NEWLINE CORPORATE NAME LIMITED

REPORT AND ACCOUNTS

31 DECEMBER 2019

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NEWLINE GROUP™

CONTENTS

COMPANY INFORMATION
AT 31 DECEMBER 2019

Incorporated in England

Number 3223678

DIRECTORS	J Christiansen R B Kastner M G Wacek H J L Withinshaw
SECRETARY	H J L Withinshaw
REGISTERED OFFICE	Corn Exchange 55 Mark Lane London EC3R 7NE
BANKERS	Citibank Citigroup Centre Canada Square Canary Wharf London E14 5LB
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

STRATEGIC REPORT

The Directors present their strategic report on the Company for the year ended 31 December 2019.

REVIEW OF THE BUSINESS

The principal activity of the Company is that of a corporate name at Lloyd's and the Company's only participation is on Newline Syndicate 1218 which principally underwrites casualty insurance business at Lloyd's. Syndicate 1218, whose capacity is 100% provided by Newline Corporate Name Limited had a capacity of £137.0m for the 2019 year of account (2018: £137.0m, 2017: £125.0m).

The insurance cover provided by the syndicate includes the following lines of business:

Affinity and Special Risks
This line of business provides motor-related warranty (extended warranty, GAP, and collision waiver), non-motor warranty (brown, white and yellow goods, mobile phones, etc.) and value-driven add-ons (e.g., excess waiver).

Cargo and Specie
This line of business provides physical damage coverage for all types of goods during transit, store, exhibition, consolidation, clearing, distribution, restoration and whilst at manufacturing centres.

Crime
This line of business protects financial institutions and other organisations against losses that are discovered during the policy period arising from a variety of dishonest, fraudulent or criminal acts committed by either employees or third parties and includes coverage for robbery, hold-ups, forged documents or computer crime.

Directors' and Officers' (D&O) Liability
This line of business protects directors and officers of commercial entities, financial institutions and other organisations against claims that are made during the policy period alleging mismanagement and seeking to hold the directors and officers liable.

Errors and Omissions (E&O)
This line of business protects professional service firms, commercial entities and financial institutions against claims made during the policy period by third parties alleging negligence and seeking to hold the company liable.

General Liability
This line of business protects companies against claims made by employees or third parties for bodily injury and property damage losses, arising from employee injuries at work or activities of the company that cause damage to third parties.

Medical Malpractice
This line of business protects hospitals and groups of individual physicians against claims made during the policy period by third parties alleging negligence and seeking to hold the hospitals and/or groups of individual physicians liable.

Reinsurance
This line of business protects on a treaty reinsurance basis underwriters of property, casualty, marine and aerospace insurance.

The Syndicate also underwrites satellite business through a consortium participation.

Results and performance
The result for the calendar year 2019 is a profit of £31.5m (2018: loss £11.0m). The combined ratio for 2019 is 94.8% (2018: 91.3%), resulting in an underwriting profit excluding investment return of £7.2m (2018: profit £9.9m). The combined ratio of 94.8% reflects the challenging market environment we are currently operating in, combined with prior year releases across a number of Casualty classes.

STRATEGIC REPORT
(CONTINUED)

Investment returns for the year were a profit of £32.9m (2018: loss £17.1m) driven by equity investments. The Syndicate's investment portfolio recorded investment gains of £8.2m (2018: losses 6.1m). The investments supporting the Funds in Syndicate and funds within the corporate vehicle accumulated investment returns of £24.7m (2018: losses of £11.0m).

The US and other developed markets posted high returns during 2019, appreciating strongly in the fourth quarter. Equity markets finished the year on a positive note to close out the strongest annual return since 2013 as concerns regarding the US trade dispute with China decreased, and interest rates remained low. The election of a government with a sizeable working majority in the UK was seen positively by markets as it reduces Brexit uncertainty in the short term. The Syndicate's equity portfolio performance lagged that of the main indices, as it holds none of the technology sector stocks that played a significant part in driving gains in those indices.

Considering the large drop in sovereign yield levels since the beginning of 2019 the Syndicate's available cash was not further deployed in buying more long term sovereign debt, and instead efforts were made to continue to selectively search for short dated credit opportunities (predominately high-grade commercial paper) with higher yields. During 2019 the Syndicate continued to increase investment holdings in high grade corporate issues. Cumulative performance of the fixed income portfolio for the 2019 year was lower than the major treasury and corporate bond indices, due to the shorter duration of the Syndicate's fixed income portfolio.

Gross written premiums for the year were £175.2m (2018: £152.5m), £22.7m or 14.9% higher, in converted sterling terms. At constant rates of exchange, this represents an increase in premium of £20.4m or 13.4%. This increase is largely driven by growth in our Liability and Affinity & Special Risks books. Overall, we remain cautious in our underwriting approach, given the continuing uncertain economic outlook, seeking growth only in opportunistic or otherwise profitable areas. Market conditions, overall, continue to be competitive.

The Syndicate's capacity for the 2020 year of account has increased from £137.0m on the 2019 year of account to £165.0m, and our income estimates for 2020 are for modest growth, driven by rate change and growth across a number of classes. We will continue to look for cost-effective means of growing our portfolio, and expanding, if possible, those areas where we feel that the market dynamics mean there is potential for increased profitability. Notwithstanding this, we are cognisant of the challenges of doing this in the current environment.

Business environment
Competition between insurance entities can be based on a number of factors inter alia product, price, service, coverage, financial strength, distribution channels, enhanced commissions and reputation. In 2019, the insurance market has experienced some rate hardening and the withdrawal of market capacity from certain business lines. The Syndicate's competitors include independent insurance companies, subsidiaries or affiliates of established worldwide insurance companies and MGAs, and other syndicates underwriting at Lloyd's. Some of these competitors have longer operating histories and larger capital bases than Syndicate 1218 and, in addition, greater underwriting, marketing, and administrative resources.

For the Syndicate, as a whole, the rating environment has experienced improvements in 2019. We are witnessing a shortage of capacity in some areas of the market at present which is allowing us to increase rates, and expect this to continue in 2020 across a number of classes.

Casualty market participants continue to compete aggressively for business and we expect the rating environment to remain highly competitive, given the uncertainty of the global economy, and the changing political landscape. We anticipate rates improving in 2020, but in pockets varying by territory and line of business, with modest gross premium growth.

Strategy
The Syndicate has an established book of business and renewals constitute a significant element of our premium volume, one year to the next. Excellent producer relationships have been established with the aim of providing commercial advantage when faced by challenging market conditions. Experience gained over the last market cycle in shaping, refining and redefining our core portfolio will serve us well as we move into the next phase of the market cycle.

STRATEGIC REPORT
(CONTINUED)

Price is a primary means of competition in the (re)insurance business. We continue to emphasise disciplined underwriting over premium growth, focusing on carefully selecting the risks we insure and determining the appropriate price for assuming such risks. We are committed to maintaining our underwriting discipline and standards; as a consequence, premium volumes within our product lines and in overall terms will vary in line with prevailing market conditions.

Key factors that enable us to select, price and manage our business successfully are experience, strict underwriting discipline, analytical tools, and access to real time data. We have invested considerable time and effort in developing our systematic approach to underwriting and placing an appropriate control environment around it. To ensure that underwriting objectives are properly understood we have implemented strict review and referral processes, sophisticated and flexible rate engines, rate level monitoring, reporting, and enlisted the assistance of actuarial and claims personnel.

Key performance indicators (KPIs)
The Board monitors the progress of the Syndicate by reference to the following KPIs and metrics:

	2019	2018	
Gross Written Premiums	£175.2m	£152.5m	Gross premiums written, including acquisition costs, in respect of insurance contracts
Net written premiums	£148.4m	£125.0m	Gross Written Premiums less outward reinsurance in respect of insurance contracts
Technical Result	£15.5m	£3.8m	Balance on technical account for general business
Net loss ratio	53.7%	49.4%	Ratio of net claims incurred to net earned premiums
Combined ratio	94.8%	91.3%	Ratio of net claims incurred, commissions and expenses to net premiums earned

PRINCIPAL RISKS AND UNCERTAINTIES

The process of risk acceptance and risk management of the Syndicate is addressed through a framework of policies, procedures and internal controls as set out in the Risk Management Framework. This ensures that all risks are identified, recorded, assessed and taken into account when determining the Syndicate's Solvency Capital Requirement ("SCR") using the Internal Model. The control environment operating around these key risks is regularly reviewed to ensure that controls are operating effectively.

