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NEWLINE
UNDERWRITING
MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2020

CONTENTS

SYNDICATE INFORMATION

AT 31 DECEMBER 2020

NEWLINE SYNDICATE 1218

MANAGING AGENT	Newline Underwriting Management Limited Corn Exchange 55 Mark Lane London EC3R 7NE	
DIRECTORS OF MANAGING AGENT	R F Beaver	(appointed 23rd March 2020)
	W E Beveridge	(appointed 27th April 2020)
	J Christiansen	
	A R Carey	(appointed 23rd March 2020)
	N D Duncan	
	S Kapur	
	R B Kastner	
	C A Overy	
	M Scales	
	M G Wacek	
	H J L Withinshaw	
COMPANY SECRETARY	H J L Withinshaw	
ACTIVE UNDERWRITER	C A Overy	(resigned 27th April 2020)
	W E Beveridge	(appointed 27th April 2020)
AUDITORS	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT	

MANAGING AGENT'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors of the managing agent present their report and audited annual report and accounts for the year ended 31 December 2020.

This annual report and accounts 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 £165.0m for the 2020 year of account (2019: £137.0m, 2018: £137.0m). 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.

Clinical Trials
This line of business protects pharmaceutical and biotech manufacturers and developers as well as clinical research organisations in respect of claims made by research subjects who participated in clinical trials and assert they sustained bodily injury by exposure to the products being tested in the clinical trial.

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.

Cyber
This line of business protects companies in relation to the financial exposure that arises in the digital and data protection age either on a first party and/or third party basis.

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

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

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

MANAGING AGENT'S REPORT
(CONTINUED)

Life Sciences
This line of business protects manufacturers, developers and distributors of a wide range of pharmaceutical, nutraceutical, biotech, medical, health and wellbeing related products against claims made by third parties for bodily injury and property damage by use of or exposure to the products manufactured, developed and distributed by these insureds.

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

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

The Syndicate also underwrites satellite business through a consortium participation.

BUSINESS REVIEW

Results and performance
The result for the calendar year 2020 is a loss of £6.9m (2019: profit of £39.0m). Profits and losses will continue to be distributed or called by reference to the results of individual underwriting years.

The combined ratio for 2020 is 92.9% (2019: 94.8%), resulting in an underwriting profit excluding investment return of £10.9m (2019: profit £7.2m). The combined ratio of 92.9% reflects the market environment we are currently operating in where we have experienced rate improvements and growth in top performing classes, combined with prior year releases across a number of Casualty classes.

The investment return for the year was a loss of £15.1m (2019: profit £33.3m) driven by losses on our equity portfolio, partially offset by investment income and gains on long term fixed interest investments. The Syndicate's investment portfolio recorded an investment return of £6.3m (2019: positive return of £8.2m). The investments supporting the Funds in Syndicate and surplus capital accumulated negative investment returns totalling £21.4m (2019: positive return of £25.1m).

The US and other developed Equity markets, after initially posting significant losses at the start of the pandemic, have recovered, and posted high returns in the latter part of 2020, although the Eurozone has not seen the same level of gains as the US. The Syndicate's equity portfolio performance has lagged that of the main indices, predominantly due to the absence of any holdings in technology stocks and the underperformance of its holdings in the Eurozone financial sector.

During 2020, the Syndicate continued to increase investment holdings in high grade corporate issues, and reported a positive performance in the year.

Gross written premiums for the year were £210.1m (2019: £175.2m), £34.9m or 19.9% higher, in converted sterling terms. At constant rates of exchange, this represents an increase in premium of £36.6m or 20.9%. This increase is largely driven by growth in our Liability, Commercial D&O and Affinity and 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, notwithstanding an overall hardening market, continue to be competitive.

The Syndicate's capacity for the 2021 year of account has increased to £190.0m from £165.0m on the 2020 year of account, and our income estimates for 2021 are for modest expansion, driven by rate change and growth across a number of classes. We will continue to look for cost-effective means of growing our portfolio, and expanding, if possible, those areas where we feel that the market dynamics mean there is potential for increased profitability. Notwithstanding this, we are cognisant of the challenges of doing so in the current environment.

MANAGING AGENT'S REPORT

(CONTINUED)

On 30th December 2020, all existing EEA business incepting up to 28th March 2019 of the Syndicate was transferred to Lloyd's Insurance Company S.A. ("LIC") under a Part VII transfer, with a transfer back to the Syndicate from LIC through the acquisition by LIC from the Syndicate of a 100% quota share reinsurance policy.

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 2020, the insurance market has experienced some rate hardening and the withdrawal of market capacity from certain business lines. The Syndicate's competitors include independent insurance companies, subsidiaries or affiliates of established worldwide insurance companies and MGAs, and other syndicates underwriting at Lloyd's. Some of these competitors have longer operating histories and larger capital bases than Syndicate 1218 and, in addition, greater underwriting, marketing, and administrative resources.

