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REPORT AND ACCOUNTS

31 DECEMBER 2018

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SYNDICATE INFORMATION

AT 31 DECEMBER 2018

NEWLINE SYNDICATE 1218

MANAGING AGENT

Newline Underwriting Management Limited
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

FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors of the managing agent present their report and audited annual accounts for the year ended 31 December 2018.

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 £137.0m for the 2018 year of account (2017: £125.0m, 2016: £100.0m). Syndicate capacity is based on gross premiums net of commissions.

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

Affinity and Special Risks

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

Cargo and Specie

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

Crime

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

Directors' and Officers' (D&O) Liability

This line of business protects directors and officers of commercial entities, financial institutions and other organisations against claims that are made during the policy period alleging mismanagement and seeking to hold the directors and officers liable.

Errors and Omissions (E&O)

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

General Liability

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

Reinsurance

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

The Syndicate also underwrites satellite business through a consortium participation.

MANAGING AGENT'S REPORT

(CONTINUED)

BUSINESS REVIEW

Results and performance

The result for the calendar year 2018 is a loss of £15.6m (2017: profit of £51.9m). Profits and losses will continue to be distributed or called by reference to the results of individual underwriting years.

The combined ratio for 2018 is 91.3% (2017: 89.8%), resulting in an underwriting profit excluding investment return of £9.9m (2017: profit £10.3m). The combined ratio of 91.3% reflects the challenging market environment we are currently operating in, combined with prior year releases across a number of Casualty classes. Additionally, Newline Corporate Name Limited was involved in a dispute with a third party administrator in respect of a number of historic binding authority agreements with the Syndicate. This has been successfully resolved, resulting in the return of certain claims paid under these binding authority agreements and legal costs totalling £11.75m.

The investment return for the year was a loss of £18.0m (2017: profit £44.5m) driven by losses on our equity and fund investments. After significant gains were reported in 2017, European, US and emerging market equities have performed poorly in the year, with muted growth across Europe, the US Federal Reserve's monetary tightening policy, continuing political risks and rhetoric around trade contributing to weakening markets, thus impacting upon the equity component of the Syndicate portfolio. In the latter part of 2018, the Syndicate has increased investment holdings in corporate bonds. The Syndicate's investment portfolio recorded investment losses of £6.1m (2017: gains of £17.9m). The investments supporting the Funds in Syndicate and surplus capital accumulated negative investment returns totalling £11.9m (2017: gains of £26.6m).

Gross written premiums for the year were £152.5m (2017: £135.7m), £16.8m or 12.4% higher, in converted sterling terms. At constant rates of exchange, this represents an increase in premium of £19.6m or 14.5%. This increase is largely driven by growth in our Liability and Affinity & Special Risks books. Overall, we remain cautious in our underwriting approach, given the continuing uncertain economic outlook, seeking growth only in opportunistic or otherwise profitable areas. Market conditions, overall, continue to be competitive.

The Syndicate's capacity for the 2019 year of account remains unchanged at £137.0m, and our income estimates for 2019 are largely in line with our 2018 year of account income estimates. We will continue to look for cost-effective means of growing our portfolio, and expanding, if possible, those areas where we feel that the market dynamics mean there is potential for increased profitability. Notwithstanding this, we are cognisant of the challenges of doing this in the current environment.

Business environment

Competition between insurance entities can be based on a number of factors inter alia product, price, service, coverage, financial strength, distribution channels, enhanced commissions and reputation. In 2018, 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 has experienced improvements in 2018. Whilst we are experiencing shortage of capacity in some areas of the market at present allowing us to increase rates, we do expect this to stabilise in 2019, with the exception of Marine Cargo.

Casualty market participants continue to compete aggressively for business and we expect the rating environment to remain highly competitive, given the uncertainty of the global economy, and the changing landscape as the UK heads towards exiting the European Union. We anticipate rates stabilising in 2019, but in pockets varying by territory and line of business, with modest gross premium growth for the whole account with the exception of reduced Inwards Reinsurance Treaty business.

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.

The Syndicate has an overseas presence in Australia, Singapore and Malaysia through insurance agents owned by the parent company of the Syndicate's capital provider. This was expanded to include Canada in 2018. In addition, the Syndicate participates on the Lloyd's China platform.