All key policies are approved by the Board of the Managing Agent and the framework is subject to ongoing review by management, Risk Management and Internal Audit as part of the "Principal risks and uncertainties and Own Risk and Solvency Assessment" ("ORSA") process. An ORSA report is presented to the Board of the Manging Agent on at least a quarterly basis. The ORSA report sets out the risk profile and key risk indicators of the Syndicate, together with the resulting impact on the SCR, and confirmation that sufficient own and ancillary funds are in place.

Operational 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. The Managing Agent 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.

Financial instruments
Information on the use of financial instruments by the Company and its management of financial risk is disclosed in Note 17 to the financial statements. In particular, the Company's exposures to price risk, credit risk and liquidity risk are separately disclosed in that note. The Company's exposure to cash flow risk is addressed under the headings of 'Credit risk', 'Liquidity risk' and 'Market risk'.

STRATEGIC REPORT
(CONTINUED)

Novel Coronavirus (COVID-19) pandemic
The impact of Novel Coronavirus (COVID-19) pandemic is discussed in the Directors' report.

FUTURE DEVELOPMENTS

Our client focus remains the mid-market and corporate sector where we consider our ability and expertise to lead business adds most value. The UK, Commonwealth countries, Continental Europe, Israel and Asia will be our core markets. The Syndicate will take full advantage of Lloyd's licensing and franchise to exploit opportunities in certain sectors or markets in our chosen fields of expertise as and when they develop. Given the changing broker landscape and developments in local (re)insurance markets, we envisage less business coming to London. To counter this, we are making increasing effort to access business regionally, whether this be through:

i) Establishment of and/or expanding existing service companies;

ii) Accessing business through other (re)insurance partners within the Fairfax Group;

iii) Using overseas MGAs where we have strong relations and/or proven track records.

The Syndicate has an overseas presence in Australia, Canada, Singapore and Malaysia through insurance agents owned by the parent company of the Syndicate's capital provider. In addition, the Syndicate participates on the Lloyd's China platform.

With the UK's exit from the European Union, we also operate through the Lloyd's European insurance subsidiary in Brussels, ensuring that we continue to provide a service to our stakeholders and customers across Europe, irrespective of the ongoing negotiations between the UK government and the EU27.

SOLVENCY II

With respect to capital requirements for 2019, Lloyd's approved the Syndicate Solvency Capital Requirement, calculated using the Syndicate's Internal Model, in November 2018.

SECTION 172 OF THE UK'S COMPANIES ACT
In summary, as required by Section 172 of the UK's Companies Act, a director of a company must act in the way he considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the director must have regard, amongst other matters, to the:
a) the likely consequences of any decisions in the long term;
b) the interests of the company's employees;
c) the need to foster the company's business relationships with suppliers, customers and others;
d) the impact of the company's operations on the community and environment;
e) the company's reputation for high standards of business conduct; and
f) need to act fairly as between members of the company.

The Board's approach to Section 172 and decision making
The role of the Board is to oversee the governance and management of the Company and to set the strategy of the business. The Board of NCNL is comprised of two Executive Directors and two Non-Executive Directors.

Their duties are carried out in accordance with the relevant Companies' legislation and relevant regulatory requirements and they will act within their powers to promote success for the business and to exercise independent judgment and reasonable care, skill and diligence, avoid conflicts of interest, not accept benefits from third parties and to declare interest in proposed transactions or arrangements. The Board is also responsible for ensuring that effective governance frameworks are in place and are supported by the appropriate resources, documentation, systems and controls.

The Board has delegated certain responsibilities of day-to-day management and decision making relating to the Company to executive directors, and the management of the Syndicate to Newline Underwriting Management Limited.

Overview of how the Board performed its duties
The Board is responsible for a number of strategic decisions including the maintenance of capital both within the Company, and that of Syndicate 1218, and reputation of the Company with external stakeholders.

STRATEGIC REPORT
(CONTINUED)

Capital considerations have been taken in the year, with the Board assessing the capital needs of NCNL and that of the Syndicate, ensuring that excess capital held meets the requirements of local regulators, and balancing the needs of the parent on the efficient use of capital. The Board has assessed these needs, and employed sufficient capital.

Employee engagement
Other than the directors, the company does not directly employ any staff. All the administrative functions of the Company are performed by employees of Newline Underwriting Management Limited, a fellow subsidiary.

Stakeholder engagement
Shareholder and Capital Provider
NUML prepares quarterly financial data reporting performance against the approved plan. Through the Own Risk and Solvency Assessment Report ("ORSA"), the directors of NUML evaluate the capital required to support the Solvency Capital Requirement in the current financial year, and subsequent periods. As some members of the Executive Board also sit on the executive board of the Company, there is full disclosure on the performance and capital needs of the Company.

Regulators
NCNL is not a regulated entity. NUML is authorized by the Prudential Regulation Authority ("PRA") and is regulated by the Financial Conduct Authority ("FCA"). In addition, NUML is also subject to the regulatory jurisdiction of Lloyd's of London in the capacity of managing the underwriting affairs of Syndicate 1218. The relationship with these regulators is open and cooperative as required by the PRA's "Fundamental Rule 7", the FCA's "Principle 11" and Lloyd's Minimum Standards regime, with meetings being held periodically and with all reports, returns and requests for information being met in a timely manner.

Community and Environment
The Board of NUML recognises the importance of leading a company that not only provides value for shareholders, clients and employees, but also supports the wider community. Fairfax Financial Holdings Limited (of which the Company is a member – see note 23), through encouraging philanthropic endeavours, has donated a portion of profits to charitable organisations since its inception. The Newline Group, also embraces this culture of giving, by donating a proportion of profits to local charitable organisations, selected by employees. NUML also operates a charitable donation matching scheme, whereby the NUML will match the personal donation an employee has made to a charity, ultimately from the profits of the Company.

Culture, values and standards
The culture and standards of the Newline Group are aligned fully with those of Fairfax Financial Holdings Limited, underpinned by a fair and friendly approach to how we deal with insured's and intermediaries, and with our employees. These standards are how we aim to create and sustain value over the longer term and are key elements of how the Company maintains a reputation for high standards of business conduct.

Culture, values and standards underpin how a company creates and sustains value over the longer term and are key elements of how it maintains a reputation for high standards of business conduct. They also guide and assist in decision making and thereby help promote the company's success, recognising, amongst other things, the likely consequences of any decision in the long-term and wider stakeholder considerations. The standards set by the Board also take into consideration regulatory standards, and mandate certain requirements and behaviours with regards to the activities of its directors, employees and others associated with it.

On behalf of the Board

H J L Withinshaw
Director
11 September 2020

DIRECTORS' REPORT

The Directors present their report and audited financial statements of the Company for the year ended 31 December 2019.

FUTURE DEVELOPMENTS

Likely future developments in the business are discussed in the Strategic report.

DIVIDENDS

A final dividend of £10.6m (2018: £5.0m) was declared by the directors and paid during the year.

DIRECTORS

The Directors listed below have held office from 1 January 2019 to the date of this report unless otherwise stated.

J Christiansen
R B Kastner
M G Wacek
H J L Withinshaw

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

The Company Secretary is H J L Withinshaw.

Third-party indemnity providing cover for claims for actual or alleged acts, errors, omissions, misstatements, misleading statements, neglect or breach of duty in the rendering of professional services is in place for the above directors.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments and risk management are discussed within the Strategic report under 'Principal Risks and Uncertainties'.