For the Syndicate, as a whole, the rating environment has experienced improvements in 2020. We are witnessing a shortage of capacity in some areas of the market at present which is enabling us to increase rates, and expect this to continue into 2021 across a number of classes.

Casualty market participants continue to compete aggressively for business and we expect the rating environment to remain highly competitive. We will maintain our focus on maximising the opportunities presented by the hardening market: increasing price; rationalising line size; reducing acquisition cost; and, tightening policy terms and conditions. We anticipate rates improving in 2021, but in pockets varying by territory and line of business, with modest gross premium growth.

Strategy

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

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. A description of the principal risks and uncertainty facing the Syndicate are set out in notes 17 and 18 of these annual report and accounts.

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.

MANAGING AGENT'S REPORT
(CONTINUED)

Principal risks and uncertainties (continued)

Novel Coronavirus (COVID-19) pandemic
In 2020, the COVID-19 pandemic became a major issue for the insurance sector as economies around the world shut down, businesses were interrupted and people could not travel for work or leisure. Newline does not have exposure to business interruption or travel insurance which are directly impacted by this event. However, Newline writes business that could be indirectly impacted by the pandemic. The claims team has reviewed Newline's exposure and we have already received notifications of potential claims. It is conceivable that Newline could receive claims in the following classes:

- Commercial D&O, in respect of action taken against directors for loss of value to the business during the pandemic
- Medical Malpractice, in respect of the medical treatment during the pandemic
- Liability, in respect of clinical trials for a COVID-19 vaccine, or claims against employers' liability or product liability policies

Our view that there is a limited likelihood of claims emerging against the notifications we have received to date and limited additional potential exposure. We have therefore booked a modest net reserve against potential claims arising of £1.9m.

There has been no interruption to the day to day operations of the business as staff have been able to work remotely whilst Government restrictions have been 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 the most value. The UK, Commonwealth countries, Continental Europe, Israel and Asia will continue to be our core markets. The Syndicate will take full advantage of Lloyd's licensing and franchise to exploit opportunities in certain sectors or markets in our chosen fields of expertise as and when they develop. Given the changing broker landscape and developments in local (re)insurance markets, we envisage less business coming to London. To counter this, we are making increasing effort to access business regionally, whether this be through:

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

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

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

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

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

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 report and 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 2020 Lloyd's approved the Syndicate Solvency Capital Requirement, calculated using the Syndicate's Internal Model, in November 2019.

MANAGING AGENT'S REPORT
(CONTINUED)

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

	2020	2019	
Gross Written Premiums	£210.1m	£175.2m	Gross premiums written, including acquisition costs, in respect of insurance contracts
Net written premiums	£175.5m	£148.4m	Gross Written Premiums less outward reinsurance in respect of insurance contracts
Technical result	£17.2m	£15.5m	Balance on technical account for general business
Net loss ratio	52.0%	53.7%	Ratio of net claims incurred to net earned premiums
Combined ratio	92.9%	94.8%	Ratio of net claims incurred, commissions and expenses to net premiums earned

DIRECTORS OF THE MANAGING AGENT

The Directors listed below have held office from 1 January 2020 to the date of this report unless otherwise stated.

R F Beaver	(appointed 23rd March 2020)
W E Beveridge	(appointed 27th April 2020)
J Christiansen	
A R Carey	(appointed 23rd March 2020)
N D Duncan	
S Kapur	
R B Kastner	
C A Overy	
M Scales	
J W J Spencer	(resigned 23rd June 2020)
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.

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 report and accounts for the year ended 31 December 2020 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.

MANAGING AGENT'S REPORT
(CONTINUED)

INDEPENDENT AUDITORS

The independent auditors of the Syndicate 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 report and 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 report and 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 report and 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 report and 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 report and accounts; and
- prepare the annual report and 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 report and 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 report and 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
4 March 2021

Independent auditors' report to the member of Syndicate 1218

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1218's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 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 applicable law); 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 Annual Report and Accounts (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2020; the Profit and loss account: technical account – general business, the Profit and loss account: non-technical account, the Statement of comprehensive income, the Cash flow statement, the Statement of changes in member's balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of at least twelve months from when the syndicate annual accounts are authorised for issue.

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

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

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

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.

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

Independent auditors' report to the member of Syndicate 1218 (continued)

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 The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires 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 2020 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to were related to the posting of inappropriate journals and management bias in accounting estimates.

Audit procedures performed included:

- Discussions with management, internal audit and the compliance function of the Managing Agent, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to valuation of the IBNR component of claims outstanding and estimated premium income.

Independent auditors' report to the member of Syndicate 1218 (continued)

- Identifying and testing journal entries, in particular any journals that appear to be posted outside the normal patterns and parameters, any journal entries posted with unusual account combinations and low frequency journal postings.
- Reviewing relevant meeting minutes including those of the Audit Committee and correspondence with regulatory authorities, including Lloyd's of London and the Prudential Regulatory Authority.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 member 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.