As we face continuing uncertainty over the UK's exit from the European Union, we have remained supportive of Lloyd's initiative of establishing a European insurance subsidiary in Brussels. The added security that this provides in ensuring that we may continue to provide a service to our stakeholders and customers across Europe, irrespective of the ongoing negotiations between the UK government and the EU27 is welcomed. Our expectation is broadly business as usual. However, the new Lloyd's platform may allow new opportunities with brokers.

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

With respect to our capital requirements for 2018 Lloyd's approved the Syndicate Solvency Capital Requirement, calculated using the Syndicate's Internal Model, in November 2017.

Key performance indicators (KPIs) and metrics

The Board monitors the progress of the Syndicate by reference to the following KPI's and metrics:

	2018	2017	
Gross Written Premiums	£152.5m	£135.7m	Gross premiums written, including acquisition costs, in respect of insurance contracts
Net written premiums	£125.0m	£106.2m	Gross Written Premiums less outward reinsurance in respect of insurance contracts
Technical result	£3.8m	£28.2m	Balance on technical account for general business
Net loss ratio	49.4%	48.5%	Ratio of net claims incurred to net earned premiums
Combined ratio	91.3%	89.8%	Ratio of net claims incurred, commissions and expenses to net premiums earned

DIRECTORS

The Directors listed below have held office from 1 January 2018 to the date of this report unless otherwise stated.

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

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 2018 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.

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

21 March 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1218

Report on the syndicate annual accounts

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 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report and Accounts (the "Annual Report"), which comprise: the profit and loss account for the year then ended, the statement of comprehensive income for the year then ended, the statement of financial position at 31 December 2018, the statement of changes in members' balances, the cashflow statement, the accounting policies, and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

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

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

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

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2018 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Mark Bolton (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 March 2019

PROFIT & LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	5	152,457	135,684
Outwards reinsurance premiums		(27,420)	(29,533)
Net premiums written		125,037	106,151
Change in the gross provision for unearned premiums		(10,918)	(8,942)
Change in the provision for unearned premiums, reinsurers' share		(705)	3,455
Change in the net provision for unearned premiums		(11,623)	(5,487)
Earned premiums, net of reinsurance		113,414	100,664
Allocated investment return transferred from the non-technical account		(6,090)	17,920
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		(46,183)	(56,714)
Reinsurers' share		8,901	9,940
Net claims paid		(37,282)	(46,774)
Change in the gross provision for claims		(8,136)	(8,944)
Reinsurers' share		(10,641)	6,861
Change in the net provision for claims		(18,777)	(2,083)
Claims incurred, net of reinsurance		(56,059)	(48,857)
Net operating expenses	7	(47,492)	(41,513)
Balance on the technical account for general business		3,773	28,214

All operations are continuing.

The notes on pages 16 to 39 form an integral part of these annual accounts.

PROFIT & LOSS ACCOUNT: NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		3,773	28,214
Investment income / (expense)	10	7,080	34,085
Net unrealised (losses) / gains on investments	10	(23,608)	12,124
Investment expenses and charges	10	(1,465)	(1,670)
		(17,993)	44,539
Allocated investment return transferred to the general business technical account		6,090	(17,920)
Other income	11	-	376
Other charges	11	(7,494)	(3,312)
(LOSS) / PROFIT FOR THE FINANCIAL YEAR		(15,624)	51,897

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £'000	2017 £'000
(Loss) / profit for the financial year	(15,624)	51,897
Other comprehensive income	-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	(15,624)	51,897

The notes on pages 16 to 39 form an integral part of these annual accounts.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Investments			
Other financial investments	12	472,050	546,095
Reinsurers' share of technical provisions			
Provision for unearned premiums		15,019	15,334
Claims outstanding		135,023	143,727
Debtors			
Arising out of direct insurance operations, due from intermediaries		41,049	31,968
Arising out of reinsurance operations		2,414	2,221
Other debtors		1,071	2,263
Other assets			
Cash at bank and in hand		107,147	47,040
Overseas deposits	13	29,272	32,397
Prepayments			
Accrued interest and rent		625	492
Deferred acquisition costs	14	19,098	14,705
Other prepayments and accrued income		1,240	1,685
Total assets		824,008	837,927
LIABILITIES			
Capital and Reserves			
Member's Balances		213,320	259,702
Technical provisions			
Provision for unearned premiums		65,527	53,571
Claims outstanding		514,273	498,500
Creditors			
Arising out of direct insurance operations, due to intermediaries		923	1,365
Arising out of reinsurance operations		13,211	16,980
Other creditors including taxation and social security	15	13,760	6,292
Accruals and deferred income		2,994	1,517
Total liabilities		824,008	837,927

Approved by the board of Directors on 21 March 2019.