EVENTS AFTER THE BALANCE SHEET DATE

On 12th March 2020, the board approved a dividend payment of £5.0m to its immediate parent, Newline Holdings UK Limited.

Novel Coronavirus (COVID-19) pandemic
NCNL has considered its potential exposure, and that of the Syndicate to the Covid-19 virus and pandemic. NCNL does not expect to have any direct exposure as the Syndicate does not underwrite the classes of business which are commonly considered to have direct exposure to Covid-19: Contingency; Event Cancellation; Trade Credit; Accident & Health; Private Health Insurance; Travel; or Property Business Interruption or Contingent Business Interruption. Directors' & Officers and possibly General Liability and Medical Malpractice insurance policies issued by the Syndicate may in the future face indirect or contingent exposure to the Covid 19 virus and pandemic should claims, whether meritorious or otherwise, be made against the Syndicate's insureds. It is not possible to anticipate or quantify such indirect or contingent exposure at this time.

NCNL has also considered the impact of Covid-19 on its financial assets, and that of the Syndicate in light of stock market volatility around the world. The financial investments most impacted are held by the funds in Syndicate. Due to the current stock market volatility and economic uncertainty of the longer term impact on equities held in own funds, an accurate assessment of any permanent diminution in value of equities held cannot be made. However, a 25% fall in similar financial instruments traded on the market would result in asset values falling by £56.4m. Other receivables, including debtors arising out of direct insurance operations and from intermediaries are well diversified. It is too early to see the impact of Covid-19 on these receivables. As such, the directors consider that the financial assets are stated at fair value.

DIRECTORS' REPORT
(CONTINUED)

There has been no interruption to the day to day operations of the business as staff have been able to work remotely. Should the Government restrictions remain in place for the not too distant future we believe that the company will continue to remain operational to support its customers.

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 31 December 2019 of which the auditors are unaware; and
- each director has taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company auditors are aware of that information.

INDEPENDENT AUDITORS

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 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.

On behalf of the Board

H J L Withinshaw
11 September 2020

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEWLINE CORPORATE NAME LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Newline Corporate Name Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEWLINE CORPORATE NAME LIMITED
(CONTINUED)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Financial Statements set out on page 9, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEWLINE CORPORATE NAME LIMITED
(CONTINUED)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
11 September 2020

PROFIT & LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	5	**175,240**	152,457
Outwards reinsurance premiums		**(26,849)**	(27,420)
Net premiums written		**148,391**	125,037
Change in the gross provision for unearned premiums		**(10,719)**	(10,918)
Change in the provision for unearned premiums, reinsurers' share		**1,373**	(705)
Change in the net provision for unearned premiums		**(9,346)**	(11,623)
Earned premiums, net of reinsurance		**139,045**	113,414
Allocated investment return transferred from the non-technical account		**8,232**	(6,090)
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		**(60,216)**	(46,183)
Reinsurers' share		**7,835**	8,901
Net claims paid		**(52,381)**	(37,282)
Change in the gross provision for claims		**(72,065)**	(8,136)
Reinsurers' share		**49,710**	(10,641)
Change in the net provision for claims		**(22,355)**	(18,777)
Claims incurred, net of reinsurance		**(74,736)**	(56,059)
Net operating expenses	8	**(57,080)**	(47,492)
Balance on the technical account for general business		**15,461**	3,773

All operations are continuing.

The accompanying notes on pages 17 to 41 form an integral part of these financial statements.

PROFIT & LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 £'000	2018 £'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		**15,461**	3,773
Investment income	11	**19,329**	13,652
Net unrealised gains / (losses) on investments	11	**15,858**	(27,666)
Investment expenses and charges	11	**(2,318)**	(3,111)
		32,869	(17,125)
Allocated investment return transferred to the general business technical account		**(8,232)**	6,090
Other charges, including value adjustments	12	**(2,118)**	(7,111)
PROFIT / (LOSS) BEFORE TAX		**37,980**	(14,373)
Tax (charge) / credit on ordinary activities	7	**(6,433)**	3,363
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		**31,547**	(11,010)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2018 £'000	2018 £'000
Profit / (loss) for the financial year	**31,547**	(11,010)
Other comprehensive income	-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-
TOTAL COMPREHENSIVE INCOME / (EXPENSE) FOR THE YEAR	**31,547**	(11,010)

The accompanying notes on pages 17 to 41 form an integral part of these financial statements.

BALANCE SHEET
AS AT 31 DECEMBER 2019
Company Number: 3223678

	Notes	2019 £'000	2018 £'000
ASSETS			
Investments			
Financial investments	13	**542,618**	511,152
Reinsurers' share of technical provisions			
Provision for unearned premiums		**15,995**	15,019
Claims outstanding		**178,948**	135,023
Debtors			
Arising out of direct insurance operations, due from intermediaries		**42,269**	41,049
Arising out of reinsurance operations		**2,600**	2,414
Other debtors		**2,591**	2,695
Deferred tax asset	20	**-**	1,437
Other assets			
Cash at bank and in hand		**99,300**	112,438
Overseas deposits	14	**41,259**	29,272
Prepayments			
Accrued interest and rent		**1,157**	625
Deferred acquisition costs	15	**21,685**	19,098
Other prepayments and accrued income		**2,273**	1,240
Total assets		**950,695**	871,462
EQUITY AND LIABILITIES			
Capital and reserves			
Called up share capital	19	**13,244**	13,244
Profit & loss account		**268,176**	247,274
Total shareholders' funds		**281,420**	260,518
Technical provisions			
Provision for unearned premiums		**74,037**	65,527
Claims outstanding		**565,942**	514,273
Creditors			
Arising out of direct insurance operations, due to intermediaries		**1,156**	923
Arising out of reinsurance operations		**14,242**	13,211
Deferred tax liability	20	**595**	-
Other creditors including taxation and social security	21	**5,517**	13,766
Amount due to Group undertakings		**4,117**	216
Accruals and deferred income		**3,669**	3,028
Total equity and liabilities		**950,695**	871,462

Approved by the board of Directors on 11 September, 2020.

H J L Withinshaw
Director

The accompanying notes on pages 17 to 41 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Called up share capital £'000	Profit and loss account £'000	Total £'000
At 1 January 2018	**13,244**	**263,284**	**276,528**
Loss for the year	-	(11,010)	(11,010)
Total comprehensive expense for the year	**-**	**(11,010)**	**(11,010)**
Dividends	-	(5,000)	(5,000)
Total transactions with owners, recognised in equity	**-**	**(5,000)**	**(5,000)**
At 31 December 2018	**13,244**	**247,274**	**260,518**
Profit for the year	-	31,547	31,547
Total comprehensive income for the year	**-**	**31,547**	**31,547**
Dividends	-	(10,645)	(10,645)
Total transactions with owners, recognised in equity	**-**	**(10,645)**	**(10,645)**
At 31 December 2019	**13,244**	**268,176**	**281,420**

The accompanying notes on pages 17 to 41 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2019

1) GENERAL INFORMATION

The principal activity of the Company is that of a corporate name at Lloyd's and the Company's only participation is on Newline Syndicate 1218 which principally underwrites casualty insurance business at Lloyd's. Syndicate 1218, whose capacity is 100% provided by Newline Corporate Name Limited, had a capacity of £137.0m for the 2019 year of account (2018: £137.0m, 2017: £125.0m). The registered office is Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

2) ACCOUNTING POLICIES

The individual financial statements of Newline Corporate Name Limited. ("NCNL") have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"), and the Companies Act 2006.

No cash flow statement is presented since FRS 102 exempts the Company from the requirement to do so as the consolidated financial statements of the ultimate parent of the Company, Fairfax Financial Holdings Limited, include a group cash flow statement.

Where disclosure exemptions have been taken, the shareholder of the company has been notified in writing and does not object to the use of disclosure exemptions.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The FRC published a triennial review of FRS 102 in December 2017, resulting in a number of amendments and clarifications to the standard. These amendments are effective for accounting periods beginning on or after 1 January 2019, with early adoption available. NCNL adopted these amendments in 2018. The majority of amendments to the standard are editorial in nature and will have no impact on the financial statements of NCNL.

