £
Expenses paid by the Agency and recharged to the Syndicate and other group companies included the following:		
Depreciation	133,199	127,172
Audit fees	353,000	152,000
Non-audit fees	43,000	127,000

3) TAXATION ON PROFIT ON ORDINARY ACTIVITIES

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

	2004 £	2003 £
Current Tax:		
Current tax for the period	-	-
Deferred tax:		
Origination and reversal of timing differences	6,510	(52,715)
Tax charge / (credit) for the period	6,510	(52,715)

b) Factors affecting the tax charge for the year:

Profit on ordinary activities before tax	3,923,659	6,995
Profit on ordinary activities multiplied by small business corporate tax in the UK of 30% (2003 30%)	1,177,098	2,099
Capital allowances for the period in excess of depreciation	8,324	14,311
Group relief at nil consideration	(1,185,422)	(16,410)
Current tax for the period (note 3 (a))	-	-

NOTES TO THE ACCOUNTS (CONTINUED)

4) DIRECTORS' EMOLUMENTS

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

	2004	2003
	£	£
Emoluments	1,130,836	881,494
Contributions to pension schemes	49,815	49,356
Total Emoluments	<u>1,180,651</u>	<u>930,850</u>

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

Emoluments	460,686	276,150
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During the year the Company made contributions to defined contribution pension schemes on behalf of 4 (2003:4) directors.

5) TANGIBLE FIXED ASSETS

	Short Leaseholds £	Computer Equipment £	Office Equipment £	Furniture, Fixtures & Fittings £	Motor Cars £	Total £
Cost or valuation:						
January 01, 2004	79,899	288,961	73,170	159,888	73,113	675,031
Additions	167,175	58,621	6,705	107,148	-	339,649
December 31, 2004	<u>247,074</u>	<u>347,582</u>	<u>79,875</u>	<u>267,036</u>	<u>73,113</u>	<u>1,014,680</u>
Depreciation:						
January 01, 2004	40,133	281,711	64,130	98,629	64,113	548,716
Charge for the year	49,446	25,349	8,308	41,096	9,000	133,199
December 31, 2004	<u>89,579</u>	<u>307,060</u>	<u>72,438</u>	<u>139,725</u>	<u>73,113</u>	<u>681,915</u>
Net book value:						
December 31, 2004	157,495	40,522	7,437	127,311	-	332,765
December 31, 2003	39,766	7,250	9,040	61,259	9,000	126,315

NOTES TO THE ACCOUNTS (CONTINUED)

6) DEBTORS

	2004	2003
	£	£
Profit commission due from Syndicate 1218	3,913,974	-
Other amounts due from Syndicate 1218	432,148	910,004
Amounts due from other group companies	859,774	450,587
Deferred tax asset	46,205	52,715
Sundry debtors	101,585	65,782
	<u>5,353,686</u>	<u>1,479,088</u>
Amounts falling due after more than one year included above are:		
Profit commission due from Syndicate 1218	3,913,974	-
Deferred tax asset	46,205	52,715
	<u>3,960,179</u>	<u>52,715</u>

7) DEFERRED TAX ASSET

	2004	2003
	£	£
Deferred tax asset at start of period	52,715	-
Movement in the year	(6,510)	52,715
Deferred tax asset at end of period	<u>46,205</u>	<u>52,715</u>
Deferred tax asset relates to the following		
Accelerated capital allowances	<u>46,205</u>	<u>52,715</u>

8) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004	2003
	£	£
Taxation and social security	190,522	179,960
Other creditors	59,452	21,381
	<u>249,974</u>	<u>201,341</u>

NOTES TO THE ACCOUNTS (CONTINUED)

9) SHARE CAPITAL

	2004 £	2003 £
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 (2003: 1,723,132) ordinary shares of £1 each	<u>1,723,132</u>	<u>1,723,132</u>

10) PROFIT AND LOSS ACCOUNT

	2004 £	2003 £
Opening balance	(19,631)	(79,341)
Profit for the year	<u>3,917,149</u>	<u>59,710</u>
Closing balance	<u>3,897,518</u>	<u>(19,631)</u>

11) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2004 £	2003 £
Opening shareholders' funds	1,703,501	1,643,791
Profit for the year	<u>3,917,149</u>	<u>59,710</u>
Closing shareholders' funds	<u>5,620,650</u>	<u>1,703,501</u>

NOTES TO THE ACCOUNTS

(CONTINUED)

12) EMPLOYEES AND STAFF COSTS

The average number of employees during the period was:

	2004	2003
	Number	Number
Management	6	7
Underwriting	35	32
Claims	7	6
Information technology	4	4
Administration	25	26
	<u>77</u>	<u>75</u>

The employment costs for the period were:

	2004	2003
	£	£
Salaries	5,580,852	5,045,059
Social security costs	588,508	522,065
Pension costs	413,203	404,099
	<u>6,582,563</u>	<u>5,971,223</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 80.8% owned by Fairfax Financial Holdings Limited ("Fairfax") of Canada at December 31, 2004.

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