Other required reporting

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 obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; 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
4 March 2021

PROFIT & LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	**2020**	2019
		£'000	£'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	5	**210,064**	175,240
Outwards reinsurance premiums		**(34,600)**	(26,849)
Net premiums written		**175,464**	148,391
Change in the gross provision for unearned premiums		**(23,687)**	(10,719)
Change in the provision for unearned premiums, reinsurers' share		**3,456**	1,373
Change in the net provision for unearned premiums		**(20,231)**	(9,346)
Earned premiums, net of reinsurance		**155,233**	139,045
Allocated investment return transferred from the non-technical account		**6,257**	8,232
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		**(70,237)**	(60,216)
Reinsurers' share		**6,497**	7,835
Net claims paid		**(63,740)**	(52,381)
Change in the gross provision for claims		**(60,889)**	(72,065)
Reinsurers' share		**43,966**	49,710
Change in the net provision for claims		**(16,923)**	(22,355)
Claims incurred, net of reinsurance		**(80,663)**	(74,736)
Net operating expenses	7	**(63,623)**	(57,080)
Balance on the technical account for general business		**17,204**	15,461

All operations are continuing.

The notes on pages 17 to 40 form an integral part of these annual report and accounts.

NEWLINE UNDERWRITING MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

PROFIT & LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	**2020**	2019
		£'000	£'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		**17,204**	15,461
Investment income	10	**11,303**	18,606
Net unrealised (losses) / gains on investments	10	**(24,132)**	16,902
Investment expenses and charges	10	**(2,300)**	(2,229)
		(15,129)	33,279
Allocated investment return transferred to the general business technical account		**(6,257)**	(8,232)
Other charges	11	**(2,672)**	(1,467)
(LOSS) / PROFIT FOR THE FINANCIAL YEAR		**(6,854)**	39,041

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020	2019
	£'000	£'000
(Loss) / profit for the financial year	**(6,854)**	39,041
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	**(6,854)**	39,041

The notes on pages 17 to 40 form an integral part of these annual report and accounts.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	2020 £'000	2019 £'000
ASSETS			
Investments			
Other financial investments	12	**483,821**	514,417
Reinsurers' share of technical provisions			
Provision for unearned premiums		**19,576**	15,995
Claims outstanding		**223,592**	178,948
Debtors			
Arising out of direct insurance operations, due from intermediaries		**66,805**	42,269
Arising out of reinsurance operations		**5,766**	2,600
Other debtors		**2,360**	991
Other assets			
Cash at bank and in hand		**107,882**	95,230
Overseas deposits	13	**63,586**	41,259
Prepayments			
Accrued interest and rent		**944**	1,156
Deferred acquisition costs	14	**26,814**	21,685
Other prepayments and accrued income		**3,700**	2,271
Total assets		**1,004,846**	916,821
LIABILITIES			
Capital and Reserves			
Member's Balances		**245,195**	252,312
Technical provisions			
Provision for unearned premiums		**96,842**	74,037
Claims outstanding		**633,233**	565,942
Creditors			
Arising out of direct insurance operations, due to intermediaries		**391**	1,156
Arising out of reinsurance operations		**20,439**	14,242
Other creditors including taxation and social security	15	**5,924**	5,511
Accruals and deferred income		**2,822**	3,621
Total liabilities		**1,004,846**	916,821

Approved by the board of Directors on 4 March 2021.

S Kapur
Director

The notes on pages 17 to 40 form an integral part of these annual accounts.

NEWLINE UNDERWRITING MANAGEMENT LIMITED
SYNDICATE 1218 AT LLOYD'S

STATEMENT OF CHANGES IN MEMBER'S BALANCES

FOR THE YEAR ENDED 31 DECEMBER 2020

	Due (from) / to member £'000	Funds in Syndicate £'000	Total £'000
At 1 January 2019	**(8,708)**	**222,028**	**213,320**
Profit for the year	15,106	23,935	39,041
Total comprehensive income for the year	**15,106**	**23,935**	**39,041**
Distribution to Funds in Syndicate	-	3,385	3,385
Distribution to member	(3,434)	-	(3,434)
Total distribution to Funds in Syndicate and member	(3,434)	3,385	(49)
At 31 December 2019	**2,964**	**249,348**	**252,312**
Loss for the year	15,668	(22,522)	(6,854)
Total comprehensive expense for the year	**15,668**	**(22,522)**	**(6,854)**
Distribution to Funds in Syndicate	-	18,175	18,175
Distribution to member	(18,438)	-	(18,438)
Total distribution to Funds in Syndicate and member	(18,438)	18,175	(263)
At 31 December 2020	**194**	**245,001**	**245,195**

