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The syndicate reports and accounts set forth in this section of the Lloyd’s website, which have been filed with Lloyd’s in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd’s, and Lloyd’s has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd’s or membership on any syndicate of Lloyd’s, and no offer to join Lloyd’s or any syndicate is being made hereby. Members of Lloyd’s are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate’s performance in any subsequent syndicate year.

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NEWLINE
UNDERWRITING
MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

REPORT AND ACCOUNTS

31 DECEMBER 2016

CONTENTS

SYNDICATE INFORMATION
AT 31 DECEMBER 2016

NEWLINE SYNDICATE 1218

MANAGING AGENT	Newline Underwriting Management Ltd Corn Exchange 55 Mark Lane London EC3R 7NE
DIRECTORS	J Christiansen N D Duncan S Kapur R B Kastner C A Overy M Scales J W J Spencer M G Wacek H J L Withinshaw
COMPANY SECRETARY	H J L Withinshaw
ACTIVE UNDERWRITER	C A Overy
AUDITORS	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

MANAGING AGENT'S REPORT

AT 31 DECEMBER 2016

The Directors of the managing agent present their report and audited annual accounts for the year ended 31 December 2016.

This annual report is prepared using the annual basis of accounting as required by Regulation 5 of Statutory Instrument No 1950 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 primarily 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 £100.0m for the 2016 year of account (2015: £100.0m, 2014: £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 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 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 insurance coverage for hospitals and groups of individual physicians.

The Syndicate also underwrites satellite business through consortium participations. During 2016, the Syndicate also commenced underwriting inwards reinsurance treaty business.

MANAGING AGENT'S REPORT
(CONTINUED)

BUSINESS REVIEW

Results and performance
The result for the calendar year 2016 is a profit of £35.2m (2015: loss of £15.7m). Profits and losses will continue to be distributed or called by reference to the results of individual underwriting years.

The combined ratio for 2016 is 86.2% (2015: 83.9%), resulting in an underwriting profit excluding investment return of £11.4m (2015: profit £12.0m). The combined ratio of 86.2% reflects the very challenging market environment we are currently operating in, combined with prior year releases across a number of Casualty classes.

Investment gains for the year were £34.3m (2015: £31.5m loss) against a backdrop of historically low interest rates, and the political uncertainty surrounding the UK electorate's decision on Brexit and the Presidential elections in the United States. The Syndicate's investment portfolio recorded investment returns of £14.6m (2015: £1.0m). The investments supporting the Funds in Syndicate and surplus capital accumulated investment returns of £19.7m (2015: loss £32.4m).

Gross written premiums for the year were £100.4m (2015: £95.8m), £4.6m or 4.8% higher, in converted sterling terms. At constant rates of exchange, this represents a decrease in premium of £3.4m or 3.5%. This decrease in volumes is largely driven by reduced levels of Medical Malpractice business where we have non-renewed several Italian hospitals due to our required price not being met, partially offset by increases in business volumes in our Liability book. We remain cautious in our underwriting approach, given the continuing uncertain economic outlook. Market conditions, overall, continue to be competitive.

The Syndicate's capacity for the 2017 year of account has been increased to £125.0m, and our income estimates for 2017 are higher than 2016. Treaty Reinsurance business represents the most significant area of growth in the 2017 plan, with more modest growth coming from Liability and Cargo & Specie. We will continue to look for cost-effective means of growing our portfolio 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 2016, 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 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 was broadly flat during 2016. There were some variations at the product level, with the most notable being reductions for Commercial Professional Indemnity, Cargo & Specie.

Casualty market participants continue to compete aggressively for business and we expect the rating environment to remain highly competitive, given the slow and uncertain recovery of the global economy, and the changing landscape post Brexit. We anticipate rates being broadly flat, or reducing slightly, next year across all casualty lines. With no signs of a hardening market in the near term; Inwards Reinsurance Treaty business is the main area where we anticipate meaningful growth.

MANAGING AGENT'S REPORT
(CONTINUED)

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 (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.

Principal risks and uncertainties
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 "Own Risk and Solvency Assessment" ("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.

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 (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.

In late 2014, the Syndicate established an underwriting platform in Labuan, Malaysia, and commenced underwriting Malaysian business as a Tier 2 reinsurer. Volume from this continues to grow. The Syndicate is now, additionally, participating in Lloyd's China, with modest volumes recorded in 2016, but some growth anticipated in 2017.

MANAGING AGENT'S REPORT
(CONTINUED)

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

Solvency II ("SII")
Solvency II came into force on January 1, 2016. Pillar 1 quantitative requirements and Pillar 2 qualitative requirements have been embedded into our operations. Day One reporting was completed in April 2016 and quarterly reporting thereafter.

The Board has established a governance process assigning responsibilities for Minimum Standards to ensure each is addressed and adherence monitored on a continual basis. The Board further attested to full compliance with Lloyd's Minimum Standards (which came into effect on 1 January 2015) in March 2016, and continues to maintain and adhere to these Standards.