S Kapur
Director

The notes on pages 16 to 39 form an integral part of these annual accounts.

STATEMENT OF CHANGES IN MEMBER'S BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2018

	Due to / (from) member £'000	Funds in Syndicate £'000	Total £'000
At 1 January 2017	21,665	192,224	213,889
Profit for the year	<u>28,146</u>	<u>23,751</u>	<u>51,897</u>
Total comprehensive income for the year	28,146	23,751	51,897
Distribution to Funds in Syndicate	(20,254)	20,254	-
Distribution to member	<u>(6,084)</u>	<u>-</u>	<u>(6,084)</u>
Total distribution to Funds in Syndicate and member	(26,338)	20,254	(6,084)
At 31 December 2017	<u>23,473</u>	<u>236,229</u>	<u>259,702</u>
Loss for the year	<u>(1,423)</u>	<u>(14,201)</u>	<u>(15,624)</u>
Total comprehensive loss for the year	(1,423)	(14,201)	(15,624)
Distribution to Funds in Syndicate	-	-	-
Distribution to member	<u>(30,758)</u>	<u>-</u>	<u>(30,758)</u>
Total distribution to Funds in Syndicate and member	(30,758)	-	(30,758)
At 31 December 2018	<u>(8,708)</u>	<u>222,028</u>	<u>213,320</u>

The notes on pages 16 to 39 form an integral part of these annual accounts.

CASH FLOW STATEMENT
 FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	£'000	£'000
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss) / profit for the financial year	(15,624)	51,897
Increase in gross technical provisions	27,728	13,912
Decrease / (increase) in reinsurers' share of gross technical provisions	9,019	(8,690)
(Increase) / decrease in debtors	(12,165)	1,555
(Decrease) in creditors	(1,873)	(38,784)
Investment return	17,993	(44,539)
Foreign exchange on cash and cash equivalents and settlement of forward exchange contracts	9,174	41,351
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>34,252</u>	<u>16,702</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of equity and debt instruments	(674,622)	(475,979)
Sale of equity and debt instruments	593,219	538,340
Purchase of derivatives	(26,617)	(36,305)
Sale of derivatives	21,916	3,033
Investment income received	5,914	4,487
NET CASH FROM INVESTING ACTIVITIES	<u>(80,190)</u>	<u>33,576</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Distribution of profit	(30,758)	(26,338)
Distribution of profit transferred to Funds in Syndicate	-	20,254
NET CASH USED IN FINANCING ACTIVITIES	<u>(30,758)</u>	<u>(6,084)</u>
Net (decrease) / increase in cash and cash equivalents in the year	(76,696)	44,194
Cash and cash equivalents at the beginning of the year	210,382	172,058
Foreign exchange on cash and cash equivalents	7,101	(5,870)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>140,787</u>	<u>210,382</u>
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash at bank and in hand	107,147	47,040
Short term deposits with credit institutions	33,640	163,342
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>140,787</u>	<u>210,382</u>

The notes on pages 16 to 39 form an integral part of these annual accounts.

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 2018

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 £137.0m for the 2018 year of account (2017: £125.0m, 2016: £100.0m). 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.

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

Investment expenses and charges comprise investment management expenses.

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

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

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

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 performing work on behalf of the Syndicate 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 apportioned to the Syndicate are charged 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. This uncertainty varies between classes written by the Syndicate, but is typically highest for those classes where there are significant delays in the settlement of the final claims amount, more specifically from Liability and other long-tail direct and long-tailed reinsurance classes. In calculating the estimated cost of unpaid claims, the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which create distortion in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

In setting the provision for insurance liabilities, a best estimate is determined on an undiscounted basis. For areas of specific uncertainty, it may be necessary to include a loading as part of the reserve estimate, known as the Management Adjustment. At 31 December 2018, the carrying value of net claims IBNR is £249.9m (2017: £228.9m), and the Management Adjustment in excess of the best estimate of net reserves was £28.9m (2017: £24.1m). The increase in the Management Adjustment in the current year is due to the recognition of uncertainty in the open years (previously not recognised).