Basis of preparation

The Directors of the Company have prepared the financial statements on the basis that the Company will continue to participate in Syndicate 1218 in the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

a) Recognition of insurance transactions

Preparing financial statements in accordance with Section 1165 to the Companies Act 2006 has required the Company to recognise its proportion of all the transactions undertaken by the Lloyd's syndicate in which it participates ("the Syndicate").

The Company's proportion of the underwriting transactions, investment return and operating expenses of the Syndicate has been reflected within the Company's profit and loss account. Similarly, its proportion of the Syndicate's assets and liabilities has been reflected in its balance sheet. These assets are held subject to trust deeds for the benefit of the Company's Syndicate insurance creditors.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

The proportion referred to above is calculated by reference to the Company's participation as a percentage of the Syndicate's total capacity.

The Company has delegated sole management and control of its underwriting through the Syndicate to the managing agent of the Syndicate ("The Managing Agent").

b) Basis of accounting for the underwriting result

All classes of insurance business written are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

i) Premiums written
Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Syndicate. Premiums are stated gross of acquisition costs payable, and exclude taxes and duties levied on them.

ii) Insurance contracts
Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Company considers significant insurance risk to exist where there is a reasonable possibility of a significant claim arising on the occurrence of an insured event. The Syndicate's insurance products are classified as insurance contracts.

iii) Unearned premiums
Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earning patterns on a time apportionment basis as appropriate.

iv) Acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the acquisition of insurance contracts, and are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

v) Reinsurance premiums ceded
Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards business being reinsured.

vi) Reinsurance
Contracts entered into by the Syndicate with reinsurers, under which the Syndicate is compensated for claims on one or more contracts issued by the Syndicate and that meet the classification requirements for insurance contracts are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments. Insurance contracts entered into by the Syndicate under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts; provided there is significant transfer of insurance risk.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Syndicates reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the year. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

vii) Claims incurred
Gross claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

viii) Claims provisions and related reinsurance recoveries
Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different to the original liability established.

Large claims impacting a class of business are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these claims.

Provisions are calculated undiscounted, and gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having a due regard to collectability.

ix) Unexpired risk provision
A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by classes of business which are managed together, after taking into account the relevant investment return.

c) Financial instruments
The Company has chosen to adopt the provisions of Section 11 and 12 of FRS 102 in respect of the valuation of financial instruments, which are designated by the Company at fair value through profit or loss.

i) Financial assets
Financial investments, including shares and other variable yield securities and units in unit trusts, derivatives, debt, other fixed income securities and overseas deposits are designated at fair value through profit and loss. Other receivables, including short term debtors arising out of direct insurance and reinsurance operations, are initially recognised at transaction price, less any impairment.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

The fair value of financial investments at the balance sheet date are determined through quoted bid prices in an active market for identical instruments. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the Company estimates the fair value by using a valuation technique.

Receivables are initially recognised at transaction price, and are reviewed for impairment as part of the impairment review of receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

ii) Cash and cash equivalents
Cash and cash equivalents includes cash at bank and in hand, deposits held at call with banks, other short term highly liquid investments with an original maturity date of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

iii) Financial liabilities
Short term creditors, including creditors arising out of direct insurance and reinsurance operations are measured at transaction price.

iv) Derivative instruments
The Syndicate uses forward foreign exchange contracts to reduce exposure to foreign exchange rates. Derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as a liability when the fair value is negative.

The Company applies hedge accounting for transactions entered into to manage the foreign exchange exposure and has designated them as a fair value hedge. Changes in fair value of foreign exchange hedges are reported directly in profit and loss. Derivatives under hedge accounting are carried as assets when the fair value is positive and as a liability when the fair value is negative.

d) Investment return
Investment return comprises all investment income, interest receivable and dividends received plus realised gains and losses on the disposal of investments and movements in unrealised gains and losses, net of investment expenses.

Dividend income is recognised when the right to receive payment is established. Interest and expenses are accounted for on an accruals basis.

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 their valuation at the previous balance sheet date. The movement in unrealised investment gains and losses includes an adjustment for previously recognised unrealised gains and losses of those investments disposed of in the accounting period.

Investment expenses and charges comprise investment management expenses.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on the funds supporting underwriting obligations arising from insurance policies. Investment return on the Funds in Syndicate is not transferred and remains in the non-technical account. Investment return specific to the Company remains in the non-technical account.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

e) Foreign currencies

i) Functional and presentation currency

The Company's functional and presentation currency is the Pound Sterling.

ii) Transactions and balances

Income and expenditure in US Dollars, Euros, Australian Dollars and Canadian Dollars, Egyptian pounds and Polish Zlotys are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are translated at the rates of exchange ruling at the date the transaction is processed. Assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange prevailing at the balance sheet date.

Realised exchange differences are included in the non-technical account within other charges.

iii) Translation

Exchange differences arising from translating the result from average rates of exchange to closing rates of exchange, and the translation of the opening balance sheet to closing rates of exchange are taken through the non-technical account.

f) Overseas deposits

Overseas deposits are stated at the market value ruling at the balance sheet date.

g) Net operating expenses

Operating expenses are recognised when incurred. They include the Company's share of syndicate operating expenses and the direct costs of membership of Lloyd's.

h) Pension costs

Newline Underwriting Management Limited operates a Group Personal Pension Plan which is on a defined contribution basis. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses.

i) Taxation

UK taxation in the profit and loss account is based on the underwriting result and other income and charges of the year as determined in accordance with the relevant tax legislation, together with adjustments for prior years.

The Company is taxed on its share of the underwriting results declared by the Syndicate.

The syndicate results included in these financial statements are only declared for these purposes in the calendar year following closure of the year of account.

j) Deferred taxation

Provision is made for deferred tax liabilities, on all material timing differences between taxable profits and total comprehensive income as reported in the financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference. Deferred tax assets are recognised to the extent that they are regarded as more likely than not recoverable.

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 other comprehensive income. Deferred tax balances are not discounted.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

k) Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors of NCNL, separate disclosure is necessary to understand the effect of the transactions.

4) SIGNIFICANT JUDGEMENTS AND ESTIMATES

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where judgements and estimates have been made include:

Estimation of claims incurred but not reported ("IBNR")

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claim has happened. Classes of business where IBNR proportion of the total reserve is high will typically display greater variation between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. This uncertainty varies between classes written by the Syndicate, but is typically highest for those classes where there are significant delays in the settlement of the final claims amount, more specifically from Liability and other long-tail direct and long-tailed reinsurance classes. In calculating the estimated cost of unpaid claims, the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which create distortion in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- changes in underlying terms and conditions;
- the impact of large losses; and
- movements in industry benchmarks.

In setting the provision for insurance liabilities, a best estimate is determined on an undiscounted basis. For areas of specific uncertainty, it may be necessary to include a loading as part of the reserve estimate, known as the Management Adjustment. At 31 December 2019, the carrying value of net claims IBNR is £244.2m (2018: £249.9m), and the Management Adjustment in excess of the best estimate of net reserves was £27.1m (2018: £28.9m).

Premium income

Written premiums include estimates of premiums due but not yet received or notified to the Syndicate, known as pipeline premium. The estimation of pipeline premium is based upon prior year experience and current year business volumes. The pipeline premium included within gross written premium is £17.2m (2018: £14.8m); of that £14.3m is unearned at 31 December 2019 (2018: £12.8m).

Fair values of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The carrying value of these instruments is £95.5m (2018: £99.6m). The Company uses its judgement to select a variety of methods and makes assumptions that are mainly based on market conditions existing at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

5) SEGMENTAL INFORMATION

All business has been underwritten in the United Kingdom in the Lloyd's insurance market which has been treated as one geographical segment.