The notes on pages 17 to 40 form an integral part of these annual report and accounts.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 **£'000**	2019 £'000
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss) / profit for the financial year	**(6,854)**	39,041
Increase in gross technical provisions	**90,095**	60,179
(Increase) in reinsurers' share of gross technical provisions	**(48,223)**	(44,901)
(Increase) / decrease in debtors	**(35,418)**	14,159
Increase in creditors	**4,311**	759
Investment loss / (return)	**15,129**	(33,279)
Foreign exchange loss / (gain) on cash and cash equivalents and settlement of forward exchange contracts	**16,878**	(28,790)
NET CASH FLOWS FROM OPERATING ACTIVITIES	**35,918**	7,168
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of equity and debt instruments	**(509,586)**	(476,793)
Sale of equity and debt instruments	**497,185**	417,430
Purchase of derivatives	**(14,703)**	(2,786)
Sale of derivatives	**5,242**	24,301
Investment income received	**4,432**	6,148
NET CASH FROM INVESTING ACTIVITIES	**(17,430)**	(31,700)
CASH FLOW FROM FINANCING ACTIVITIES		
Distribution of profit	**(18,438)**	(3,434)
Distribution of profit transferred to Funds in Syndicate	**18,175**	3,385
NET CASH USED IN FINANCING ACTIVITIES	**(263)**	(49)
Net increase / (decrease) in cash and cash equivalents in the year	**18,225**	(24,581)
Cash and cash equivalents at the beginning of the year	**110,759**	140,787
Foreign exchange gain / (loss) on cash and cash equivalents	**2,667**	(5,447)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**131,651**	110,759
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash at bank and in hand	**107,882**	95,230
Short term deposits with credit institutions	**23,769**	15,529
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**131,651**	110,759

The notes on pages 17 to 40 form an integral part of these annual accounts.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 £165.0m for the 2020 year of account (2019: £137.0m, 2018: £137.0m). 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 report and 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''), and Financial Reporting Standard 103, ''Insurance Contracts'' (''FRS 103'').

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these annual report and 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 report and 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) Portfolio premiums and claims

Portfolio premiums are amounts payable by an insurer to another in consideration for a contract whereby the transferee agrees to assume responsibility for the claims arising on a portfolio of in-force business written by the transferor from a future date until the expiry of the policies.

Portfolio claims represent amounts payable by one insurer to another in consideration for a contract whereby the transferee agrees to assume responsibility for any unpaid claims incurred by the transferor prior to a specified date.

With respect to those portfolio premiums and claims transferred to Lloyd's Insurance Company S.A. ("LIC") under a Part VII transfer on 30th December 2020, these have been recorded as negative gross written premium, with a transfer back to the Syndicate from LIC through the acquisition by LIC from the Syndicate of a 100% quota share reinsurance policy generating an offsetting gross written premium. This presentation of the two transactions has been adopted as it best reflects the economic substance of the transactions.

NOTES TO THE ACCOUNTS
(CONTINUED)

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

c) 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.

d) 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.

e) 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.

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

g) 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.

h) 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.

i) 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.

NOTES TO THE ACCOUNTS
(CONTINUED)

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

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

Provisions are calculated 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.

j) 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.

k) 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, and deposits with ceding undertakings, are initially recognised at transaction price or cost, 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)*

l) 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.

m) 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.

n) 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.

o) 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)*

p) 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.

q) 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.

r) 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 report and accounts requires management to make significant judgements and estimates. The items in the annual report and 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.

NOTES TO THE ACCOUNTS
(CONTINUED)

4) SIGNIFICANT JUDGEMENTS AND ESTIMATES *(CONTINUED)*

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 2020, the carrying value of net claims IBNR is £274.2m (2019: £244.2m), and the Management Adjustment in excess of the best estimate of net reserves was £31.4m (2019: £27.1m). This level of Management Adjustment is considered appropriate in light of the current economic environment, loss exposure on opioids and other pharma losses, and the potential for second order COVID related losses.

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 £20.6m (2019: £17.2m); of that £18.3m is unearned at 31 December 2020 (2019: £14.3m).

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 £93.4m (2019: £85.2m). 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:

2020	**Gross premiums written £'000**	**Gross premiums earned £'000**	**Gross claims incurred £'000**	**Gross operating expenses £'000**	**Reinsurance balance £'000**
Direct insurance					
Third party liability	**127,954**	**117,064**	**(83,239)**	**(42,450)**	**18,091**
Aviation	**6,156**	**4,815**	**(3,491)**	**(601)**	**(978)**
Energy-non marine	**49**	**79**	**(52)**	**(28)**	**10**
Other direct	**16,609**	**13,668**	**(9,588)**	**(3,406)**	**(1,175)**
Total direct	**150,768**	**135,626**	**(96,370)**	**(46,485)**	**15,948**
Reinsurance acceptances	**59,296**	**50,751**	**(34,756)**	**(19,049)**	**5,282**
Total	**210,064**	**186,377**	**(131,126)**	**(65,534)**	**21,230**

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

NOTES TO THE ACCOUNTS

(CONTINUED)

5) SEGMENTAL INFORMATION *(CONTINUED)*

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.