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 £14.8m (2017: £11.2m); of that £12.8m is unearned at 31 December 2018 (2017: £9.4m).

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 £88.2m (2017: £105.8m). 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:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
2018					
<i>Direct insurance</i>					
Third party liability	112,507	109,117	(31,517)	(39,511)	(26,999)
Aviation	1,070	1,111	(1,127)	(295)	(17)
Energy-non marine	172	176	(103)	(68)	(20)
Other direct	16,770	10,109	(8,613)	(3,744)	1,118
Total direct	130,519	120,513	(41,360)	(43,618)	(25,918)
<i>Reinsurance acceptances</i>	21,938	21,026	(12,959)	(6,409)	(1,412)
Total	152,457	141,539	(54,319)	(50,027)	(27,330)
	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
2017					
<i>Direct insurance</i>					
Third party liability	106,101	101,029	(45,804)	(36,206)	(4,288)
Aviation	1,694	1,379	(1,125)	(493)	13
Energy-non marine	123	181	(39)	(69)	(30)
Other direct	7,211	5,101	(6,435)	(2,120)	(378)
Total direct	115,129	107,690	(53,403)	(38,888)	(4,683)
<i>Reinsurance acceptances</i>	20,555	19,052	(12,255)	(5,154)	(2,065)
Total	135,684	126,742	(65,658)	(44,042)	(6,748)

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 £3.5m (2017: favourable development of £14.6m); this comprises releases of £1.9m in respect of direct Third Party Liability business and releases of £1.5m in respect of total Reinsurance business.

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

7) NET OPERATING EXPENSES

	2018	2017
	£'000	£'000
Acquisition costs - commissions	42,364	36,478
Change in deferred acquisition costs	(4,107)	(2,309)
Administrative expenses	11,704	10,286
Reinsurers' commissions and profit participations	(2,469)	(2,942)
	<u>47,492</u>	<u>41,513</u>

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

Total commissions for direct insurance business accounted for in the year amounted to £32.6m (2017: £27.9m).

Administrative expenses include:

	2018	2017
	£'000	£'000
Auditors' remuneration		
Audit services		
Fees payable to the Syndicate's auditor for the audit of Syndicate 1218	199	193
Non-audit services		
Fees payable to the Syndicate's auditor for other services:		
Other services pursuant to legislation - actuarial	132	125
Other services – Solvency II and other reporting required by Lloyd's Byelaws	58	56
	<u>389</u>	<u>374</u>

NOTES TO THE ACCOUNTS
(CONTINUED)

8) STAFF NUMBERS AND COSTS

	2018	2017
	£'000	£'000
Wages and salaries	7,507	6,932
Social security costs	1,083	893
Other pension costs	490	872
Other staff related costs	1,616	1,546
	<u>10,696</u>	<u>10,243</u>

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

	2018	2017
	Number	Number
Management	7	5
Underwriting	33	28
Claims	7	7
Information technology	3	3
Administration, finance and compliance	24	25
	<u>74</u>	<u>68</u>

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:

	2018	2017
	£'000	£'000
Emoluments	1,117	819
Contribution to pension scheme	21	44
	<u>1,138</u>	<u>863</u>

Retirement benefits are accruing for three directors (2017: five) under money purchase schemes.

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

	2018	2017
	£'000	£'000
Emoluments	356	254
Contribution to pension scheme	-	14
	<u>356</u>	<u>268</u>

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

NOTES TO THE ACCOUNTS

(CONTINUED)

10) INVESTMENT RETURN

	2018 £'000	2017 £'000
Investment income (including realised gains and losses on investments)		
Interest income on financial assets at fair value through profit and loss	4,780	4,542
Dividend income	1,444	991
Other interest and similar income	1,021	1,198
Realised gains on realisation of investments	5,670	31,798
Realised losses on realisation of investments	(5,835)	(4,444)
	<u>7,080</u>	<u>34,085</u>
Total investment expenses and charges		
Investment management expenses, including charges	(1,465)	(1,670)
	<u>(1,465)</u>	<u>(1,670)</u>
Net unrealised (losses) / gains	<u>(23,608)</u>	<u>12,124</u>
Total investment return	<u>(17,993)</u>	<u>44,539</u>