An analysis of the underwriting result before investment return is set out below:

2019	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Third party liability	**135,704**	**126,682**	**(105,498)**	**(45,832)**	**33,466**
Aviation	**3,353**	**2,313**	**(1,422)**	**(421)**	**(510)**
Energy-non marine	**34**	**59**	**(61)**	**(23)**	**22**
Other direct	**16,842**	**15,692**	**(10,295)**	**(5,726)**	**(1,078)**
Total direct	**155,933**	**144,746**	**(117,276)**	**(52,002)**	**31,900**
Reinsurance acceptances	**19,307**	**19,775**	**(15,005)**	**(6,720)**	**1,811**
Total	**175,240**	**164,521**	**(132,281)**	**(58,722)**	**33,711**

2018	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Third party liability	112,507	109,117	(31,517)	(39,511)	(26,999)
Aviation	1,070	1,111	(1,127)	(295)	(17)
Energy-non marine	172	176	(103)	(68)	(20)
Other direct	16,770	10,109	(8,613)	(3,744)	1,118
Total direct	130,519	120,513	(41,360)	(43,618)	(25,918)
Reinsurance acceptances	21,938	21,026	(12,959)	(6,409)	(1,412)
Total	152,457	141,539	(54,319)	(50,027)	(27,330)

Insurance risk concentrations

The Company monitors and reports internally on insurance risk concentrations by reserving class that have similar risk profiles and durations. Reserving class is determined by factors such as the industry sector, insured event and insurance risk coverage offered by the insurance contract. The Company considers that the information given in the segmental information tables is sufficient to understand the risk concentrations used.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

6) MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

The movement in prior year's provision for claims outstanding, net of reinsurance recoveries is a favourable development of £15.0m (2018: favourable development of £3.5m); this is mainly comprised of releases of £13.6m in respect of direct Third Party Liability business and releases of £1.6m in respect of total Reinsurance business.

In addition to the favourable development reported during 2018, the Syndicate result also benefited from the resolution of a dispute between the Company and a third party administrator, in respect of a number of historic binding authority agreements with the Syndicate. This resulted in the return of certain claims paid under these binding authority agreements and legal costs totalling £11.75m in 2018.

7) TAX (CHARGE) / CREDIT ON ORDINARY ACTIVITIES

	2019 £'000	2018 £'000
(a) Analysis of charge / (credit) for the year		
Current tax:		
UK corporation tax on profit / (loss) for the period	**4,916**	3,367
Adjustment in respect of prior periods	**17**	(274)
Double taxation relief	**(545)**	(666)
Foreign tax:		
Corporation tax	**13**	215
Total current tax	**4,401**	2,642
Deferred tax:		
Origination and reversal of timing differences	**2,058**	(6,042)
Impact of change in tax rate	**(26)**	37
Tax charge / (credit) on ordinary activities	**2,032**	(6,005)
Total tax charge / (credit) for the period	**6,433**	(3,363)
(b) Factors affecting the tax charge / (credit)		
Profit / (Loss) on ordinary activities before tax	**37,980**	(14,373)
UK corporation tax 19.0% (2018: 19.0%)	**7,216**	(2,731)
Origination of timing differences for the year	**(1,110)**	(6,028)
Impact of change in tax rate	**(26)**	37
Adjustment in respect of prior periods	**17**	(274)
Year of account now taxable	**868**	6,084
Double taxation relief	**(545)**	(666)
Overseas taxes paid	**13**	215
Total tax charge / (credit) for the period	**6,433**	(3,363)

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

8) NET OPERATING EXPENSES

	2019 £'000	2018 £'000
Acquisition costs – commissions	**48,255**	42,364
Change in deferred acquisition costs	**(3,085)**	(4,107)
Administrative expenses	**13,336**	11,704
Reinsurers' commissions and profit participations	**(1,426)**	(2,469)
	57,080	47,492

9) AUDITORS' REMUNERATION

	2019 £'000	2018 £'000
Auditors' remuneration		
Audit services		
Fees payable to the Company's auditor for the audit of Newline Corporate Name Limited	7	7
	7	7

10) DIRECTORS' EMOLUMENTS AND STAFF COSTS

No amounts were charged to the Company in the period in respect of directors' services.

The Company does not directly employ any staff. All the administrative functions of the Company are performed by employees of Newline Underwriting Management Limited or Odyssey Reinsurance Company and recharged to Syndicate 1218 as appropriate.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

11) INVESTMENT INCOME

	2019 £'000	2018 £'000
Investment income (including realised gains and losses on investments)		
Interest income on financial assets at fair value through profit and loss	**4,645**	4,781
Dividend income	**2,446**	1,925
Other interest and similar income	**971**	1,022
Realised gains on realisation of investments	**21,726**	11,759
Realised losses on realisation of investments	**(10,459)**	(5,835)
	19,329	13,652
Net unrealised gains / (losses) on investments		
Net unrealised gains / (losses) on investments	**15,858**	(27,666)
	15,858	(27,666)
Total investment expenses and charges		
Investment management expenses, including charges	**(2,318)**	(3,111)
	(2,318)	(3,111)
Total investment return	**32,869**	(17,125)

All gains and losses are from investments designated as at fair value through profit and loss.

12) OTHER NON-TECHNICAL CHARGES

	2019 £'000	2018 £'000
Other non-technical charges comprise:		
Other operating expenses	**(264)**	(44)
Net foreign exchange losses	**(1,854)**	(7,067)
	(2,118)	(7,111)

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

13) FINANCIAL INVESTMENTS

	2019 £'000 Fair Value	2018 £'000 Fair Value	2019 £'000 Cost	2018 £'000 Cost
Shares and other variable yield securities	**213,373**	181,390	**190,732**	207,949
Debt securities and other fixed income securities	**304,880**	326,959	**304,564**	326,498
Participation in investment pools	**5,558**	2,496	**5,473**	2,401
Derivative assets	**18,807**	307	**-**	-
	542,618	511,152	**500,769**	536,848

Derivative financial instruments
The Syndicate has entered into a number of forward currency contracts to mitigate the exchange rate risk of its foreign currency denominated assets and liabilities. At 31 December 2019, the outstanding contracts mature between 2 and 4 months of the year end. The Syndicate is committed to sell US$294.7m, CAD$53.0m and GBP13.3m, and receive fixed Sterling and Euro amounts.

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The main assumptions used in valuing the derivatives are the forward contracted exchange rate and the rate at the valuation date.

The change in the fair value of the forward currency contract recognised in the profit and loss in the year was a profit of £4.1m (2018: loss of £20.7m). The corresponding foreign exchange loss recognised in the profit and loss account relating to the hedged foreign currency assets and liabilities was £5.6m (2018: profit of £13.2m).

14) OVERSEAS DEPOSITS

Overseas deposits of £41.3m (2018: £29.3m) comprises deposits which are lodged as a condition of conducting underwriting business in certain countries.

15) DEFERRED ACQUISITION COSTS

All deferred acquisition costs relate to direct and indirect costs arising from the acquisition of insurance contracts. The reconciliation of opening and closing deferred acquisition costs is as follows:

	2019 £'000	2018 £'000
At 1 January	**19,098**	14,705
Expenses for the acquisition of insurance contracts	**46,829**	39,895
Change in deferred acquisition costs	**(43,744)**	(35,788)
Foreign exchange	**(498)**	286
At 31 December	**21,685**	19,098

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

16) FAIR VALUE HIERARCHY

Determination of fair value
The table below reports on the hierarchy that reflects the significance of the inputs in determining the fair value of the financial assets. No liabilities, other than derivatives, were measured at fair value at 31 December 2019 or 31 December 2018.

Level 1
The fair value is based on the unadjusted quoted price in an active market, for identical assets or liabilities that the Company can access at the measurement date.

Level 2
Inputs to level 2 fair values are inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3
Level 3 financial instruments are financial assets and liabilities for which the values are based on prices or valuation techniques that require inputs that are both unobservable, and significant, to the fair value measurement.

As at 31 December 2019, the Company held £95.5m (2018: £99.6m) of financial instruments that are classified as Level 3. Financial instruments classified as Level 3 include assets invested in common stock, limited partnerships and fixed income securities.