With respect to our capital requirements for 2016 Lloyd's approved the Syndicate Solvency Capital Requirement, calculated using the Syndicate's Internal Model, in November 2015. Lloyd's Internal Model obtained approval from the PRA in December 2015 for use in setting its statutory capital.

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

	2016	**2015**	
Gross Written Premiums	£100.4m	£95.8m	Gross premiums written, including acquisition costs, in respect of insurance contracts
Net written premiums	£80.5m	£76.2m	Gross Written Premiums less outward reinsurance in respect of insurance contracts
Technical result	£25.9m	£13.0m	Balance on technical account for general business
Net loss ratio	42.6%	43.1%	Ratio of net claims incurred to net earned premiums
Combined ratio	86.2%	83.9%	Ratio of net claims incurred, commissions and expenses to net premiums earned

DIRECTORS

The Directors listed below have held office from 1 January 2016 to the date of this report unless otherwise stated.

J Christiansen
N D Duncan (appointed 16 June 2016)
S Kapur
R B Kastner
J R F Micklem (resigned 1 October 2016)
C A Overy
M Scales
J W J Spencer
M G Wacek
H J L Withinshaw (appointed 1 October 2016)

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").

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.

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 annual accounts for the year ended 31 December 2016 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 and have acted as auditors of the Syndicate since 1999. Within the wider Newline group, there is a public interest entity with an external audit subject to tender for the 2017 year end, and mandatory rotation by 2025 under new EU rules on auditor rotation. On the recommendation of the Audit Committee, the Board of NUML is to put out to tender the external audit of the Syndicate, as part of a wider Newline group tender process.

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), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland ("FRS 102"), and Financial Reporting Standard 103 Insurance Contracts ("FRS 103"). 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 and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRSs 102 and 103 have been followed, subject to any material departures disclosed and explained in the annual accounts;
- notify the members in writing about the use of disclosure exemptions, if any, of FRS 102 and FRS 103 used in preparation of the annual accounts; and
- prepare the annual accounts 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 annual accounts.

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

S Kapur
Director
13 March 2017

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1218

Report on the syndicate annual accounts

Our Opinion
In our opinion, Syndicate 1218's syndicate annual accounts (the "syndicate annual accounts"):
- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 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 2016, included within the 'Report and Accounts' (the "Annual Report"), comprise:
- the statement of financial position as at 31 December 2016;
- the profit and loss account and the statement of comprehensive income for the year then ended;
- the statement of changes in member's balances as at 31 December 2016;
- 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 United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (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 matter 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 7, the Managing Agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1218

(CONTINUED)

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.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with 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 Annual 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 2017

PROFIT & LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	5	**100,411**	95,784
Outwards reinsurance premiums		**(19,933)**	(19,536)
Net premiums written		**80,478**	76,248
Change in the gross provision for unearned premiums		**4,916**	656
Change in the provision for unearned premiums, reinsurers' share		**(3,362)**	(2,545)
Change in the net provision for unearned premiums		**1,554**	(1,889)
Earned premiums, net of reinsurance		**82,032**	74,359
Allocated investment return transferred from the non-technical account		**14,558**	961
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		**(64,651)**	(58,690)
Reinsurers' share		**16,033**	10,907
Net claims paid		**(48,618)**	(47,783)
Change in the gross provision for claims		**22,832**	9,061
Reinsurers' share		**(9,146)**	6,643
Change in the net provision for claims		**13,686**	15,704
Claims incurred, net of reinsurance		**(34,932)**	(32,079)
Net operating expenses	7	**(35,742)**	(30,285)
Balance on the technical account for general business		**25,916**	12,956

All operations are continuing.

The notes on pages 15 to 38 form an integral part of these annual accounts.

PROFIT & LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		**25,916**	12,956
Investment income	10	**(16,454)**	16,036
Net unrealised gains / (losses) on investments	10	**52,551**	(46,322)
Investment expenses and charges	10	**(1,823)**	(1,173)
		34,274	(31,459)
Allocated investment return transferred to the general business technical account		**(14,558)**	(961)
Other income	11	**(10,427)**	3,726
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		**35,205**	(15,738)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £'000	2015 £'000
Profit / (loss) for the financial year	**35,205**	(15,738)
Other comprehensive income	**-**	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**35,205**	(15,738)

The notes on pages 15 to 38 form an integral part of these annual accounts.

