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NEWLINE
UNDERWRITING
MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

REPORT AND ACCOUNTS

31 DECEMBER 2014

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SYNDICATE INFORMATION
AT 31 DECEMBER 2014

NEWLINE SYNDICATE 1218

MANAGING AGENT	Newline Underwriting Management Ltd Suite 5/4, The London Underwriting Centre 3 Minster Court, Mincing Lane London EC3R 7DD
DIRECTORS	J Christiansen S Kapur R B Kastner J R F Micklem C A Overy M Scales J W J Spencer M G Wacek
COMPANY SECRETARY	J R F Micklem
ACTIVE UNDERWRITER	C A Overy (appointed 20th March 2014)
AUDITORS	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

MANAGING AGENT'S REPORT

AT 31 DECEMBER 2014

The Directors of the managing agent present their report and audited financial statements for the year ended 31 December 2014.

This annual report is prepared using the annual basis of accounting as required by the Statutory Instrument No 3219 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations").

PRINCIPAL ACTIVITY

Newline Underwriting Management Limited ("NUML") is the managing agent for Syndicate 1218. The principal activity of the Syndicate is the underwriting of casualty insurance business at Lloyd's. Syndicate 1218, whose capacity is 100% provided by Newline Corporate Name Limited had a capacity of £105.0m for the 2014 year of account (2013: £105.0m, 2012: £105.0m). Syndicate capacity is based on gross premiums net of commissions.

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

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 fraudulent or criminal acts committed by either employees or third parties and includes coverage for robbery, hold-ups, forged documents or computer crime, as well as dishonesty.

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 losses, that occur during the policy period, arising from employee injuries at work or activities of the company that cause damage to third parties.

Medical Malpractice

This line of business primarily provides coverage for hospitals and groups of individual physicians.

The Syndicate also underwrites satellite business through consortium participations.

MANAGING AGENT'S REPORT
(CONTINUED)

BUSINESS REVIEW

Results and performance

The result for the calendar year 2014 is a profit of £31.8m (2013: £16.0m). Profits and losses will continue to be distributed or called by reference to the results of individual underwriting years.

The combined ratio for 2014 is 92.2% (2013: 97.4%), resulting in an underwriting profit excluding investment return of £5.8m (2013: profit £2.1m). The combined ratio of 92.2% reflects the very challenging market environment we are currently operating in, together with some prior year releases across a number of Casualty classes.

Investment returns for the year were £26.1m (2013: £13.9m) against a backdrop of historically low interest rates and volatile Eurozone equity markets. Our equity portfolio performed strongly during the first half of the year; however, this was pegged back as fears over the Greek exit from the single Euro currency were priced into some of our holdings. Furthermore, whilst there was an expectation that bond yields would rise as markets anticipated the tapering of quantitative easing and a rise in interest rates, yields actually fell, particularly within our US denominated portfolio. This has contributed to unrealised gains within our Funds in Syndicate portfolio, which is largely denominated in US dollars and weighted towards long term bonds.

Gross written premiums for the year were £101.9m (2013: £106.3m), £4.4m or 4.2% lower, in converted sterling terms. Constant rates of exchange resulted in an increase in premium volumes of £1.8m or 1.8%. We remain cautious in our underwriting approach, particularly in the light of an uncertain economic outlook. Due to our concerns over the potential for a second Global Financial Crisis, we have reduced our product offering to Financial Institutions. As a result we have experienced lower retention rates and reduced premium volumes for this line of business. Overall, market conditions continue to be competitive.

The Syndicate's capacity for the 2015 year of account has been reduced slightly from £105.0m to £100.0m, although our income estimates for 2015 are broadly consistent with 2014. The plan for 2015 does envisage some premium income volatility across the range of product lines underwritten by the Syndicate, particularly given the current and relatively hard market environment for Italian Medical Malpractice business. Our expectations are that rates will remain broadly flat, although we anticipate some pressure on Directors and Officers Liability as a result of competition, although this is expected to be offset by increases from other product lines. Cargo and Specie, the new line added to the Syndicate's product offering in late 2013 is expected, in the medium term, to enhance profitability and provide some diversification away from the Syndicate's core Casualty portfolio. We continue to look for new cost effective means of growing our business profitably, whether this be through increasing our distribution channels or finding complementary or non-correlating short tailed classes of business to write.