Common stocks are also valued utilising observable price to book multiples of peer companies and applying such to the most recently available book value per share.

Limited partnerships are valued based on the net asset values received from the general partners. These limited partnerships invest in securities that trade in active markets, and as a result, their net asset values reflect their fair values. The unobservable inputs in valuing limited partnerships include inputs such as time lags in receiving distributions by the general partners.

The Company uses a market approach, based on quoted prices and other information from independent pricing sources, to determine fair values for its fixed income financial instruments, adjusted for a risk premium for credit risk.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

16) FAIR VALUE HIERARCHY *(CONTINUED)*

2019	Fair value hierarchy				
	Level 1	Level 2	Level 3	Assets held at fair value	Balance sheet total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Shares and other variable yield securities	85,512	43,094	84,767	213,373	213,373
Debt securities and other fixed income securities	171,487	122,705	10,688	304,880	304,880
Participation in investment pools	-	5,558	-	5,558	5,558
Loans and deposits with credit institutions	4,141	37,118	-	41,259	41,259
Derivative assets	-	18,807	-	18,807	18,807
	261,140	227,282	95,455	583,877	583,877
Financial liabilities					
Derivative liabilities	-	333	-	333	333

2018	Fair value hierarchy				
	Level 1	Level 2	Level 3	Assets held at fair value	Balance sheet total
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Shares and other variable yield securities	64,885	37,538	78,967	181,390	181,390
Debt securities and other fixed income securities	90,716	215,644	20,599	326,959	326,959
Participation in investment pools	-	2,496	-	2,496	2,496
Loans and deposits with credit institutions	1,552	27,720	-	29,272	29,272
Derivative assets	-	307	-	307	307
	157,153	283,705	99,566	540,424	540,424
Financial liabilities					
Derivative liabilities	-	7,450	-	7,450	7,450

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT

The Company is exposed to a range of financial risks, in particular, the key financial risk is that the proceeds from financial assets are insufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, price risk and currency risk), credit risk and liquidity risk.

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls as set out in the Risk Management Framework. This ensures that all risks are identified, recorded, assessed and taken into account when determining the Syndicate's Solvency Capital Requirement ("SCR") using the Internal Model. The control environment operating around these key risks is regularly reviewed to ensure that controls are operating effectively.

All key policies are approved by the Board and the framework is subject to ongoing review by management, Risk Management and Internal Audit as part of the ORSA process. An ORSA report is presented to the Board on at least a quarterly basis. The ORSA report sets out the risk profile and key risk indicators of the Syndicate, together with the resulting impact on the SCR, and confirmation that sufficient own and ancillary funds are in place.

The following table reconciles the balance sheet to the categories used in the asset / liability management framework.

	Syndicate	Funds in Syndicate	NCNL	Total
2019	**£'000**	**£'000**	**£'000**	**£'000**
Other financial investments	266,872	247,545	28,201	542,618
Provision for unearned premiums	15,995	-	-	15,995
Claims outstanding	178,948	-	-	178,948
Debtors arising out of direct insurance operations	42,269	-	-	42,269
Debtors arising out of reinsurance operations	2,600	-	-	2,600
Other debtors	991	-	1,600	2,591
Cash at bank and in hand	93,825	1,405	4,070	99,300
Overseas deposits	41,259	-	-	41,259
Accrued interest and rent	756	398	3	1,157
Deferred acquisition costs	21,685	-	-	21,685
Other prepayments and accrued income	2,273	-	-	2,273
Total assets	667,473	249,348	33,874	950,695
Provision for unearned premiums	74,037	-	-	74,037
Claims outstanding	565,942	-	-	565,942
Creditors arising out of direct insurance operations	1,156	-	-	1,156
Creditors arising out of reinsurance operations	14,242	-	-	14,242
Deferred tax liability	-	-	595	595
Other creditors including taxation and social security	5,511	-	6	5,517
Amounts due to Group undertakings	-	-	4,117	4,117
Accruals and deferred income	3,621	-	48	3,669
Total liabilities	664,509	-	4,766	669,275
Shareholders' funds	2,964	249,348	29,108	281,420

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

2018	Syndicate £'000	Funds in Syndicate £'000	NCNL £'000	Total £'000
Other financial investments	245,364	226,686	39,102	511,152
Provision for unearned premiums	15,019	-	-	15,019
Reinsurers' share of claims outstanding	135,023	-	-	135,023
Debtors arising out of direct insurance operations	41,049	-	-	41,049
Debtors arising out of reinsurance operations	2,414	-	-	2,414
Other debtors	1,071	-	1,624	2,695
Deferred tax asset	-	-	1,437	1,437
Cash at bank and in hand	106,211	936	5,291	112,438
Overseas deposits	29,272	-	-	29,272
Accrued interest and rent	412	213	-	625
Deferred acquisition costs	19,098	-	-	19,098
Other prepayments and accrued income	1,240	-	-	1,240
Total assets	**596,173**	**227,835**	**47,454**	**871,462**
Provision for unearned premiums	65,527	-	-	65,527
Claims outstanding	514,273	-	-	514,273
Creditors arising out of direct insurance operations	923	-	-	923
Creditors arising out of reinsurance operations	13,211	-	-	13,211
Deferred tax liability	-	-	-	-
Other creditors including taxation and social security	7,953	5,807	6	13,766
Amounts due to Group undertakings	-	-	216	216
Accruals and deferred income	2,994	-	34	3,028
Total liabilities	**604,881**	**5,807**	**256**	**610,944**
Shareholders' funds	**(8,708)**	**222,028**	**47,198**	**260,518**

Market risks

Interest rate risk

Interest rate risk arises primarily from holding investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk. The Company monitors interest rate risk by calculating the mean duration of the investment portfolio. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The Investment Committee monitors the susceptibility of the investment portfolio to movements in current interest rates. Holding a proportion of the investment portfolio in cash and cash equivalents also helps to mitigate interest rate risk.

The impact on the measurement of interest bearing securities held at the reporting date of a change in interest rates of ± 0.5% on profit for the year and net assets is shown in the following table:

		2019 **£'000**	2018 £'000
Investments - Debt securities and other fixed income securities	**+0.5%**	**(695)**	(1,077)
	-0.5%	**706**	1,080

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Market risks *(continued)*

Price risk
Price risk is the risk that changes in commodity or equity market prices will impact upon the fair value of financial instruments held by the Syndicate and Company, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The impact on the measurement of investments held at the reporting date of a change in equity values of ± 5% on profit for the year and net assets is shown in the following table:

		2019 £'000	2018 £'000
Investments – equity and related investments	+5%	9,578	9,652
	-5%	(9,578)	(9,652)

Currency risk
Currency risk is the risk of loss arising from adverse exchange rate movements in unhedged foreign exchange exposures. The Company writes business internationally, and so is exposed to foreign exchange risk from various activities conducted in the normal course of business. The Company monitors currency exposure, and through the Investment Committee, mitigates this risk by appropriately matching significant foreign currency denominated liabilities with assets denominated in the same currency, the purchase or sale of the relevant currencies, and forward exchange contracts. The table below sets out the significant currency exposures of the Company.