NEWLINE UNDERWRITING MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
ASSETS			
Investments			
Other financial investments	12	**548,161**	385,079
Reinsurers' share of technical provisions			
Provision for unearned premiums		**12,500**	13,017
Claims outstanding		**137,870**	129,740
Debtors			
Arising out of direct insurance operations, due from intermediaries		**32,595**	32,451
Arising out of reinsurance operations		**2,894**	6,076
Other debtors		**2,656**	1,141
Other assets			
Cash at bank and in hand		**38,388**	97,048
Overseas deposits	13	**29,600**	31,140
Prepayments			
Accrued interest and rent		**1,604**	1,584
Deferred acquisition costs	14	**12,816**	10,575
Other prepayments and accrued income		**2,324**	1,973
Total assets		**821,408**	709,824
LIABILITIES			
Capital and Reserves			
Member's Balances		**213,889**	178,965
Technical provisions			
Provision for unearned premiums		**46,305**	45,018
Claims outstanding		**491,854**	453,853
Creditors			
Arising out of direct insurance operations, due to intermediaries		**7,085**	1,781
Arising out of reinsurance operations		**16,627**	14,425
Other creditors including taxation and social security	15	**44,178**	13,385
Accruals and deferred income		**1,470**	2,397
Total liabilities		**821,408**	709,824

Approved by the board of Directors on 9 March 2017.

S Kapur
Director

The notes on pages 15 to 38 form an integral part of these annual accounts.

STATEMENT OF CHANGES IN MEMBER'S BALANCES
AT 31 DECEMBER 2016

	Due to / (from) member £'000	Funds in Syndicate £'000	Total £'000
At 1 January 2015	**26,430**	**169,021**	**195,451**
Profit / (loss) for the year	16,182	(31,920)	(15,738)
Total comprehensive income for the year	**16,182**	**(31,920)**	**(15,738)**
Distribution to Funds in Syndicate	(35,588)	35,588	-
Distribution to member	(748)	-	(748)
Total distribution to Funds in Syndicate and member	(36,336)	35,588	(748)
At 31 December 2015	**6,276**	**172,689**	**178,965**
Profit for the year	32,588	2,617	35,205
Total comprehensive income for the year	**32,588**	**2,617**	**35,205**
Distribution to Funds in Syndicate	(16,918)	16,918	-
Distribution to member	(281)	-	(281)
Total distribution to Funds in Syndicate and member	(17,199)	16,918	(281)
At 31 December 2016	**21,665**	**192,224**	**213,889**

The notes on pages 15 to 38 form an integral part of these annual accounts.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £'000	2015 £'000
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (loss) for the financial year	**35,205**	(15,738)
Increase / (decrease) in gross technical provisions	**39,290**	(22,690)
(Increase) in reinsurers' share of gross technical provisions	**(7,613)**	(1,106)
(Increase) in debtors	**(1,090)**	(2,766)
Increase in creditors	**37,371**	477
Investment return	**(34,274)**	31,459
Foreign exchange on cash and cash equivalents and settlement of forward exchange contracts	**(16,789)**	8,084
NET CASH FLOWS FROM OPERATING ACTIVITIES	**52,100**	(2,280)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of equity and debt instruments	**(495,049)**	(453,773)
Sale of equity and debt instruments	**491,456**	493,138
Purchase of derivatives	**(8,847)**	-
Sale of derivatives	**3,913**	-
Investment income received	**10,896**	8,818
Foreign exchange	**(41,076)**	-
NET CASH USED IN INVESTING ACTIVITIES	**(38,707)**	48,183
CASH FLOW FROM FINANCING ACTIVITIES		
Distribution of profit	**(17,199)**	(36,336)
Distribution of profit transferred to Funds in Syndicate	**16,918**	35,589
Other	**-**	(2,627)
NET CASH USED IN FINANCING ACTIVITIES	**(281)**	(3,374)
Net increase in cash and cash equivalents in the year	**13,112**	42,529
Cash and cash equivalents at the beginning of the year	**137,224**	94,695
Foreign exchange on cash and cash equivalents	**21,722**	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**172,058**	137,224
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash at bank and in hand	**38,388**	97,048
Short term deposits with credit institutions	**133,670**	40,176
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**172,058**	137,224

The notes on pages 15 to 38 form an integral part of these annual accounts.

NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2016

1) GENERAL INFORMATION

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 £100.0m for the 2016 year of account (2015: £100.0m, 2014: £105.0m). Newline Underwriting Management Limited ("NUML") is the managing agent for Syndicate 1218. The registered office of NUML is Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

2) ACCOUNTING POLICIES

The annual accounts 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, 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.

The Syndicate has adopted the amendment to FRS 102 issued in March 2016 to the fair value hierarchy disclosure of financial instruments. This amendment to the fair value hierarchy reporting of financial instruments simplifies the disclosure, whilst increasing the consistency with disclosures required under EU-adopted IFRS.

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these annual accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The directors of the managing agent have prepared the annual accounts 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.

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

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 syndicate'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) 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.

b) 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.

NOTES TO THE ACCOUNTS
(CONTINUED)

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

c) 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.

d) 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.

e) Reinsurance premiums ceded

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

f) 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.

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 Syndicate's 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 period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

g) 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.

h) 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.