Business environment

Competition between insurance entities can be based on a number of factors inter alia product, price, service, financial strength, distribution channels and reputation. In 2014 the insurance market continued to be extremely competitive as the supply of capital continued to exceed demand. The Syndicate's competitors include independent insurance companies, subsidiaries or affiliates of established worldwide insurance companies, 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.

During 2014, the rating environment for the Syndicate as a whole was broadly flat, with some variations at the product level. Notably, increases for Financial Institutions Professional Indemnity business have been offset by rate decreases in our Commercial Directors and Officers Liability book.

Casualty market participants continue to compete aggressively for business and we expect the rating environment to remain highly competitive, despite the on-going fragile recovery of the global economy. We anticipate rates to be broadly flat next year across all casualty lines, with continued pressure on rates on our Commercial Directors and Officers Liability business. For other classes we anticipate managing to maintain rates, and while there is little sign of a hardening of the market, we anticipate moderate rate increases within our Financial Institutions Professional Indemnity business.

MANAGING AGENT'S REPORT
(CONTINUED)

The intense competition, coupled with favourable development of claims experience, has positively impacted the cost of our 2015 outwards reinsurance programme.

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.

Price is a primary means of competition in the 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.

Future Outlook
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 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 MGA's where we have strong relations and/or proven track records.

In late 2014, the Syndicate established an underwriting platform in Labuan, Malaysia, and commenced underwriting Malaysian business as a Tier 2 reinsurer. Furthermore, the Syndicate is expecting to participate through Lloyd's China during 2015.

Solvency II ("SII")
During the year we continued to work with the Lloyd's Solvency II timetable to deliver all requirements and submitted our Confirmation of SII Compliance approved by the Board in December.

In July, Lloyd's introduced Minimum Standards which came into effect on 1 January 2015 which include the requirements of all relevant legislation including Solvency II. In the year before full implementation our focus is to establish a compliant framework that integrates the management and ongoing review of Solvency II compliance within the broader Minimum Standards.

We have established a governance process assigning responsibilities for Minimum Standards to ensure each is addressed and adherence monitored on a continual basis. This will establish a sound platform to enable us to deliver at any time, the status of our compliance with SII and any Lloyd's regulatory requirement in advance of the implementation date of January 1, 2016.

MANAGING AGENT'S REPORT
(CONTINUED)

Principal risks and uncertainties and Own Risk and Solvency Assessment ("ORSA")
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 main risks and uncertainties to our business arise from:

Underwriting and reserving risk
Underwriting risk arises from policies being written at inappropriate rates or terms or claims being greater than expected. Reserving risk arises from the ultimate cost of claims proving to be in excess of current estimates. Management has implemented a range of controls over all aspects of underwriting from a comprehensive strategic business plan, through detailed guidelines for each underwriting team, to specific authorities for each underwriter. Similarly, the reserve estimates are derived by actuarial review and supported by an internal control framework around the integrity of data, choice of assumptions and actuarial methodologies applied. Annually, the adequacy of reserves is subject to external actuarial review.

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 Group 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.

Currency risk
The Syndicate is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Sterling. The most significant currencies to which the Syndicate is exposed are the Euro, the Australian Dollar, the Canadian Dollar, and the US Dollar. This risk is mitigated by appropriately matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

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 is 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.

MANAGING AGENT'S REPORT
(CONTINUED)

Liquidity risk
Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. There are agreed limits on the minimum proportion of funds available to meet such calls.

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 Syndicate 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.

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

	2014	**2013**	
Gross Written Premiums	£101.9m	£106.3m	Gross premiums written, including acquisition costs, in respect of insurance contracts
Net written premiums	£75.4m	£74.5m	Gross Written Premiums less outward reinsurance in respect of insurance contracts
Underwriting result	£27.7m	£23.7m	Balance on technical account for general business
Net loss ratio	52.7%	63.9%	Ratio of net claims incurred to net earned premiums
Combined ratio	92.2%	97.4%	Ratio of net claims incurred, commissions and expenses to net premiums earned

DIRECTORS

The Directors listed below have held office from 1 January 2014 to the date of this report unless otherwise stated.