2019	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	Other £'000	Total £'000
Financial investments	283,356	95,177	74,093	31,211	13,416	45,365	542,618
Overseas deposits	-	490	-	8,169	26,797	5,803	41,259
Reinsurers' share of technical provisions	46,071	66,810	45,223	9,728	27,111	-	194,943
(Re)insurance receivables	4,447	24,617	6,900	1,723	6,594	588	44,869
Cash & cash equivalents	5,652	16,450	68,119	165	4,130	4,784	99,300
Other assets	9,125	9,110	4,266	2,618	2,443	144	27,706
Total assets	348,651	212,654	198,601	53,614	80,491	56,684	950,695
Technical provisions	(118,740)	(189,489)	(187,006)	(38,138)	(87,153)	(19,453)	(639,979)
(Re)insurance payables	(8,482)	(6,563)	3,701	(2,629)	(1,418)	(7)	(15,398)
Other creditors	(6,382)	(6,978)	(23)	(260)	(140)	(115)	(13,898)
Total	(133,604)	(203,030)	(183,328)	(41,027)	(88,711)	(19,575)	(669,275)
Net assets	215,047	9,624	15,273	12,587	(8,220)	37,109	281,420

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Market risks *(continued)*

Currency risk

2018	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	Other £'000	Total £'000
Financial investments	63,588	305,112	44,252	44,168	24,222	29,810	511,152
Overseas deposits	-	389	-	7,260	20,190	1,433	29,272
Reinsurers' share of technical provisions	41,135	34,194	52,324	7,674	14,715	-	150,042
(Re)insurance receivables	5,674	18,439	7,536	1,688	7,010	3,116	43,463
Cash & cash equivalents	15,720	17,029	65,137	6,263	3,873	4,416	112,438
Other assets	9,956	7,933	2,912	2,313	1,873	108	25,095
Total assets	136,073	383,096	172,161	69,366	71,883	38,883	871,462
Technical provisions	(116,481)	(131,517)	(209,587)	(34,323)	(66,771)	(21,121)	(579,800)
(Re)insurance payables	(5,956)	(2,442)	(652)	(3,036)	(2,048)	-	(14,134)
Other creditors	201,359	(236,388)	41,439	(23,093)	(146)	(181)	(17,010)
Total	78,922	(370,347)	(168,800)	(60,452)	(68,965)	(21,302)	(610,944)
Net assets	214,995	12,749	3,361	8,914	2,918	17,581	260,518

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. Key areas where the Syndicate and Company are exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders and intermediaries; and
- amounts due from investment counterparties.

The Syndicate places limits on its exposure to a single counterparty or group of counterparties. Reinsurance is used to manage underwriting and reserving risk. This does not, however, discharge the Syndicate's liability as primary insurer.

If a reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy.

i) Premiums receivable and reinsurance debtors

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of receivables on the balance sheet.

An ageing analysis for certain receivables is provided below. Other receivable balances have not been shown below as they either have no overdue amounts or represent an insignificant portion of overdue amounts.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Credit risk *(continued)*

2019	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance debtors	39,790	349	1,048	885	197	42,269
Reinsurance debtors	2,413	-	-	-	187	2,600
Total	42,203	349	1,048	885	384	44,869

2018	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance debtors	38,198	1,187	463	1,017	184	41,049
Reinsurance debtors	2,236	-	9	25	144	2,414
Total	40,434	1,187	472	1,042	328	43,463

ii) Credit rating of financial assets
The following tables provide information regarding assets bearing credit risk that are neither overdue nor impaired, based on Standard and Poor's counterparty credit ratings. These ratings for assets relating to reinsurer' share of claims outstanding relate to balances accumulated over a number of years and so will not necessarily align with the rating allocations for current reinsurance programs. The credit risk relating to investments is monitored and assessed within an agreed risk appetite. The maximum exposure to credit risk loss at the end of the reporting period is the carrying amount of the investments on the balance sheet as they are measured at fair value.

Financial assets by credit rating	2019 £'000	2018 £'000
AAA	221,643	246,335
AA	94,573	105,329
A	245,716	221,288
BB	33,941	13,423
BBB and below	5,720	299
Not rated	262,945	203,447
	864,538	790,121

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Credit risk *(continued)*

ii) Credit rating of financial assets (continued)

Financial assets	2019 £'000	2018 £'000
Shares and other variable yield securities and unit trusts	**213,373**	181,390
Debt securities	**304,880**	326,959
Participation in investment pools	**5,558**	2,496
Overseas deposits as investments	**41,259**	29,272
Derivative asset	**18,807**	307
Reinsurer' share of claims outstanding	**178,948**	135,023
Reinsurance debtors	**2,413**	2,236
Cash at bank and in hand	**99,300**	112,438
	864,538	790,121

Liquidity risk
Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. The Investment Committee, a sub-committee of the Board, approves annually agreed limits on the minimum proportion of funds available to meet such calls, based on experience of claims settlement history and contemporaneous information.

A maturity analysis of the estimated gross claims outstanding liability based on the remaining term to payment at the reporting date, and the investments that have a fixed term is provided below.

	Gross outstanding claims liability		Investments	
Maturity analysis	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
No stated maturity	**-**	-	**223,480**	188,342
Within 1 year or less	**61,385**	54,550	**262,136**	252,476
Within 1 to 2 years	**60,303**	55,461	**22,790**	33,863
Within 2 to 3 years	**56,346**	50,676	**8,244**	13,379
Within 3 to 4 years	**51,741**	44,663	**7,684**	13,439
Within 4 to 5 years	**46,623**	38,592	**14,741**	7,258
Over 5 years	**289,544**	270,331	**3,543**	2,395
	565,942	514,273	**542,618**	511,152

The maturity of reinsurance claims recoveries follows the gross outstanding claims liability analysis above.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

18) INSURANCE RISK MANAGEMENT

Insurance risk
Insurance risk is defined as the risk of loss arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Insurance risk is sub-divided into underwriting, reinsurance and reserving risks:

Underwriting risk
Underwriting risk arises from fluctuations in the frequency and severity of financial losses incurred as a result of acceptance of insurance policies. The Syndicate manages underwriting risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business and through the purchase of reinsurance. Performance is monitored against the business plan on a regular basis. The Syndicate uses modelling software to model maximum probable losses from its exposure to catastrophes and large losses as part of its Realistic Disaster Scenario process.

A proportion of the Syndicate's business is written through delegated authorities. A delegated authority management group monitors coverholder performance, carries out due diligence on new and existing coverholders and manages regulatory requirements. The Syndicate has identified the areas of potential concentration of insurance exposure and monitors this and purchases reinsurance to protect against its gross effect.

Reinsurance risk
Reinsurance risk arises from the reinsurance purchased to protect the gross loss not responding as intended due to a mismatch with gross losses, poorly worded contracts, reinsurer counterparty risk or exhaustion of reinsurance limits. The primary purpose for our purchase of reinsurance cover is to reduce volatility associated with severe losses and systemic losses.

Reinsurance arrangements include excess of loss cover, and it is used to protect capital against underwriting risk volatility. Reinsurance creditworthiness is overseen by the reinsurance management group in placing cover.

Reserving risk
Reserving risk arises from claims reserves held on the balance sheet being understated or overstated. Reserves may be under or overstated due to the inherent uncertainty of knowing the ultimate timing and quantum of liabilities incurred.

Claims provisions represent estimates, based on the internal reserving actuary's statistical projections. The Syndicate estimates the ultimate settlement and administration costs of the claims incurred. Claims estimates are subject to independent review by the external actuary on an annual basis. The external actuary signs an annual Statement of Actuarial Opinion on the sufficiency of the Syndicate's reserves.

Assumptions
In order to determine the ultimate cost of claims, the Syndicate uses statistical projections on the claims to be included within each reserving class and for each underwriting year. The projections use a number of methods, with chain-ladder and Bornhuetter-Ferguson being the most extensively used on both gross and ceded information.

The basic chain-ladder method uses cumulative data to derive a set of development factors based on historical information, and are most appropriate for those classes and years of account that have reached a relatively stable development pattern.

The Bornhuetter-Ferguson method is a standard actuarial method used to project a set of underwriting year claims ultimates, and is usually used for more recent underwriting years where there is little claims development. The Bornhuetter-Ferguson method weights two independent estimates of the ultimates, the estimate calculated from the basic chain-ladder method and another independent estimate of the claims ultimate.

There has been no change in the methodologies used in determining the ultimate cost of claims in the year.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

18) INSURANCE RISK MANAGEMENT *(CONTINUED)*

Development

The table below shows the development of net undiscounted ultimate claims for the nine most recent underwriting years of account. All information presented in the table is reported at the current year-end rates of exchange.