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

The above figures include a loss of £11.9m (2017: profit £26.6m) 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 / (CHARGES)

	2018 £'000	2017 £'000
Other non-technical income comprise:		
Interest receivable	-	376
	<u>-</u>	<u>376</u>
Other non-technical charges comprise:		
Net foreign exchange losses	(7,494)	(3,312)
	<u>(7,494)</u>	<u>(3,312)</u>

12) OTHER FINANCIAL INVESTMENTS

	2018 £'000	2017 £'000	2018 £'000	2017 £'000
	Fair value	Fair value	Cost	Cost
Shares and other variable yield securities	165,976	174,768	189,916	141,753
Debt securities and other fixed income securities	303,271	345,638	302,819	339,160
Participation in investment pools	2,496	5,842	2,401	5,765
Other investments	307	19,847	-	-
	<u>472,050</u>	<u>546,095</u>	<u>495,136</u>	<u>486,678</u>

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 2018, the outstanding contracts mature between 1 and 4 months of the year end. The Syndicate is committed to sell US\$299.6m, CAD\$40.0m and GBP41.1m, 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 £20.7m (2017: gain of £26.1m). The corresponding foreign exchange gain recognised in the profit and loss account relating to the hedged foreign currency assets and liabilities was £13.2m (2017: loss of £29.4m).

13) OVERSEAS DEPOSITS

Overseas deposits of £29.3m (2017: £32.4m) 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:

	2018 £'000	2017 £'000
At 1 January	14,705	12,816
Expenses for the acquisition of insurance contracts	39,895	33,536
Change in deferred acquisition costs	(35,788)	(31,227)
Foreign exchange	286	(420)
At 31 December	<u>19,098</u>	<u>14,705</u>

15) OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2018 £'000	2017 £'000
Derivative liabilities	7,450	843
Other creditors	6,310	5,449
	<u>13,760</u>	<u>6,292</u>

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 2018 or 31 December 2017.

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 2018, the Syndicate held £88.2m (2017: £105.8m) of financial instruments that are classified as Level 3. Financial instruments classified as Level 3 include assets invested in common stock, preferred stocks, limited partnerships and fixed income securities.

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.

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

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			Assets held at fair value	Balance sheet total
	Level 1	Level 2	Level 3		
2018	£'000	£'000	£'000	£'000	£'000
Financial assets					
Shares and other variable yield securities	56,411	37,538	72,027	165,976	165,976
Debt securities and other fixed income securities	71,483	215,644	16,144	303,271	303,271
Participation in investment pools	-	2,496	-	2,496	2,496
Overseas deposits	1,552	27,720	-	29,272	29,272
Derivative assets	-	307	-	307	307
Financial liabilities					
Derivative liabilities	-	(7,450)	-	(7,450)	(7,450)
	129,446	276,255	88,171	493,872	493,872

NOTES TO THE ACCOUNTS
(CONTINUED)

16) FAIR VALUE HIERARCHY (CONTINUED)

	Fair value hierarchy			Assets held at fair value	Balance sheet total
	Level 1	Level 2	Level 3		
2017					
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Shares and other variable yield securities	64,320	28,756	81,692	174,768	174,768
Debt securities and other fixed income securities	292,208	29,341	24,089	345,638	345,638
Participation in investment pools	-	5,842	-	5,842	5,842
Overseas deposits	1,020	31,377	-	32,397	32,397
Derivative assets	-	19,847	-	19,847	19,847
Financial liabilities					
Derivative liabilities	-	(843)	-	(843)	(843)
	<u>357,548</u>	<u>114,320</u>	<u>105,781</u>	<u>577,649</u>	<u>577,649</u>