NOTES TO THE ACCOUNTS
(CONTINUED)

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

i) 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.

j) Financial instruments

The Syndicate has chosen to adopt the provisions of Sections 11 and 12 of FRS 102 in respect of the valuation of financial investments, which are designated by the Syndicate 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.

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 Syndicate 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 Syndicate 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.

NOTES TO THE ACCOUNTS
(CONTINUED)

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

k) 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 investments 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.

l) Foreign currencies
i) Functional and presentation currency
The Syndicate'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 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 income.

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.

m) 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.

n) Overseas deposits
Overseas deposits are stated at fair value at the balance sheet date.

NOTES TO THE ACCOUNTS
(CONTINUED)

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

o) 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. Short term benefits (including holiday pay) and annual bonus arrangements for employees of the Managing Agency are included within this expense.

p) 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.

q) Related party transactions

The Syndicate discloses transactions with related parties. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors of NUML, separate disclosure is necessary to understand the effect of the transactions.

4) SIGNIFICANT JUDGEMENTS AND ESTIMATES

Preparation of the annual accounts requires management to make significant judgements and estimates. The items in the annual accounts 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. 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 for prudence as part of the reserve estimate, known as the Management Adjustment. At 31 December 2016, the carrying value of net claims IBNR is £236.8m (2015: £208.4m), and the Management Adjustment in excess of the best estimate of net reserves was £19.3m (2015: £15.9m).

NOTES TO THE ACCOUNTS
(CONTINUED)

4) SIGNIFICANT JUDGEMENTS AND ESTIMATES *(CONTINUED)*

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 £7.6m (2015: £6.9m); of that £6.6m is unearned at 31 December 2016 (2015: £5.8m).

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 £59.2m (2015: £26.7m). The Syndicate 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.

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:

2016	**Gross premiums written £'000**	**Gross premiums earned £'000**	**Gross claims incurred £'000**	**Gross operating expenses £'000**	**Reinsurance balance £'000**
Direct insurance					
Third party liability	**86,659**	**92,317**	**(28,739)**	**(33,242)**	**(15,631)**
Aviation	**957**	**1,112**	**14**	**(250)**	**-**
Energy-non marine	**227**	**165**	**(1,615)**	**(62)**	**(58)**
Other direct	**3,265**	**3,079**	**(7,036)**	**(1,504)**	**3,166**
Total direct	**91,108**	**96,673**	**(37,376)**	**(35,058)**	**(12,523)**
Reinsurance acceptances	**9,303**	**8,654**	**(4,443)**	**(3,067)**	**(1,502)**
Total	**100,411**	**105,327**	**(41,819)**	**(38,125)**	**(14,025)**

2015	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Third party liability	85,129	86,123	(43,315)	(29,426)	(1,067)
Aviation	910	1,010	(496)	(232)	5
Energy-non marine	118	126	(30)	(45)	(9)
Other direct	2,369	1,995	(1,220)	(1,086)	(295)
Total direct	88,526	89,254	(45,061)	(30,789)	(1,366)
Reinsurance acceptances	7,258	7,186	(4,568)	(2,581)	(80)
Total	95,784	96,440	(49,629)	(33,370)	(1,446)

Insurance risk concentrations
The Syndicate 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 Syndicate considers that the information given in the segmental information tables is sufficient to understand the risk concentrations used.

NOTES TO THE ACCOUNTS
(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 £17.8m (2015: favourable development of £16.6m); this comprises releases of £17.4m in respect of direct Third Party Liability business, releases of £0.2m in respect of direct Aviation and Transport business and £0.2m in respect of total Reinsurance business.

7) NET OPERATING EXPENSES

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

Total commissions for direct insurance business accounted for in the year amounted to £21.1m (2015: £17.9m).

	2016 **£'000**	2015 £'000
Acquisition costs - commissions	**27,392**	24,466
Change in deferred acquisition costs	**(1,100)**	(1,525)
Administrative expenses	**10,878**	9,489
Reinsurers' commissions and profit participations	**(1,428)**	(2,145)
	35,742	30,285

Administrative expenses include:

	2016 **£'000**	2015 £'000
Auditors' remuneration		
Audit services		
Fees payable to the Syndicate's auditor for the audit of Syndicate 1218	**225**	228
Non-audit services		
Fees payable to the Syndicate's auditor for other services;		
Other services pursuant to legislation - actuarial	**125**	119
Other services – Solvency II	**56**	47
	406	394

NOTES TO THE ACCOUNTS
(CONTINUED)

8) STAFF NUMBERS AND COSTS

	2016	2015
	£'000	£'000
Wages and salaries	**6,975**	6,422
Social security costs	**967**	830
Other pension costs	**854**	816
Other staff related costs	**1,230**	990
	10,026	9,058

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

	2016	2015
	Number	Number
Management	**7**	6
Underwriting	**29**	27
Claims	**10**	10
Information technology	**3**	3
Administration, finance and compliance	**21**	23
	70	69

9) 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:

	2016	2015
	£'000	£'000
Emoluments	**818**	935
Contribution to pension scheme	**135**	63

Retirement benefits are accruing for five directors (2015: four) under money purchase schemes.