On 30 December 2020, the Syndicate transferred all relevant policies (and related liabilities) underwritten by it for the years of account between 1997 and 2019 to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 25th November 2020, the scheme took effect on 30 December 2020 and the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of $117.4m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of $117.4m. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement or balance sheet.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels.

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 £11.6m (2019: favourable development of £15.0m); this is mainly comprised of releases of £9.8m in respect of direct Third Party Liability business and releases of £2.3m in respect of total Reinsurance business.

7) NET OPERATING EXPENSES

	2020	2019
	£'000	£'000
Acquisition costs - commissions	**56,300**	48,255
Change in deferred acquisition costs	**(5,355)**	(3,085)
Administrative expenses	**15,009**	13,336
Reinsurers' commissions and profit participations	**(2,331)**	(1,426)
	63,623	57,080

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

Total commissions for direct insurance business accounted for in the year amounted to £46.7m (2019: £39.3m).

NOTES TO THE ACCOUNTS
(CONTINUED)

7) NET OPERATING EXPENSES *(CONTINUED)*

Administrative expenses include:

	2020 £'000	2019 £'000
Auditors' remuneration		
Audit services		
Fees payable to the Syndicate's auditors for the audit of Syndicate 1218	**192**	209
Non-audit services		
Fees payable to the Syndicate's auditor for other services:		
Other services pursuant to legislation - actuarial	**132**	138
Other services pursuant to legislation – Solvency II and other reporting required by Lloyd's Byelaws	**75**	60
	399	407

8) STAFF NUMBERS AND COSTS

	2020 £'000	2019 £'000
Wages and salaries	**9,152**	7,999
Social security costs	**1,277**	1,063
Other pension costs	**948**	769
Other staff related costs	**1,785**	1,642
	13,162	11,473

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

	2020 Number	2019 Number
Management	**7**	7
Underwriting	**39**	38
Claims	**9**	8
Information technology	**3**	3
Administration, finance and compliance	**27**	26
	85	82

NOTES TO THE ACCOUNTS

(CONTINUED)

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:

	2020	2019
	£'000	£'000
Emoluments	**1,578**	1,226
Contribution to pension scheme	**11**	17

Retirement benefits are accruing for three directors (2019: three) under money purchase schemes.

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

	2020	2019
	£'000	£'000
Emoluments	**287**	415

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

10) INVESTMENT RETURN

	2020	2019
	£'000	£'000
Investment income (including realised gains and losses on investments)		
Interest income on financial assets at fair value through profit and loss	**4,514**	4,547
Dividend income	**864**	1,958
Other interest and similar income	**1,318**	968
Realised gains on realisation of investments	**11,481**	21,592
Realised losses on realisation of investments	**(6,874)**	(10,459)
	11,303	18,606
Total investment expenses and charges		
Investment management expenses, including charges	**(2,300)**	(2,229)
	(2,300)	(2,229)
Net unrealised (losses) / gains	**(24,132)**	16,902
Total investment return	**(15,129)**	33,279

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

The above figures include a loss of £21.4m (2019: profit £25.0m) arising from investment returns earned on cash, equities and bonds deposited by Newline Corporate Name Limited into Funds in Syndicate.

NOTES TO THE ACCOUNTS

(CONTINUED)

11) OTHER NON-TECHNICAL CHARGES

	2020 £'000	2019 £'000
Other non-technical charges comprise:		
Net foreign exchange losses	**(2,672)**	(1,467)
	(2,672)	(1,467)

12) OTHER FINANCIAL INVESTMENTS

	2020 £'000 Fair value	2019 £'000 Fair value	2020 £'000 Cost	2019 £'000 Cost
Shares and other variable yield securities	**207,288**	199,187	**223,394**	172,962
Debt securities and other fixed income securities	**250,993**	290,865	**243,903**	290,601
Participation in investment pools	**-**	5,558	**-**	5,473
Other investments	**25,540**	18,807	**10,000**	-
	483,821	514,417	**477,297**	469,036

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 2020, the outstanding contracts mature between 2 and 4 months of the year end. The Syndicate is committed to sell US$248.0m and CAD$71.5m and receive fixed Sterling, and to sell GBP32.7m, and receive fixed Australian Dollar and Euro amounts.

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

The change in the fair value of the forward currency contract recognised in the profit and loss in the year was a profit of £5.5m (2019: profit of £4.1m). The corresponding foreign exchange loss recognised in the profit and loss account relating to the hedged foreign currency assets and liabilities was £8.2m (2019: loss of £5.6m).

13) OVERSEAS DEPOSITS

Overseas deposits of £63.6m (2019: £41.3m) comprise deposits which are lodged as a condition of conducting underwriting business in certain countries.