J Christiansen
P T Foley (resigned 20th March 2014)
S Kapur
R B Kastner
J R F Micklem
C A Overy
M Scales
J W J Spencer
M G Wacek

None of the Directors participate on the Syndicate, whose capacity is provided entirely by Newline Corporate Name Limited, a wholly owned subsidiary of Odyssey Reinsurance Company ("ORC").

MANAGING AGENT'S REPORT

(CONTINUED)

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 Syndicate's financial statements for the year ended 31 December 2014 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 Syndicate's auditors are aware of that information.

INDEPENDENT AUDITORS

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

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts as at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss that year.

In preparing the syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the financial statements on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

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

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and to enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

J R F Micklem
Director
12 March 2015

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1218

Report on the syndicate annual accounts

Our Opinion
In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited
The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss account for the year then ended;
- the statement of total recognised gains and losses for the year then ended;
- the cash flow statement; and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008
In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception
Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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
- the Managing Agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1218
(CONTINUED)

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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.

What an audit of syndicate annual accounts involves
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Managing Agent's Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Kirstie Hanley (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13 March 2015

PROFIT & LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	4	**101,887**	106,301
Outwards reinsurance premiums		**(26,521)**	(31,757)
Net premiums written		**75,366**	74,544
Change in the gross provision for unearned premiums		**(150)**	3,492
Change in the provision for unearned premiums, reinsurers' share		**(952)**	1,046
Change in the net provision for unearned premiums		**(1,102)**	4,538
Earned premiums, net of reinsurance		**74,264**	79,082
Allocated investment return transferred from the non-technical account		**21,880**	21,589
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		**(68,615)**	(99,035)
Reinsurers' share		**23,883**	31,416
Net claims paid		**(44,732)**	(67,619)
Change in the gross provision for claims		**30,297**	19,302
Reinsurers' share		**(24,709)**	(2,216)
Change in the net provision for claims		**5,588**	17,086
Claims incurred, net of reinsurance		**(39,144)**	(50,533)
Net operating expenses	6	**(29,326)**	(26,475)
Balance on the technical account for general business		**27,674**	23,663

All operations are continuing.

The notes on pages 15 to 26 form an integral part of these financial statements.

PROFIT & LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	**2014**	2013
		£'000	£'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		**27,674**	23,663
Investment income	9	**50,183**	10,050
Net unrealised (losses) / gains on investments	9	**(21,925)**	6,009
Investment expenses and charges	9	**(2,184)**	(2,154)
		26,074	13,905
Allocated investment return transferred to the general business technical account		**(21,880)**	(21,589)
Other charges		**(40)**	(12)
PROFIT FOR THE FINANCIAL YEAR		**31,828**	15,967

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	**2014**	2013
		£'000	£'000
Profit for the financial year	12	**31,828**	15,967
Currency translation difference	12	**11,851**	(6,224)
TOTAL RECOGNISED GAINS AND LOSSES		**43,679**	9,743

The notes on pages 15 to 26 form an integral part of these financial statements.

NEWLINE UNDERWRITING MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

BALANCE SHEET
AS AT 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
ASSETS			
Investments			
Financial investments	10	**455,918**	393,422
Deposits with ceding undertakings		**-**	62
Reinsurers' share of technical provisions			
Provision for unearned premiums		**16,402**	17,733
Claims outstanding		**125,249**	151,442
Debtors			
Arising out of direct insurance operations, due from intermediaries		**30,753**	28,137
Arising out of reinsurance operations		**3,731**	8,737
Other debtors		**3,617**	2,277
Other assets			
Cash at bank and in hand		**53,983**	64,042
Overseas deposits	11	**40,672**	65,734
Other		**-**	40
Prepayments			
Accrued interest and rent		**1,411**	1,595
Deferred acquisition costs		**9,070**	7,804
Other prepayments and accrued income		**2,451**	1,947
Total assets		**743,257**	742,972
LIABILITIES			
Capital and Reserves			
Member's Balances	12	**195,451**	151,772
Technical provisions			
Provision for unearned premiums		**46,615**	47,377
Claims outstanding		**474,944**	517,695
Creditors			
Arising out of direct insurance operations, due to intermediaries		**443**	1,213
Arising out of reinsurance operations		**19,036**	19,368
Other creditors including taxation and social security		**4,236**	3,342
Accruals and deferred income		**2,532**	2,205
Total liabilities		**743,257**	742,972