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

	2016	2015
	£'000	£'000
Emoluments	**311**	333
Contribution to pension scheme	**17**	20

There are no Key Management Personnel other than the directors above.

NOTES TO THE ACCOUNTS
(CONTINUED)

10) INVESTMENT RETURN

	2016 £'000	2015 £'000
Investment income (including realised gains and losses on investments)		
Interest income on financial assets at fair value through profit and loss	**10,495**	7,461
Dividend income	**1,287**	1,304
Other interest and similar income	**913**	1,177
Realised gains on realisation of investments	**19,449**	21,743
Realised losses on realisation of investments	**(48,598)**	(15,649)
	(16,454)	16,036
Total investment expenses and charges		
Investment management expenses, including charges	**(1,823)**	(1,173)
	(1,823)	(1,173)
Net unrealised gains / (losses)	**52,551**	(46,322)
Total investment return	**34,274**	(31,459)

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

The above figures include a profit of £19.7m (2015: loss £32.4m) arising from investment returns earned on cash, equities and bonds deposited by Newline Corporate Name Limited into Funds in Syndicate.

11) OTHER NON-TECHNICAL INCOME

Other non-technical income comprises:

	2016 £'000	2015 £'000
Net foreign exchange (losses) / gains	**(10,427)**	3,726
	(10,427)	3,726

12) OTHER FINANCIAL INVESTMENTS

	2016 £'000 Fair value	2015 £'000 Fair value	2016 £'000 Cost	2015 £'000 Cost
Shares and other variable yield securities	**143,724**	103,619	**131,379**	133,535
Debt securities and other fixed income securities	**400,967**	271,566	**392,753**	281,876
Participation in investment pools	**3,470**	9,894	**3,435**	9,867
	548,161	385,079	**527,567**	425,278

NOTES TO THE ACCOUNTS
(CONTINUED)

12) OTHER FINANCIAL INVESTMENTS *(CONTINUED)*

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 2016, the outstanding contracts mature between 2 and 8 months of the year end. The Syndicate is committed to sell US$389.3m, CAD$35.0m and GBP50.5m, 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 loss of £39.6m (2015: loss of £5.3m). The corresponding foreign exchange gain recognised in the profit and loss account relating to the hedged foreign currency assets and liabilities was £29.2m (2015: gain of £5.3m).

13) OVERSEAS DEPOSITS

Overseas deposits of £29.6m (2015: £31.1m) comprise deposits which are lodged as a condition of conducting underwriting business in certain countries.

14) 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:

	2016	2015
	£'000	£'000
At 1 January	**10,575**	9,070
Expenses for the acquisition of insurance contracts	**25,964**	22,321
Change in deferred acquisition costs	**(24,864)**	(20,796)
Foreign exchange	**1,141**	(20)
At 31 December	**12,816**	10,575

15) OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016	2015
	£'000	£'000
Derivative liabilities	**39,958**	5,265
Other creditors	**4,220**	8,120
	44,178	13,385

NOTES TO THE ACCOUNTS
(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 2016 or 31 December 2015.

Level 1
The fair value is based on the unadjusted quoted price in an active market, for identical assets or liabilities that the Syndicate 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.

During the year ended 31 December 2016, the Syndicate held £59.2m (2015: £26.7m) 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 the net asset value approach. The significant unobservable inputs used in their valuation include price / earnings multiples.

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 Syndicate 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.

	Fair value hierarchy				
2016	**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	**66,597**	**29,301**	**47,826**	**143,724**	**143,724**
Debt securities and other fixed income securities	**246,798**	**142,764**	**11,405**	**400,967**	**400,967**
Participation in investment pools	**-**	**3,470**	**-**	**3,470**	**3,470**
Overseas deposits	**1,309**	**28,291**	**-**	**29,600**	**29,600**
Financial liabilities					
Derivative liabilities	**-**	**(39,958)**	**-**	**(39,958)**	**(39,958)**
	314,704	**163,868**	**59,231**	**537,803**	**537,803**

NOTES TO THE ACCOUNTS
(CONTINUED)

16) FAIR VALUE HIERARCHY *(CONTINUED)*

2015	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	64,900	22,549	16,170	103,619	103,619
Debt securities and other fixed income securities	100,111	160,961	10,494	271,566	271,566
Participation in investment pools	-	9,894	-	9,894	9,894
Overseas deposits	24,176	6,964	-	31,140	31,140
Financial liabilities					
Derivative liabilities	-	(5,265)	-	(5,265)	(5,265)
	189,187	195,103	26,664	410,954	410,954

17) FINANCIAL RISK MANAGEMENT

The Syndicate 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.