NOTES TO THE ACCOUNTS
(CONTINUED)

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:

	2020	2019
	£'000	£'000
At 1 January	**21,685**	19,098
Expenses for the acquisition of insurance contracts	**53,969**	46,829
Change in deferred acquisition costs	**(48,614)**	(43,744)
Foreign exchange	**(226)**	(498)
At 31 December	**26,814**	21,685

15) OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2020	2019
	£'000	£'000
Derivative liabilities	**1,068**	333
Other creditors	**4,856**	5,178
	5,924	5,511

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 2020 or 31 December 2019.

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 2020, the Syndicate held £93.4m (2019: £85.2m) 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 fixed income securities and loans to the Society of Lloyd's.

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.

NOTES TO THE ACCOUNTS
(CONTINUED)

16) FAIR VALUE HIERARCHY *(CONTINUED)*

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.

2020	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	**64,564**	**65,149**	**77,575**	**207,288**	**207,288**
Debt securities and other fixed income securities	**144,022**	**101,104**	**5,867**	**250,993**	**250,993**
Participation in investment pools	-	-	-	-	-
Overseas deposits	**4,846**	**58,740**	-	**63,586**	**63,586**
Derivative assets	-	**15,540**	-	**15,540**	**15,540**
Other investments	-	-	**10,000**	**10,000**	**10,000**
Financial liabilities					
Derivative liabilities	-	**(1,068)**	-	**(1,068)**	**(1,068)**
	213,432	**239,465**	**93,442**	**546,339**	**546,339**

2019	Fair value hierarchy				
	Level 1	**Level 2**	**Level 3**	**Assets held at fair value**	**Balance sheet total**
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Shares and other variable yield securities	77,079	43,094	79,014	199,187	199,187
Debt securities and other fixed income securities	162,022	122,705	6,138	290,865	290,865
Participation in investment pools	-	5,558	-	5,558	5,558
Overseas deposits	4,141	37,118	-	41,259	41,259
Derivative assets	-	18,807	-	18,807	18,807
Financial liabilities					
Derivative liabilities	-	(333)	-	(333)	(333)
	243,242	226,949	85,152	555,343	555,343

NOTES TO THE ACCOUNTS
(CONTINUED)

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.

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

	Syndicate	**Funds in Syndicate**	**Total**
	£'000	**£'000**	**£'000**
2020			
Other financial investments	238,914	244,907	483,821
Provision for unearned premiums	19,576	-	19,576
Claims outstanding	223,592	-	223,592
Debtors arising out of direct insurance operations	66,805	-	66,805
Debtors arising out of reinsurance operations	5,766	-	5,766
Other debtors	2,360	-	2,360
Cash at bank and in hand	108,073	(191)	107,882
Overseas deposits	63,586	-	63,586
Accrued interest and rent	659	285	944
Deferred acquisition costs	26,814	-	26,814
Other prepayments and accrued income	3,700	-	3,700
Total assets	**759,845**	**245,001**	**1,004,846**
Provision for unearned premiums	96,842	-	96,842
Claims outstanding	633,233	-	633,233
Creditors arising out of direct insurance operations	391	-	391
Creditors arising out of reinsurance operations	20,439	-	20,439
Other creditors including taxation and social security	5,924	-	5,924
Accruals and deferred income	2,822	-	2,822
Liabilities	**759,651**	**-**	**759,651**
Member's Balances	194	245,001	245,195
Total Liabilities	**759,845**	**245,001**	**1,004,846**

NOTES TO THE ACCOUNTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

	Syndicate £'000	Funds in Syndicate £'000	Total £'000
2019			
Other financial investments	266,872	247,545	514,417
Provision for unearned premiums	15,995	-	15,995
Claims outstanding	178,948	-	178,948
Debtors arising out of direct insurance operations	42,269	-	42,269
Debtors arising out of reinsurance operations	2,600	-	2,600
Other debtors	991	-	991
Cash at bank and in hand	93,825	1,405	95,230
Overseas deposits	41,259	-	41,259
Accrued interest and rent	758	398	1,156
Deferred acquisition costs	21,685	-	21,685
Other prepayments and accrued income	2,271	-	2,271
Total assets	**667,473**	**249,348**	**916,821**
Provision for unearned premiums	74,037	-	74,037
Claims outstanding	565,942	-	565,942
Creditors arising out of direct insurance operations	1,156	-	1,156
Creditors arising out of reinsurance operations	14,242	-	14,242
Other creditors including taxation and social security	5,511	-	5,511
Accruals and deferred income	3,621	-	3,621
Liabilities	**664,509**	**-**	**664,509**
Member's Balances	2,964	249,348	252,312
Total Liabilities	**667,473**	**249,348**	**916,821**

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 ± 0.5% on profit and net assets for interest bearing securities held at the reporting date is shown in the following table:

		2020 £'000	2019 £'000
Investments - Debt securities and other fixed income securities	**+0.5%**	**(979)**	(695)
	-0.5%	**1,008**	706

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 ± 5% on profit and net assets for investments held at the reporting date is shown in the following table:

		2020	2019
		£'000	£'000
Investments – equity and related investments	**+5%**	**10,360**	10,377
	-5%	**(10,360)**	(10,377)

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.