Approved by the board of Directors on 12 March 2015.

J R F Micklem
Director

The notes on pages 15 to 26 form an integral part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 £'000	2013 £'000
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES		**9,023**	(23,464)
Transfer to members in respect of underwriting participations			
Profit distributions	12	**(17,920)**	(12,022)
Financing			
Profit distributed to Funds in Syndicate		**17,920**	-
NET MOVEMENT ARISING FROM CASH FLOWS	13	**9,023**	(35,486)

Cash flows were invested as follows:

	Notes	2014 £'000	2013 £'000
(Decrease) / increase in cash holdings	13	**(9,423)**	24,278
(Decrease) in overseas deposits	13	**(23,476)**	(14,342)
Increase / (decrease) in portfolio investment	14	**41,922**	(45,422)
NET APPLICATION OF CASH FLOWS		**9,023**	(35,486)

Reconciliation of operating profit to net cash inflow / (outflow) from operating activities

	Notes	2014 £'000	2013 £'000
Operating profit		**31,828**	15,967
Changes in market value and exchange rates on investments	13	**(18,290)**	8,860
(Decrease) in net technical provisions		**(15,988)**	(29,695)
(Increase) in debtors		**(496)**	(133)
Increase / (decrease) in creditors		**118**	(12,239)
Currency translation differences		**11,851**	(6,224)
NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES		**9,023**	(23,464)

The notes on pages 15 to 26 form an integral part of these financial statements.

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 2014

1) BASIS OF PREPARATION

The financial statements have been prepared in accordance with Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") and applicable Accounting standards in the United Kingdom. They comply with the Statement of Recommended Practice issued by the Association of British Insurers the ("ABI SORP") in December 2005 (as amended in 2006).

The directors of the managing agent have prepared the financial statements on the basis that the Syndicate will continue to underwrite business in the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2) REPORTING BASIS

The result for the year is determined on the annual basis of accounting in accordance with UK GAAP.

3) ACCOUNTING POLICIES

A summary of the significant accounting policies is set out below. These policies have been applied consistently unless otherwise stated.

a) Basis of accounting

The financial statements have been prepared on an annual basis of accounting whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

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.

Insurance contracts
Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Syndicate 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.

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.

Acquisition costs
Acquisition costs represent commissions and are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

NOTES TO THE ACCOUNTS
(CONTINUED)

3) ACCOUNTING POLICIES *(CONTINUED)*

a) Basis of accounting (continued)

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

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.

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.

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.

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. 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.

NOTES TO THE ACCOUNTS
(CONTINUED)

3) ACCOUNTING POLICIES (*CONTINUED)*

a) Basis of accounting (continued)

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 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.

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.

b) Financial investments

Listed and other traded investments are stated at market value on the balance sheet date using the bid price. Unrealised gains and losses are recognised in the profit and loss account.

c) 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.

Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price. Investment expenses and charges comprise investment management expenses and losses on the realisation of investments.

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 investments gains and losses includes an adjustment for previously recognised unrealised gains and losses of those investments disposed of in the accounting period.

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 the underwriting business. Investment return on the Funds in Syndicate is not transferred and remains in the non-technical account.

d) Foreign currencies

Income and expenditure in US Dollars, Euros, Australian Dollars and Canadian Dollars 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 technical account within net operating expenses.

Exchange differences arising from translating the opening balance sheet to closing rates of exchange and the result from average rates of exchange to closing rates of exchange are taken through the balance sheet within members' balances and reflected in the statement of total recognised gains and losses.