NOTES TO THE ACCOUNTS

(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

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

	Syndicate £'000	Funds in Syndicate £'000	Total £'000
2016			
Other financial investments	325,085	223,076	548,161
Provision for unearned premiums	12,500	-	12,500
Claims outstanding	137,870	-	137,870
Debtors arising out of direct insurance operations	32,595	-	32,595
Debtors arising out of reinsurance operations	2,894	-	2,894
Other debtors	2,656	-	2,656
Cash at bank and in hand	38,354	34	38,388
Overseas deposits	29,600	-	29,600
Accrued interest and rent	407	1,197	1,604
Deferred acquisition costs	12,816	-	12,816
Other prepayments and accrued income	2,324	-	2,324
Total assets	**597,101**	**224,307**	**821,408**
Provision for unearned premiums	46,305	-	46,305
Claims outstanding	491,854	-	491,854
Creditors arising out of direct insurance operations	7,085	-	7,085
Creditors arising out of reinsurance operations	16,627	-	16,627
Other creditors including taxation and social security	12,096	32,082	44,178
Accruals and deferred income	1,470	-	1,470
Total liabilities	**575,437**	**32,082**	**607,519**

NOTES TO THE ACCOUNTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

	Syndicate £'000	Funds in Syndicate £'000	Total £'000
2015			
Other financial investments	231,735	153,344	385,079
Provision for unearned premiums	13,017	-	13,017
Claims outstanding	129,740	-	129,740
Debtors arising out of direct insurance operations	32,451	-	32,451
Debtors arising out of reinsurance operations	6,076	-	6,076
Other debtors	1,141	-	1,141
Cash at bank and in hand	73,484	23,564	97,048
Overseas deposits	31,140	-	31,140
Accrued interest and rent	538	1,046	1,584
Deferred acquisition costs	10,575	-	10,575
Other prepayments and accrued income	1,973	-	1,973
Total assets	**531,870**	**177,954**	**709,824**
Provision for unearned premiums	45,018	-	45,018
Claims outstanding	453,853	-	453,853
Creditors arising out of direct insurance operations	1,781	-	1,781
Creditors arising out of reinsurance operations	14,425	-	14,425
Other creditors including taxation and social security	8,120	5,265	13,385
Accruals and deferred income	2,397	-	2,397
Total liabilities	**525,594**	**5,265**	**530,859**

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 Syndicate monitors interest rate risk by modelling the impact of changes in interest rates (+/-100 bps, +/-200 bps) on the values of the fixed interest securities and liabilities. The Investment Committee monitors the sensitivity 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:

		2016 £'000	2015 £'000
Investments - Debt securities and other fixed income securities	**+0.5%**	**(6,379)**	(9,962)
	-0.5%	**6,978**	11,239

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Price risk
Price risk is the risk that changes in equity market prices will impact upon the fair value of financial instruments held by the Syndicate, 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:

		2016	2015
		£'000	£'000
Investments – equity and related investments	**+5%**	**7,839**	5,520
	-5%	**(7,839)**	(5,520)

Currency risk
Currency risk is the risk of loss arising from adverse exchange rate movements in unhedged foreign exchange exposures. The Syndicate writes business internationally, and so is exposed to foreign exchange risk from various activities conducted in the normal course of business. The Syndicate 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 Syndicate.

2016	**GBP £'000**	**USD £'000**	**EUR £'000**	**CAD £'000**	**AUD £'000**	**Other £'000**	**Total £'000**
Other financial investments	**52,048**	**374,075**	**38,975**	**36,072**	**27,125**	**19,866**	**548,161**
Overseas deposits	**1,158**	**138**	**-**	**6,550**	**21,754**	**-**	**29,600**
Reinsurers' share of technical provisions	**28,962**	**31,072**	**64,036**	**6,446**	**19,854**	**-**	**150,370**
(Re)insurance receivables	**3,611**	**14,100**	**5,598**	**3,430**	**7,701**	**1,049**	**35,489**
Cash	**7,315**	**9,612**	**15,416**	**-**	**1,155**	**4,890**	**38,388**
Other assets	**5,003**	**5,827**	**4,562**	**2,164**	**1,783**	**61**	**19,400**
Total assets	**98,097**	**434,824**	**128,587**	**54,662**	**79,372**	**25,866**	**821,408**
Technical provisions	**(100,395)**	**(106,800)**	**(219,773)**	**(29,154)**	**(76,821)**	**(5,216)**	**(538,159)**
(Re)insurance payables	**(6,004)**	**(7,242)**	**(623)**	**(2,401)**	**(7,442)**	**-**	**(23,712)**
Other creditors	**185,533**	**(311,405)**	**101,709**	**(21,261)**	**(166)**	**(58)**	**(45,648)**
Total liabilities	**79,134**	**(425,447)**	**(118,687)**	**(52,816)**	**(84,429)**	**(5,274)**	**(607,519)**