17) FINANCIAL RISK MANAGEMENT

The Syndicate is exposed to a range of financial risks. The key financial risk is that the proceeds of sale 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 of the Managing Agent 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	Funds in	Total
	£'000	Syndicate	£'000
		£'000	£'000
2018			
Other financial investments	245,364	226,686	472,050
Provision for unearned premiums	15,019	-	15,019
Claims outstanding	135,023	-	135,023
Debtors arising out of direct insurance operations	41,049	-	41,049
Debtors arising out of reinsurance operations	2,414	-	2,414
Other debtors	1,071	-	1,071
Cash at bank and in hand	106,211	936	107,147
Overseas deposits	29,272	-	29,272
Accrued interest and rent	412	213	625
Deferred acquisition costs	19,098	-	19,098
Other prepayments and accrued income	1,240	-	1,240
Total assets	596,173	227,835	824,008
Provision for unearned premiums	65,527	-	65,527
Claims outstanding	514,273	-	514,273
Creditors arising out of direct insurance operations	923	-	923
Creditors arising out of reinsurance operations	13,211	-	13,211
Other creditors including taxation and social security	7,953	5,807	13,760
Accruals and deferred income	2,994	-	2,994
Liabilities	604,881	5,807	610,688
Member's Balances	(8,708)	222,028	213,320
Total Liabilities	596,173	227,835	824,008

NOTES TO THE ACCOUNTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT (CONTINUED)

	Syndicate £'000	Funds in Syndicate £'000	Total £'000
2017			
Other financial investments	312,235	233,860	546,095
Provision for unearned premiums	15,334	-	15,334
Claims outstanding	143,727	-	143,727
Debtors arising out of direct insurance operations	31,968	-	31,968
Debtors arising out of reinsurance operations	2,221	-	2,221
Other debtors	2,263	-	2,263
Cash at bank and in hand	44,872	2,168	47,040
Overseas deposits	32,397	-	32,397
Accrued interest and rent	291	201	492
Deferred acquisition costs	14,705	-	14,705
Other prepayments and accrued income	1,685	-	1,685
Total assets	601,698	236,229	837,927
Provision for unearned premiums	53,571	-	53,571
Claims outstanding	498,500	-	498,500
Creditors arising out of direct insurance operations	1,365	-	1,365
Creditors arising out of reinsurance operations	16,980	-	16,980
Other creditors including taxation and social security	6,292	-	6,292
Accruals and deferred income	1,517	-	1,517
Liabilities	578,225	-	578,225
Member's Balances	23,473	236,229	259,702
Total Liabilities	601,698	236,229	837,927

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 of a change in interest rates of $\pm 0.5\%$ on profit and net assets for interest bearing securities held at the reporting date is shown in the following table:

		2018 £'000	2017 £'000
Investments - Debt securities and other fixed income securities	+0.5%	(1,077)	(1,036)
	-0.5%	1,080	1,118

NOTES TO THE ACCOUNTS (CONTINUED)

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 of a change in equity values of $\pm 5\%$ on profit and net assets for investments held at the reporting date is shown in the following table:

		2018 £'000	2017 £'000
Investments – equity and related investments	+5%	8,685	9,501
	-5%	<u>(8,685)</u>	<u>(9,501)</u>

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.

2018	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	Other £'000	Total £'000
Other financial investments	39,900	298,172	44,252	44,168	24,222	21,336	472,050
Overseas deposits	-	389	-	7,260	20,190	1,433	29,272
Reinsurers' share of technical provisions	41,135	34,194	52,324	7,674	14,715	-	150,042
(Re)insurance receivables	5,674	18,439	7,536	1,688	7,010	3,116	43,463
Cash	15,216	16,933	65,137	1,724	3,873	4,264	107,147
Other assets	6,895	7,933	2,912	2,313	1,873	108	22,034
Total assets	<u>108,820</u>	<u>376,060</u>	<u>172,161</u>	<u>64,827</u>	<u>71,883</u>	<u>30,257</u>	<u>824,008</u>
Technical provisions	(116,481)	(131,517)	(209,587)	(34,323)	(66,771)	(21,121)	(579,800)
(Re)insurance payables	(5,956)	(2,442)	(652)	(3,036)	(2,048)	-	(14,134)
Other creditors	201,614	(236,388)	41,439	(23,093)	(146)	(180)	(16,754)
Total liabilities	<u>79,177</u>	<u>(370,347)</u>	<u>(168,800)</u>	<u>(60,452)</u>	<u>(68,965)</u>	<u>(21,301)</u>	<u>(610,688)</u>
Net assets	<u>187,997</u>	<u>5,713</u>	<u>3,361</u>	<u>4,375</u>	<u>2,918</u>	<u>8,956</u>	<u>213,320</u>