NOTES TO THE ACCOUNTS
(CONTINUED)

3) ACCOUNTING POLICIES (*CONTINUED)*

e) Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income, including capital appreciation, of syndicates. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents; therefore the distribution made to members is gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on the underwriting results.

f) Overseas deposits

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

g) Syndicate operating expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of the managed Syndicate, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and the managed Syndicate are apportioned between the Managing Agent and the Syndicate depending on the amount of work performed, resources used and the volume of business transacted.

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.

NOTES TO THE ACCOUNTS
(CONTINUED)

4) 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 for the purposes of Statement of Standard Accounting Practice Number 25.

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

2014	**Gross premiums written £'000**	**Gross premiums earned £'000**	**Gross claims incurred £'000**	**Gross operating expenses £'000**	**Reinsurance balance £'000**
Direct insurance					
Third party liability	**91,843**	**92,643**	**(33,908)**	**(29,143)**	**(23,345)**
Aviation	**1,181**	**1,013**	**(1,799)**	**(250)**	**(4)**
Energy-non marine	**149**	**127**	**(44)**	**(30)**	**(48)**
Other direct	**856**	**472**	**(616)**	**(603)**	**117**
Total direct	**94,029**	**94,255**	**(36,367)**	**(30,026)**	**(23,280)**
Reinsurance acceptances	**7,858**	**7,482**	**(1,951)**	**(2,386)**	**(1,933)**
Total	**101,887**	**101,737**	**(38,318)**	**(32,412)**	**(25,213)**

2013	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Third party liability	96,397	99,394	(75,630)	(27,829)	3,392
Aviation	1,084	1,140	340	(249)	30
Energy-non marine	132	135	(107)	(36)	48
Other direct	(16)	(16)	(18)	-	4
Total direct	97,597	100,653	(75,415)	(28,114)	3,474
Reinsurance acceptances	8,704	9,140	(4,318)	(2,447)	(897)
Total	106,301	109,793	(79,733)	(30,561)	2,577

NOTES TO THE ACCOUNTS

(CONTINUED)

5) 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 positive deviation of £10.9m (2013: positive deviation of £5.0m); this comprises of releases £8.5m in respect of direct Third Party Liability business and £2.4m in respect of total Reinsurance business.

6) NET OPERATING EXPENSES

Member's standard personal expenses are included within administrative expenses.

Total commissions for direct insurance accounted for in the year amounted to £17.6m (2013: £16.7m).

	2014	2013
	£'000	£'000
Acquisition costs - commissions	**23,707**	22,184
Change in deferred acquisition costs	**(1,275)**	424
Administrative expenses	**8,934**	6,886
Loss on exchange	**1,258**	770
Reinsurers' commissions and profit participations	**(3,298)**	(3,789)
	29,326	26,475

Administrative expenses include:

	2014	2013
	£'000	£'000
Auditors' remuneration		
Audit services		
Fees payable to the company's auditor for the audit of Syndicate 1218	**232**	242
Non-audit services		
Fees payable to the company's auditor for other services;		
Other services pursuant to legislation - actuarial	**113**	113
Other services – Solvency II	**46**	45
	391	400

NOTES TO THE ACCOUNTS
(CONTINUED)

7) STAFF NUMBERS AND COSTS

	2014	2013
	£'000	£'000
Wages and salaries	**6,626**	5,518
Social security costs	**921**	752
Other pension costs	**639**	540
Other staff related costs	**1,010**	801
	9,196	7,611

The average number of employees employed by the managing agency but working for the Syndicate during the year was as follows:

	2014	2013
	Number	Number
Management	**6**	5
Underwriting	**25**	22
Claims	**10**	10
Information technology	**3**	3
Administration, finance and compliance	**22**	20
	66	60

8) EMOLUMENTS OF THE DIRECTORS OF NEWLINE UNDERWRITING MANAGEMENT LIMITED

The directors of Newline Underwriting Management Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2014	2013
	£'000	£'000
Emoluments	**1,009**	835
Contribution to pension scheme	**81**	183

Retirement benefits are accruing for five directors (2013: five) under money purchase schemes.