2020	**GBP £'000**	**USD £'000**	**EUR £'000**	**CAD £'000**	**AUD £'000**	**Other £'000**	**Total £'000**
Other financial investments	**259,580**	**102,594**	**70,118**	**24,872**	**4,068**	**22,589**	**483,821**
Overseas deposits	**-**	**1,023**	**-**	**12,228**	**43,304**	**7,031**	**63,586**
Reinsurers' share of technical provisions	**35,382**	**87,277**	**44,416**	**21,999**	**54,094**	**-**	**243,168**
(Re)insurance receivables	**6,308**	**39,287**	**8,540**	**1,460**	**13,090**	**3,886**	**72,571**
Cash	**5,000**	**17,131**	**75,084**	**2,875**	**2,016**	**5,776**	**107,882**
Other assets	**6,861**	**12,064**	**7,793**	**4,129**	**2,812**	**159**	**33,818**
Total assets	**313,131**	**259,376**	**205,951**	**67,563**	**119,384**	**39,441**	**1,004,846**
Technical provisions	**(127,678)**	**(223,544)**	**(191,574)**	**(61,155)**	**(109,444)**	**(16,680)**	**(730,075)**
(Re)insurance payables	**3,606**	**(16,710)**	**1,276**	**(2,324)**	**(6,678)**	**-**	**(20,830)**
Other creditors	**(4,303)**	**(3,798)**	**(2)**	**(112)**	**(149)**	**(382)**	**(8,746)**
Total liabilities	**(128,375)**	**(244,052)**	**(190,300)**	**(63,591)**	**(116,271)**	**(17,062)**	**(759,651)**
Net assets	**184,756**	**15,324**	**15,651**	**3,972**	**3,113**	**22,379**	**245,195**

NOTES TO THE ACCOUNTS
(CONTINUED)

17) FINANCIAL RISK MANAGEMENT *(CONTINUED)*

2019	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	Other £'000	Total £'000
Other financial investments	285,587	87,581	74,093	23,385	13,416	30,355	514,417
Overseas deposits	-	490	-	8,169	26,797	5,803	41,259
Reinsurers' share of technical provisions	46,071	66,810	45,223	9,728	27,111	-	194,943
(Re)insurance receivables	4,447	24,617	6,900	1,723	6,594	588	44,869
Cash	2,059	16,406	68,119	-	4,130	4,516	95,230
Other assets	7,522	9,110	4,266	2,618	2,443	144	26,103
Total assets	345,686	205,014	198,601	45,623	80,491	41,406	916,821
Technical provisions	(118,740)	(189,489)	(187,006)	(38,138)	(87,153)	(19,453)	(639,979)
(Re)insurance payables	(8,482)	(6,563)	3,701	(2,629)	(1,418)	(7)	(15,398)
Other creditors	(1,617)	(6,978)	(23)	(260)	(140)	(114)	(9,132)
Total liabilities	(128,839)	(203,030)	(183,328)	(41,027)	(88,711)	(19,574)	(664,509)
Net assets	216,847	1,984	15,273	4,596	(8,220)	21,832	252,312

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 year 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.

2020	**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	**62,044**	**2,735**	**20**	**1,600**	**406**	**66,805**
Reinsurance debtors	**5,617**	**-**	**-**	**-**	**149**	**5,766**
Total	**67,661**	**2,735**	**20**	**1,600**	**555**	**72,571**

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

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 year is the carrying amount of the investments on the balance sheet as they are measured at fair value.

Financial assets by credit rating	**2020 £'000**	2019 £'000
AAA	**176,305**	221,643
AA	**61,362**	85,108
A	**351,272**	241,646
BBB	**30,280**	33,941
BBB or less	**2,497**	5,720
Not rated	**262,782**	244,209
	884,498	832,267

Financial assets	**2020 £'000**	2019 £'000
Shares and other variable yield securities and unit trusts	**207,288**	199,187
Debt securities	**250,993**	290,865
Participation in investment pools	**-**	5,558
Overseas deposits as investments	**63,586**	41,259
Derivative asset	**15,540**	18,807
Other investments	**10,000**	-
Reinsurer' share of claims outstanding	**223,592**	178,948
Reinsurance debtors	**5,617**	2,413
Cash at bank and in hand	**107,882**	95,230
	884,498	832,267

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**	
	2020	2019	**2020**	2019
Maturity analysis	**£'000**	£'000	**£'000**	£'000
No stated maturity	**-**	-	**217,287**	204,744
Within 1 year or less	**61,700**	61,385	**191,552**	252,671
Within 1 to 2 years	**68,000**	60,303	**10,397**	22,790
Within 2 to 3 years	**70,246**	56,346	**24,427**	8,244
Within 3 to 4 years	**67,490**	51,741	**5,958**	7,684
Within 4 to 5 years	**62,685**	46,623	**4,634**	14,741
Over 5 years	**303,112**	289,544	**29,566**	3,543
	633,233	565,942	**483,821**	514,417