NOTES TO THE ACCOUNTS (CONTINUED)

17) FINANCIAL RISK MANAGEMENT (CONTINUED)

2017	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	Other £'000	Total £'000
Other financial investments	71,027	346,476	51,112	41,156	13,241	23,083	546,095
Overseas deposits	-	162	-	6,493	24,344	1,398	32,397
Reinsurers' share of technical provisions	29,889	37,780	65,113	6,046	20,233	-	159,061
(Re)insurance receivables	3,421	14,627	5,089	2,388	8,063	601	34,189
Cash	2,946	10,092	17,914	1,765	9,706	4,617	47,040
Other assets	6,310	6,595	2,632	1,876	1,606	126	19,145
Total assets	113,593	415,732	141,860	59,724	77,193	29,825	837,927
Technical provisions	(109,270)	(102,303)	(219,495)	(31,397)	(76,850)	(12,756)	(552,071)
(Re)insurance payables	(8,591)	(4,571)	(1,622)	(2,358)	(1,203)	-	(18,345)
Other creditors	200,195	(267,567)	80,530	(20,903)	(164)	100	(7,809)
Total liabilities	82,334	(374,441)	(140,587)	(54,658)	(78,217)	(12,656)	(578,225)
Net assets / (liabilities)	195,927	41,291	1,273	5,066	(1,024)	17,169	259,702

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.

2018	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance debtors	38,198	1,187	463	1,017	184	41,049
Reinsurance debtors	2,236	-	9	25	144	2,414
Total	40,434	1,187	472	1,042	328	43,463
2017	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	29,898	920	538	467	145	31,968
Reinsurance debtors	2,043	-	3	1	174	2,221
Total	31,941	920	541	468	319	34,189

NOTES TO THE ACCOUNTS
(CONTINUED)

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 in respect of 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	2018 £'000	2017 £'000
AAA	227,103	252,701
AA	105,329	132,833
A	215,997	141,560
BBB	13,423	1,403
BBB or less	299	32,382
Not rated	183,577	210,423
	745,728	771,302

Financial assets	2018 £'000	2017 £'000
Shares and other variable yield securities and unit trusts	165,976	174,768
Debt securities	303,271	345,638
Participation in investment pools	2,496	5,842
Overseas deposits as investments	29,272	32,397
Derivative asset	307	19,847
Reinsurer' share of claims outstanding	135,023	143,727
Reinsurance debtors	2,236	2,043
Cash at bank and in hand	107,147	47,040
	745,728	771,302

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.

Maturity analysis	Gross outstanding claims liability		Investments	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
No stated maturity	-	-	168,472	180,983
Within 1 year or less	54,550	53,016	233,244	318,296
Within 1 to 2 years	55,461	53,741	33,863	-
Within 2 to 3 years	50,676	49,656	13,379	13,102
Within 3 to 4 years	44,663	44,552	13,439	-
Within 4 to 5 years	38,592	38,523	7,258	3,913
Over 5 years	270,331	259,012	2,395	29,801
	<u>514,273</u>	<u>498,500</u>	<u>472,050</u>	<u>546,095</u>

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

Maturity analysis	2018		2017	
	No stated maturity £'000	Within 1 year £'000	No stated maturity £'000	Within 1 year £'000
Trade and other payables	12,928	7,516	12,584	11,210
Derivative financial instruments - liabilities	-	7,450	-	843
	<u>12,928</u>	<u>14,966</u>	<u>12,584</u>	<u>12,053</u>

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

Development

The table on page 36 shows the development of gross and net undiscounted ultimate claims for the eight most recent underwriting years of account. All information presented in the table is reported at the current year-end rates of exchange.

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	2012	2013	2014	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At end of reporting year	44,917	35,502	52,417	30,340	28,760	26,982	39,981	45,528	
1 year later	91,328	75,546	90,019	79,488	73,354	64,583	87,407		
2 years later	82,091	75,380	100,907	79,255	69,222	67,538			
3 years later	80,716	74,085	94,165	86,382	71,976				
4 years later	74,841	75,332	89,880	72,717					
5 years later	71,302	69,833	77,416						
6 years later	74,617	75,528							
7 years later	66,598								
Cumulative payments	38,371	34,904	36,346	35,436	14,974	11,572	7,044	1,068	179,715
Estimated balance to pay	28,227	40,624	41,070	37,281	57,002	55,966	80,363	44,460	384,993
2010 & prior									129,280
Total gross provision included in the balance sheet									514,273