The active underwriter received the following remuneration charged to the Syndicate:

	2014	2013
	£'000	£'000
Emoluments	**415**	232
Contribution to pension scheme	**30**	88

NOTES TO THE ACCOUNTS
(CONTINUED)

9) INVESTMENT RETURN

	2014 £'000	2013 £'000
Investment income		
Income from financial investments	**9,247**	8,348
Realised gains on realisation of investments	**44,723**	9,448
Realised losses on realisation of investments	**(3,787)**	(7,746)
	50,183	10,050
Total investment expenses and charges		
Investment management expenses, including charges	**(2,184)**	(2,154)
	(2,184)	(2,154)
Net unrealised (losses) / gains	**(21,925)**	6,009
Total investment return	**26,074**	13,905

The above figures include a profit of £4.2m (2013: loss £7.7m) arising from investment returns earned on cash and bonds deposited by Newline Corporate Name Limited into Funds in Syndicate.

10) FINANCIAL INVESTMENTS

	2014 £'000 Market value	2013 £'000 Market value	**2014 £'000 Cost**	2013 £'000 Cost
Shares and other variable yield securities	**129,139**	87,919	**136,350**	71,779
Debt securities and other fixed income securities	**324,466**	300,242	**296,870**	308,237
Participation in investment pools	**2,313**	5,261	**2,287**	5,205
	455,918	393,422	**435,507**	385,221

NOTES TO THE ACCOUNTS
(CONTINUED)

11) OVERSEAS DEPOSITS

Overseas deposits of £40.7m (2013: £65.7m) comprise deposits which are lodged as a condition of conducting underwriting business in certain countries.

12) RECONCILIATION OF MEMBER'S BALANCES

	2014	2013
	£'000	£'000
Member's balances at 1 January	**151,772**	154,051
Profit for the financial year	**31,828**	15,967
Distribution of profit to member's personal reserve funds	**(17,920)**	(12,022)
Profit distributed to Funds in Syndicate	**17,920**	-
Currency translation differences	**11,851**	(6,224)
Member's balances carried forward at 31 December	**195,451**	151,772

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

NOTES TO THE ACCOUNTS
(CONTINUED)

13) MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

	2014 **£'000**	2013 £'000
Cash flow:		
(Decrease) / increase in cash holdings	**(9,423)**	24,278
Decrease in overseas deposits	**(23,476)**	(14,342)
Increase / (decrease) in portfolio investments	**41,922**	(45,422)
Movement arising from cash flows	**9,023**	(35,486)
Changes in market value and exchange rates	**18,290**	(8,860)
Total movement in portfolio investments and cash	**27,313**	(44,346)
Balance at 1 January	**523,260**	567,606
Balance at 31 December	**550,573**	523,260

	At 1 January 2014 £'000	**Cash flow £'000**	**Changes to market value & currencies £'000**	**At 31 December 2014 £'000**
Cash at bank and in hand	64,042	(9,423)	(636)	**53,983**
Overseas deposits	65,734	(23,476)	(1,586)	**40,672**
Deposits with ceding undertakings	62	-	(62)	**-**
	129,838	(32,899)	(2,284)	**94,655**
Portfolio investments:				
Shares and other variable yield securities	87,919	52,375	(11,155)	**129,139**
Debt and other fixed income securities	300,242	(7,245)	31,469	**324,466**
Participation in investment pools	5,261	(3,208)	260	**2,313**
Total portfolio investments	393,422	41,922	20,574	**455,918**
Total cash, portfolio investments and financing	523,260	9,023	18,290	**550,573**

NEWLINE UNDERWRITING MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

NOTES TO THE ACCOUNTS
(CONTINUED)

14) NET CASH (OUTFLOW) / INFLOW ON PORTFOLIO INVESTMENTS

	2014 £'000	2013 £'000
Purchases:		
Shares and other variable yield securities	**(172,810)**	(87,114)
Debt and other fixed income securities	**(725,361)**	(567,475)
Participation in investment pools	**(119,574)**	(58,393)
Sales:		
Shares and other variable yield securities	**120,435**	53,486
Debt and other fixed income securities	**732,606**	647,276
Participation in investment pools	**122,782**	57,642
Net cash (outflow) / inflow on portfolio investments	**(41,922)**	45,422