NOTES TO THE ACCOUNTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

2015	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	Other £'000	Total £'000
Other financial investments	69,056	216,326	37,256	25,183	17,185	20,073	385,079
Overseas deposits	1,536	106	-	4,924	24,574	-	31,140
Reinsurers' share of technical provisions	35,398	27,050	61,550	5,507	13,252	-	142,757
(Re)insurance receivables	2,810	15,771	14,918	322	4,297	409	38,527
Cash	3,739	8,180	70,852	-	11,505	2,772	97,048
Other assets	4,795	5,200	2,516	1,137	1,174	451	15,273
Total assets	117,334	272,633	187,092	37,073	71,987	23,705	709,824
Technical provisions	(113,740)	(91,129)	(215,087)	(17,528)	(60,002)	(1,385)	(498,871)
(Re)insurance payables	(1,579)	(6,762)	(785)	(2,190)	(4,786)	(104)	(16,206)
Other creditors	126,719	(141,613)	(593)	-	(138)	(157)	(15,782)
Total liabilities	11,400	(239,504)	(216,465)	(19,718)	(64,926)	(1,646)	(530,859)

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.

NOTES TO THE ACCOUNTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Credit risk *(continued)*

i) Premiums receivable and reinsurers share of claims outstanding

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.

2016	**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	**30,642**	**951**	**585**	**261**	**156**	**32,595**
Reinsurance debtors	**2,724**	**-**	**-**	**6**	**164**	**2,894**
Total	**33,366**	**951**	**585**	**267**	**320**	**35,489**

2015	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	29,688	1,018	1,037	507	201	32,451
Reinsurance debtors	5,220	660	-	76	120	6,076
Total	34,908	1,678	1,037	583	321	38,527

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

Credit risk *(continued)*

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 reinsurers' 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	**2016 £'000**	2015 £'000
AAA	**221,053**	189,055
AA	**218,440**	123,104
A	**119,589**	186,636
BBB	**9,724**	8,179
BBB or less	**29,587**	23,900
Not rated	**158,350**	117,352
	756,743	648,226

Financial assets	**2016 £'000**	2015 £'000
Shares and other variable yield securities and unit trusts	**143,724**	**103,619**
Debt securities	**400,967**	**271,565**
Participation in investment pools	**3,470**	**9,894**
Overseas deposits as investments	**29,600**	**31,140**
Reinsurer' share of claims outstanding	**137,870**	**129,740**
Reinsurance debtors	**2,724**	**5,220**
Cash at bank and in hand	**38,388**	**97,048**
	756,743	**648,226**

NOTES TO THE ACCOUNTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

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. Management regularly review available funds to mitigate any cash flow risk.

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**	
	2016	2015	**2016**	2015
Maturity analysis	**£'000**	£'000	**£'000**	£'000
No stated maturity	**-**	-	**147,194**	113,513
Within 1 year or less	**51,003**	44,721	**273,923**	117,295
Within 1 to 2 years	**50,903**	48,029	**-**	-
Within 2 to 3 years	**47,610**	49,912	**-**	-
Within 3 to 4 years	**43,671**	50,134	**12,460**	9,739
Over 5 years	**298,667**	261,057	**114,584**	144,532
	491,854	453,853	**548,161**	385,079

A maturity analysis of the financial liabilities based on the remaining term to payment at the reporting date is provided below.

	2016		2015	
	No stated maturity	**Within 1 year**	No stated maturity	Within 1 year
Maturity analysis	**£'000**	**£'000**	£'000	£'000
Trade and other payables	**13,177**	**14,756**	14,376	9,951
Derivative financial instruments - liabilities	**-**	**39,958**	-	5,265
	13,177	**54,714**	14,376	15,216

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.

NOTES TO THE ACCOUNTS
(CONTINUED)

18) INSURANCE RISK MANAGEMENT *(CONTINUED)*

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 assumptions used in determining the ultimate cost of claims in the year.

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

NEWLINE UNDERWRITING MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

NOTES TO THE ACCOUNTS
(CONTINUED)

18) INSURANCE RISK MANAGEMENT *(CONTINUED)*

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 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
At end of reporting year	**44,600**	**35,320**	**51,339**	**30,336**	**28,773**	**27,195**	
1 year later	**90,877**	**74,944**	**89,131**	**79,571**	**73,496**	-	
2 years later	**81,558**	**74,645**	**99,675**	**79,329**	-	-	
3 years later	**80,208**	**73,302**	**92,877**	-	-	-	
4 years later	**74,245**	**74,877**	-	-	-	-	
5 years later	**70,769**	-	-	-	-	-	
Cumulative payments	**32,089**	**23,218**	**22,971**	**11,457**	**3,761**	**239**	**93,735**
Estimated balance to pay	**38,680**	**51,659**	**69,906**	**67,873**	**69,734**	**26,956**	**324,808**
2010 & prior							**167,046**
Total gross provision included in the balance sheet							**491,854**