Net of reinsurance

	2011	2012	2013	2014	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At end of reporting year	31,799	25,794	27,279	21,810	20,766	19,936	29,769	30,612	
1 year later	64,325	54,226	60,066	58,717	53,330	48,749	67,160		
2 years later	61,436	55,002	63,085	58,684	53,178	53,073			
3 years later	61,489	54,271	63,428	62,264	57,001				
4 years later	58,143	53,712	61,739	51,670					
5 years later	56,150	50,568	59,704						
6 years later	60,062	57,843							
7 years later	56,002								
Cumulative payments	32,408	27,716	31,375	25,214	14,236	11,332	6,167	1,044	149,492
Estimated balance to pay	23,594	30,127	28,329	26,456	42,765	41,741	60,993	29,568	283,573
2010 & prior									95,677
Total net provision included in the balance sheet									379,250

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.

Impact on the result of the year and net assets £'000	Change in net claims reserves		Change in claims handling expenses	
	+1%	-1%	+10%	-10%
2018	(3,703)	3,703	(900)	900
2017	(3,458)	3,458	(900)	900

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 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 2018, NUML recharged expenses amounting to £16.6m (2017: £13.9m) to the Syndicate.

Newline Underwriting Limited, Newline Asia Services PTE Limited, Newline Australia Insurance Pty Limited, Newline Malaysia Limited and Newline Canada Insurance 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, Newline Australia Insurance Pty Limited specialises in casualty insurance business in Australia, and Newline Canada Insurance Limited specialises in casualty insurance business in Canada. No commission, charges or fees are 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 2018, investment management charges totalled £1.1m (2017: £1.5m).

The Syndicate holds reinsurance contracts with Riverstone Insurance Limited, a subsidiary of Fairfax. Reinsurance premiums of £8,000 (2017: £17,000) 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, £30,000 (2017: £12,000 due) was due on recoveries.

The Syndicate holds reinsurance contracts with Advent Syndicate 780 (“Advent”), whose capital provider is a subsidiary of Fairfax. Reinsurance premiums of £nil (2017: £nil) have been ceded to Advent in respect of the Syndicates core excess of loss program. At the year end, £0.1m (2017: £0.1m due) was due on recoveries.

The Syndicate holds reinsurance contracts with Allied World Assurance Company, Limited (“AWAC”) a subsidiary of Fairfax. Reinsurance premiums of £2.5m (2017: £nil) have been ceded to AWAC in respect of the Syndicates core excess of loss program. At the year end, £nil (2017: £nil) was due on recoveries.

NOTES TO THE ACCOUNTS *(CONTINUED)*

19) RELATED PARTIES *(CONTINUED)*

During 2018, the London and Paris branches of ORC have placed inwards treaty business with the Syndicate. The Syndicate has also placed outwards business with ORC through quota share agreements in respect of this inwards business written. In 2017, reinsurance premiums were ceded to ORC in respect of the Syndicate's core excess of loss program, and placed at market rates and terms. This ceased from 1/1/2018. In 2018, ORC London and Paris branches placed £7.2m (2017: £9.0m) of gross written premiums with Syndicate 1218, on an arm's length basis. Reinsurance premiums of £4.9m (2017: £8.9m) have been ceded to ORC in the year. At the end of the year, £0.5m (2017: £43,000) was due from ORC.

Brit Limited ("Brit") which provides 100% of the capacity for Lloyd's Syndicate 2987 is a subsidiary of Fairfax. Reinsurance premiums of £83,000 (2017: £348,000) have been ceded in the year. At the year end, £12,000 (2017: £228,000) was due on recoveries from Syndicate 2987.

Mr. J Spencer, a non-executive director of the managing agency, is a non-executive director of Markel Syndicate Management Limited and Markel International Insurance Company Limited. In 2018, the Syndicate has placed outwards reinsurance premiums of £229,000 (2017: £47,000) with companies associated with the Markel Group, on an arm's length basis. At the year end, £42,000 (2017: £44,000) 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 2018, Talbot placed £179,000 (2017: £204,000) 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 2019 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.

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 2018, £222.0m (2017: £236.2m) 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.