15) RELATED PARTIES

Newline Underwriting Management Limited ("NUML"), a company incorporated in England, is the managing agent for Syndicate 1218. Newline Corporate Name Limited ("NCNL"), a company incorporated in England, is the sole member of Syndicate 1218. NUML and NCNL are wholly owned subsidiaries of Newline Holdings UK Limited ("NHUKL"), a wholly owned subsidiary of Odyssey Reinsurance Company ("ORC"), part of the Odyssey Re Group. The ultimate parent is Fairfax Financial Holdings Limited ("Fairfax"), a company incorporated in Canada. Group accounts for Fairfax are available from the company secretary of NUML, Suite 5/4, The London Underwriting Centre, 3 Minster Court, Mincing Lane, London, EC3R 7DD.

During the calendar year 2014, NUML recharged expenses amounting to £12.6m (2013 £11.8m) to the Syndicate.

Newline Underwriting Limited, Newline Asia Services PTE Limited, Newline Australia Insurance Pty Limited and Newline Malaysia Limited are wholly owned subsidiaries of NHUKL and operate as insurance agents for the Syndicate. Newline Underwriting Limited specialises in smaller value employers' and public liability and professional indemnity risks, Newline Asia Services PTE Limited and Newline Malaysia Limited specialise in casualty insurance business in Singapore and other Asian territories and Newline Australia Insurance Pty Limited specialises in casualty insurance business in Australia. No profit is received by NHUKL from the activities of these service companies.

Hamblin Watsa Investment Counsel Ltd. ("HWIC"), a Fairfax subsidiary, provides investment management services to the Syndicate. Fees are charged to NUML and recharged to the Syndicate. During 2014, investment management charges totalled £1.7m (2013: £2.2m).

On October 12, 2012, Fairfax acquired Brit Insurance Limited ("Brit") through a subsidiary, Riverstone Holdings Limited. During the year, the Syndicate received £3.0m (2013: £2.1m) from Brit through net reinsurance settlements, with £0.2m refund to Brit being due on paid claims at the year end. The Syndicate holds reinsurance contracts with Brit, which has subsequently been renamed Riverstone Insurance Limited.

During 2014, the Syndicate has placed business (both inwards and outwards) with ORC. Reinsurance premiums of £1.5m (2013: £nil) have been ceded to ORC in respect of the Syndicates core excess of loss program, and are placed at market rates and terms. At the end of the year, £nil (2013: £nil) was due to ORC.

Mr. J Spencer, a non-executive director of the managing agency is also a non-executive director of Thompson Heath & Bond Limited ("THB"). In 2014, THB placed £557,000 (2013: £866,000) of gross written premiums with Syndicate 1218, on an arm's length basis.

NOTES TO THE ACCOUNTS
(CONTINUED)

16) FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL"). These assets are intended primarily to cover circumstances where syndicate assets prove insufficient to meet underwriting liabilities. Capital has been provided in the form of first party FAL by NCNL. Third party FAL has been provided by Odyssey Reinsurance Company ("ORC").

The level of FAL is determined by Lloyd's based upon PRA requirements which consider all elements of risk, the largest elements of which relate to underwriting, including reserve risk, and investments. As the third party FAL is not under the management of NUML, no amount in respect of such capital resources is shown in these financial statements. However, the managing agent is able to make a call on this FAL to meet liquidity requirements or to settle losses.

17) FUNDS IN SYNDICATE

The corporate member of the Syndicate has taken advantage of the ability of fully aligned syndicates to place first party FAL into syndicate trust fund assets as Funds in Syndicate ("FIS"). As at 31 December 2014, £167.9m (2013: £138.1m) has been deposited as FIS and is reported on the balance sheet within financial investments and cash at bank and in hand. For regulatory reporting, these assets are maintained within a separate portfolio.