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

	2020		2019	
Maturity analysis	**No stated maturity £'000**	**Within 1 year £'000**	No stated maturity £'000	Within 1 year £'000
Trade and other payables	**21,832**	**3,855**	15,063	5,513
Derivative financial instruments - liabilities	**-**	**1,067**	-	333
	21,832	**4,922**	15,063	5,846

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 following table shows the development of gross and net undiscounted ultimate claims for the ten 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 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	Total £'000
At end of reporting year	44,368	35,020	51,714	29,742	28,090	26,483	38,655	43,944	42,118	51,617	
1 year later	90,271	74,744	88,625	77,883	71,660	63,003	84,675	113,492	104,065		
2 years later	81,487	74,686	99,292	77,519	67,755	65,850	107,778	140,008			
3 years later	80,202	73,180	92,781	85,068	70,547	75,511	102,648				
4 years later	74,217	74,690	88,780	71,703	77,437	88,733					
5 years later	70,723	69,412	76,553	77,590	70,341						
6 years later	74,148	74,868	67,727	75,875							
7 years later	66,211	70,992	66,686								
8 years later	63,103	70,960									
9 years later	60,315										
Cumulative payments	40,062	49,607	41,778	44,469	29,074	21,182	20,329	37,572	9,399	1,408	294,880
Estimated balance to pay	20,253	21,353	24,908	31,406	41,267	67,551	82,319	102,436	94,666	50,209	536,368
2010 & prior											96,865
Total gross provision included in the balance sheet											633,233

Net of reinsurance

	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000	Total £'000
At end of reporting year	31,353	25,418	26,847	21,342	20,280	19,565	28,715	29,554	31,923	38,853	
1 year later	63,483	53,638	59,064	57,483	51,937	47,448	64,983	74,637	76,976		
2 years later	61,008	54,518	62,054	57,443	51,893	51,650	71,956	86,808			
3 years later	61,117	53,628	62,499	61,179	55,730	50,031	67,204				
4 years later	57,652	53,351	61,057	50,948	58,171	47,584					
5 years later	55,629	50,396	58,977	55,026	54,898						
6 years later	59,626	57,437	54,384	54,652							
7 years later	55,669	54,456	53,854								
8 years later	53,571	57,274									
9 years later	50,717										
Cumulative payments	33,831	40,710	36,041	32,956	27,891	20,573	18,910	32,663	9,208	1,409	254,192
Estimated balance to pay	16,886	16,564	17,813	21,696	27,007	27,011	48,294	54,145	67,768	37,444	334,628
2010 & prior											75,013
Total net provision included in the balance sheet											409,641

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 +1%	Change in net claims reserves -1%	Change in claims handling expenses +10%	Change in claims handling expenses -10%
	2020	**(3,981)**	**3,981**	**(1,156)**	**1,156**
	2019	(3,770)	3,770	(998)	998

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 2020, NUML recharged expenses amounting to £19.1m (2019: £15.9m) 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 2020, investment management charges totalled £1.7m (2019: £1.8m).

The Syndicate holds reinsurance contracts with Riverstone Insurance Limited, a subsidiary of Fairfax. Reinsurance return premiums of £11,000 (2019: £92,000 return premium) have been assumed from 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, £11,000 (2019: £21,000 due) was due on recoveries.

The Syndicate holds reinsurance contracts with Allied World Assurance Company, Limited ("AWAC") a subsidiary of Fairfax. Reinsurance premiums of £3.1m (2019: £2.7m) have been ceded to AWAC in respect of the Syndicates core excess of loss program. At the year end, £nil (2019: £3,000) was due on recoveries.

NOTES TO THE ACCOUNTS
(CONTINUED)

19) RELATED PARTIES *(CONTINUED)*

During 2020, 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 2020, ORC London and Paris branches placed £0.9m (2019: £1.8m) of gross written premiums with Syndicate 1218, on an arm's length basis. Reinsurance premiums of £0.9m (2019: £0.9m) have been ceded to ORC in the year. At the end of the year, £0.1 (2019: £0.1m due from) was due to ORC.

Brit Limited ("Brit") which provides 100% of the capacity for Lloyd's Syndicate 2987 is a subsidiary of Fairfax. Reinsurance return premiums of £69,000 (2019: £230,000 return premiums) have been assumed from Brit in the year. At the year end, £378,000 (2019: £43,000) was due on recoveries from Syndicate 2987.

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 Regulation 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 report and 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 2020 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, and third party Funds at Lloyd's by Odyssey Reinsurance Company. On 25th November, £25.0m was deposited as third party funds at Lloyds. As at 31st December 2020, the fair value of the third party funds at Lloyd's was £24.6m.

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 2020, £245.0m (2019: £249.3m) 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.