Net of reinsurance

	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
At end of reporting year	**31,551**	**25,707**	**27,042**	**21,821**	**20,796**	**20,102**	
1 year later	**63,963**	**53,854**	**59,547**	**58,851**	**53,551**	-	
2 years later	**61,000**	**54,527**	**62,359**	**58,865**	-	-	
3 years later	**61,128**	**53,847**	**62,853**	-	-	-	
4 years later	**57,820**	**53,423**	-	-	-	-	
5 years later	**55,772**	-	-	-	-	-	
Cumulative payments	**28,356**	**17,408**	**19,833**	**8,314**	**3,534**	**198**	**77,643**
Estimated balance to pay	**27,416**	**36,015**	**43,020**	**50,551**	**50,017**	**19,904**	**226,923**
2010 & prior							**127,061**
Total net provision included in the balance sheet							**353,984**

NOTES TO THE ACCOUNTS
(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.

		Change in net claims reserves		Change in claims handling expenses	
Impact on the result of the year and net assets £'000		**+1%**	**-1%**	**+10%**	**-10%**
	2016	**(3,458)**	**3,458**	**(821)**	**821**
	2015	(3,159)	3,159	(821)	821

19) 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, where the results of the Syndicate are consolidated. Group accounts for Fairfax are available from the company secretary of NUML, Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

During the calendar year 2016, NUML recharged expenses amounting to £15.0m (2015: £16.6m) 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 commission, charges or fees 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 2016, investment management charges totalled £1.7m (2015: £1.0m).

The Syndicate holds reinsurance contracts with Riverstone Insurance Limited, a subsidiary of Fairfax. Reinsurance premiums of £0.2m (2015: £nil) have been ceded to Riverstone Insurance Limited in respect of the Syndicates core excess of loss program, and are placed at market rates and terms. At the year end, £0.1m (2015: £0.6m due), was due on recoveries.

Brit Limited ("Brit") which provides 100% of the capacity for Lloyd's Syndicate 2987, became a subsidiary of Fairfax in 2015. Reinsurance premiums of £0.1m (2015: £0.1m) have been ceded in the year. At the year end, £0.1m (2015: £nil), was due on recoveries from Syndicate 2987.

During 2016, the Syndicate has placed business (both inwards and outwards) with ORC. Reinsurance premiums of £0.9m (2015: £2.0m) 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 (2015: £nil) was due from ORC.

19) RELATED PARTIES *(CONTINUED)*

Mr. J Spencer, a non-executive director of the managing agency was until 30th September 2016, also a non-executive director of Thompson Heath & Bond Limited ("THB"). In 2016, THB placed £632,000 (2015: £742,000) of gross written premiums with Syndicate 1218, on an arm's length basis. Mr. J Spencer during 2016 became a non-executive director of Markel Syndicate Management Limited and Markel International Insurance Company Limited. In 2016, the Syndicate has placed outwards written premiums of £0.1m with companies associated with the Markel Group, on an arm's length basis. At the year end, £0.2m was due on recoveries.

Mr. M Scales, a non-executive director of the managing agency, is also a non-executive director of Talbot Underwriting Limited ("Talbot"). In 2016, Talbot placed £90,000 (2015: £nil) of gross written premiums with Syndicate 1218, on an arm's length basis.

20) 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 accounts.

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 2017 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members
Each member may provide capital to meet its ECA through assets held in trust by Lloyd's specifically for that member (funds at Lloyd's "FaL"), assets held within and managed within a syndicate (funds in syndicate "FIS") or as members' balances.

NOTES TO THE ACCOUNTS
(CONTINUED)

20) CAPITAL *(CONTINUED)*

Capital Management

The Board of NUML has in place policies and procedures for managing compliance with regulatory capital requirements and its own capital management objective. This objective is to balance risk and return while maintaining economic and regulatory capital in accordance with risk appetite. The Board of NUML has no appetite for the Syndicate failing to maintain sufficient capital. To this end, NUML recalculates its ECA routinely at different points during the annual business cycle, and may also recalculate the ECA on an ad-hoc basis if the risk management framework identifies significant changes to the risk profile, or as required by the NUML Board. In order to ensure that regulatory capital is maintained above the ECA, a minimum level of free assets above the ECA is set and reviewed by the NUML Board periodically.

The Syndicate manages its capital in accordance with its Capital Management Policy, and has embedded in its asset liability management framework the necessary tests to ensure continuous and full compliance of its capital requirements.

Funds at Lloyd's

Capital has been provided in the form of first party Funds at Lloyd's by NCNL. Third party FaL has also been provided by Odyssey Reinsurance Company ("ORC"). As at 31st December 2016, all third party FaL had been returned to ORC, such that only first party FaL in respect of capital resources is held.

As the third party FaL is not under the management of NUML, no amount in respect of such capital resources had been shown in these annual accounts.

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 FIS. As at 31 December 2016, £192.2m (2015: £172.7m) has been deposited as FIS and is reported on the balance sheet within financial investments, cash at bank and in hand and accrued income. For regulatory reporting, these assets are maintained within a separate portfolio.