Conditions and trends that have affected the development of the liabilities in the past may not occur in the future. Accordingly, conclusions about future results may not necessarily be derived from the information presented in the table below.

Gross of reinsurance

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At end of reporting year	43,399	34,194	50,113	29,259	27,717	26,240	38,635	44,158	42,114	
1 year later	88,459	72,771	86,499	76,577	70,809	62,855	84,721	113,194		
2 years later	79,438	72,649	97,257	76,328	66,735	65,680	107,997			
3 years later	78,172	71,382	90,609	83,288	69,131	75,137				
4 years later	72,304	72,470	86,659	69,906	75,931					
5 years later	68,790	67,183	74,589	76,289						
6 years later	71,931	72,744	66,144							
7 years later	64,221	68,969								
8 years later	61,056									
Cumulative payments	38,531	36,394	39,130	41,032	19,068	15,135	15,732	19,858	2,548	227,428
Estimated balance to pay	22,525	32,575	27,014	35,257	56,863	60,002	92,265	93,336	39,566	459,403
2010 & prior										106,539
Total gross provision included in the balance sheet										565,942

Net of reinsurance

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At end of reporting year	30,626	24,844	26,244	21,027	20,025	19,419	28,748	29,632	31,928	
1 year later	62,169	52,268	57,782	56,610	51,541	47,487	65,116	74,437		
2 years later	59,417	53,038	60,862	56,595	51,320	51,630	71,804			
3 years later	59,494	52,355	61,139	60,135	54,731	50,042				
4 years later	56,171	51,749	59,692	49,687	56,968					
5 years later	54,209	48,736	57,674	53,922						
6 years later	57,935	55,872	53,364							
7 years later	54,074	53,057								
8 years later	51,909									
Cumulative payments	32,748	29,294	33,988	29,941	18,089	14,702	14,533	16,781	2,373	192,449
Estimated balance to pay	19,161	23,763	19,376	23,981	38,879	35,340	57,271	57,656	29,555	304,982
2010 & prior										82,012
Total net provision included in the balance sheet										386,994

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

18) INSURANCE RISK MANAGEMENT *(CONTINUED)*

Sensitivity
The following table presents the sensitivity of the value of net insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. The sensitivity impact on the result for the year and net assets is determined by applying the factors listed below separately to net claims reserves excluding future claims handling costs, and future claims handling costs.

Impact on the result of the year and net assets £'000	Change in net claims reserves +1%	Change in net claims reserves -1%	Change in claims handling expenses +10%	Change in claims handling expenses -10%
2019	**(3,770)**	**3,770**	**(998)**	**998**
2018	(3,703)	3,703	(900)	900

19) CALLED UP SHARE CAPITAL

	2019 £	2018 £
Allotted, called up and fully paid 13,244,467 ordinary shares of £1 each	**13,244,467**	13,244,467

There is a single class of ordinary shares, with no restrictions on the distribution of dividends and the repayment of capital.

20) DEFERRED TAX

	2019 £'000	2018 £'000
Deferred tax asset / (liability) at start of period	**1,437**	(4,568)
(Charge) / credit to the profit and loss account	**(2,032)**	6,005
Deferred tax (liability) / asset at end of period	**(595)**	1,437

Deferred tax (liability) / asset relates to the following:

Result of open years of account	**(595)**	1,437
	(595)	1,437

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

21) OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2019 £'000	2018 £'000
Derivative – forward exchange contract	333	7,450
Other creditors	5,184	6,316
	5,517	13,766

22) TRANSACTIONS WITH RELATED PARTIES

As permitted by FRS 102 the Company has taken advantage of the exemption from disclosure of transactions with other wholly owned members of the Fairfax Group.

23) ULTIMATE PARENT UNDERTAKING

The immediate parent of the Company is Newline Holdings UK Limited ("NHUKL"), a company incorporated in Great Britain. NHUKL is a wholly owned subsidiary of Odyssey Reinsurance Company ("ORC"), part of the Odyssey Group. The ultimate parent is Fairfax Financial Holdings Limited ("Fairfax"), a company incorporated in Canada. ORC and Fairfax are the smallest and largest group undertakings in which the Company is consolidated. Group financial statements for Fairfax are available from the company secretary of NHUKL, Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

24) CAPITAL

Capital framework at Lloyd's
The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with the Solvency II Directive.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1218 is not disclosed in these annual financial statements.

Lloyd's capital setting process
In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement ("SCR") for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, to derive the Economic Capital Assessment ("ECA"). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 35% of the member's SCR 'to ultimate'.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

24) CAPITAL *(CONTINUED)*

Provision of capital to support Syndicate 1218
The corporate member is required to provide capital to meet the ECA of Syndicate 1218 either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's "FaL"), held within and managed within a syndicate (funds in syndicate "FIS") or as the member's share of the members' balances on each syndicate on which it participates.

Funds at Lloyd's
Capital has been provided in the form of first party Funds at Lloyd's by the Company. Only first party FaL in respect of capital resources is held.

The Company has taken advantage of the ability of fully aligned syndicates to place first party FaL into syndicate trust fund assets as FIS. As at 31 December 2019, £249.0m (2018: £221.8m) has been deposited as FIS and is reported on the balance sheet within financial investments, cash at bank and in hand and derivative liabilities. For regulatory reporting, these assets and liabilities are maintained within a separate portfolio.

The amount of funds supporting the Company's 2017, 2018, 2019 and 2020 underwriting capacity is set out below:

	2020 £'000	2019 £'000	2018 £'000	2017 £'000
Valuation of assets held within security arrangements:				
Investments	247,545	226,686	233,861	223,076
Cash	1,405	936	2,168	34
Derivative liability	-	(5,807)	-	(32,082)
Total Funds in Syndicate	248,950	221,815	236,029	191,028
Overall premium limit permitted	165,000	137,000	137,000	125,000
Overall premium limit allocated	165,000	137,000	137,000	125,000

The funds and its income may be applied in discharging the Company's obligations at Lloyd's. FIS of £249.3m at 31 December 2019 (2018: £222.0m) was comprised of investments and cash as disclosed above, in addition to accrued interest.

25) EVENTS AFTER THE BALANCE SHEET DATE

On 12th March 2020, the board approved a dividend payment of £5.0m to its immediate parent, Newline Holdings UK Limited.

Novel Coronavirus (COVID-19) pandemic
NCNL has considered its potential exposure, and that of the Syndicate to the Covid-19 virus and pandemic. NCNL does not expect to have any direct exposure as the Syndicate does not underwrite the classes of business which are commonly considered to have direct exposure to Covid-19: Contingency; Event Cancellation; Trade Credit; Accident & Health; Private Health Insurance; Travel; or Property Business Interruption or Contingent Business Interruption. Directors' & Officers and possibly General Liability and Medical Malpractice insurance policies issued by the Syndicate may in the future face indirect or contingent exposure to the Covid 19 virus and pandemic should claims, whether meritorious or otherwise, be made against the Syndicate's insureds. It is not possible to anticipate or quantify such indirect or contingent exposure at this time.

NOTES TO THE FINANCIAL STATEMENTS
(CONTINUED)

25) EVENTS AFTER THE BALANCE SHEET DATE *(CONTINUED)*

NCNL has also considered the impact of Covid-19 on its financial assets, and that of the Syndicate in light of stock market volatility around the world. The financial investments most impacted are held by the funds in Syndicate. Due to the current stock market volatility and economic uncertainty of the longer term impact on equities held in own funds, an accurate assessment of any permanent diminution in value of equities held cannot be made. However, a 25% fall in similar financial instruments traded on the market would result in asset values falling by £56.4m. Other receivables, including debtors arising out of direct insurance operations and from intermediaries are well diversified. It is too early to see the impact of Covid-19 on these receivables. As such, the directors consider that the financial assets are stated at fair value.

There has been no interruption to the day to day operations of the business as staff have been able to work remotely. Should the Government restrictions remain in place for the not too distant future we believe that the company will continue to remain operational to support its customers.