NEWLINE
UNDERWRITING
MANAGEMENT LIMITED

# REPORT AND ACCOUNTS

*31 DECEMBER 2015*

NEWLINE
UNDERWRITING
MANAGEMENT LIMITED

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NEWLINE UNDERWRITING MANAGEMENT LIMITED

# COMPANY INFORMATION

*AT 31 DECEMBER 2015*

Incorporated in England

Number 3223686

| | |
|---|---|
| **DIRECTORS** | J Christiansen<br>S Kapur<br>R B Kastner<br>J R F Micklem<br>C A Overy<br>M Scales<br>J W J Spencer<br>M G Wacek |
| **SECRETARY** | J R F Micklem |
| **REGISTERED OFFICE** | Corn Exchange<br>55 Mark Lane<br>London<br>EC3R 7NE |
| **BANKERS** | Citibank<br>Citigroup Centre<br>Canada Square<br>Canary Wharf<br>London<br>E14 5LB<br><br>National Westminster Bank Plc<br>City of London Office<br>PO Box 12258<br>1 Princes Street<br>London<br>EC2R 8PA |
| **AUDITORS** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>7 More London Riverside<br>London<br>SE1 2RT |

# STRATEGIC REPORT
*AT 31 DECEMBER 2015*

## PRINCIPAL ACTIVITY

The principal activity of the Company is that of a Lloyd's managing agent responsible for the management of Newline Syndicate 1218. The capacity of Syndicate 1218 is 100% provided by Newline Corporate Name Limited, which had a capacity of £100m for the 2015 year of account (2014: £105m). The capacity for the 2016 year of account is £100m.

The Company also provides management services to other group companies, primarily Newline Insurance Company Limited and the London branch of Odyssey Reinsurance Company.

## RESULTS AND BUSINESS REVIEW

The Company does not charge a fee for managing Syndicate 1218 or for providing management services to other group companies. Therefore the only income during the year has been the reimbursement of expenses incurred on behalf of other group companies, and investment income on cash balances and UK treasury bills held. The loss for the period amounted to £144,944 (2014: profit of £88,051). The Directors consider that both the level of business and the overall financial position at the end of the year were acceptable. No dividends have been paid or proposed during the period.

## FUTURE DEVELOPMENTS

The Company will continue to provide management services to Syndicate 1218 and other group companies.

## TRANSITION TO FRS 102

This is the first year that the Company has presented its results under FRS 102 'The Financial Reporting Standard, applicable in the UK and Republic of Ireland'. The last annual accounts under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. The impact on the transition to FRS 102 is set out in note 23 'Transition to FRS 102' with no change for the financial year in the comparative and other comprehensive income.

## PRINCIPAL RISKS AND UNCERTAINTIES

The process of risk identification and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. All key risks identified have been fully documented and assessed. The control environment operating around these key risks is regularly reviewed to ensure that controls are operating effectively. The main risks and uncertainties to our business arise from:

- **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. The key area where the Company is exposed to credit risk is with the reimbursement of expenses from related companies. Intercompany balances are monitored monthly, and settled on a quarterly basis.

- **Liquidity risk**

Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. There are agreed limits on the minimum proportion of funds available to meet such calls. The duration of the investment portfolio will be managed to approximate to the Company's liabilities, and cash flow is regularly monitored.

## STRATEGIC REPORT
*(CONTINUED)*

- **Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events other than those covered above. Many of the operational risks faced by the Company are the same as the Syndicate which has a detailed risk register and procedures for continuously monitoring the impact of such risks and the effectiveness of the controls in place to mitigate them in accordance with the agreed risk appetite.

## KEY PERFORMANCE INDICATORS ("KPIs")

Given the straightforward nature of the business, the Board are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

On behalf of the Board

**S Kapur**
*Director*
4 May 2016

NEWLINE UNDERWRITING MANAGEMENT LIMITED

# DIRECTORS' REPORT
*AT 31 DECEMBER 2015*

The Directors of the Company present the Annual Report and Accounts of the Company for the year ended 31 December 2015.

## FUTURE DEVELOPMENTS

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

## DIVIDENDS

The directors do not recommend the payment of a final dividend (2015: £nil).

## DIRECTORS

The Directors listed below have held office from 1 January 2015 to the date of this report unless otherwise stated.

J Christiansen
S Kapur
R B Kastner
J R F Micklem
C A Overy
M Scales
J W J Spencer
M G Wacek

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

The Company Secretary is J R F Micklem.

## STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2015 of which the auditors are unaware; and
- each director has taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company auditors are aware of that information.

## ELECTIVE RESOLUTION

An election is in force dispensing with the requirement to lay these financial statements before the Company in general meeting. However, Members have the right by giving notice to the Company, to require the financial statements to be laid before a general meeting.

## INDEPENDENT AUDITORS

The Company's independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. A resolution proposing their reappointment will be submitted at the annual general meeting.

# DIRECTORS' REPORT
*(CONTINUED)*

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board

**S Kapur**
*Director*
4 May 2016

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MANAGEMENT LIMITED

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEWLINE UNDERWRITING MANAGEMENT LIMITED

## Report on the financial statements

*Our opinion*

In our opinion, Newline Underwriting Management Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

*What we have audited*

The financial statements, included within the Report and Accounts (the "Report and Accounts"), comprise:

- the balance sheet as at 31 December 2015;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Other matters on which we are required to report by exception

*Adequacy of accounting records and information and explanations received*

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

*Directors' remuneration*

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

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# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NEWLINE UNDERWRITING MANAGEMENT LIMITED
*(CONTINUED)*

**Responsibilities for the financial statements and the audit**

*Our responsibilities and those of the directors*

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

*What an audit of financial statements involves*

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

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

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

Kirstie Hanley

Kirstie Hanley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 May 2016

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## PROFIT & LOSS ACCOUNT
*FOR THE YEAR ENDED 31 DECEMBER 2015*

| | Notes | 2015<br>£ | 2014<br>£ |
|---|---|---|---|
| **Turnover** | 5 | **23,784,866** | 19,185,118 |
| Operating expenses | | **(23,890,708)** | (19,337,495) |
| **OPERATING LOSS** | 6 | **(105,842)** | (152,377) |
| Net unrealised gains on investments | 17 | **1,639** | 685 |
| Net realised gains on investments | 17 | **41,504** | 32,730 |
| Interest payable and similar charges | 17 | **(18,300)** | 114,997 |
| **LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION** | | **(80,999)** | (3,965) |
| Tax (charge) / credit on loss on ordinary activities | 7 | **(63,945)** | 92,016 |
| **(LOSS) / PROFIT FOR THE YEAR** | | **(144,944)** | 88,051 |

The Company's turnover and expenses all relate to continuing operations.

## STATEMENT OF COMPREHENSIVE INCOME
*FOR THE YEAR ENDED 31 DECEMBER 2015*

| | 2015<br>£ | 2014<br>£ |
|---|---|---|
| **(Loss) / profit for the financial year** | **(144,944)** | 88,051 |
| **Other comprehensive income** | **-** | - |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | **-** | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **(144,944)** | 88,051 |

The notes on pages 12 to 24 form part of these accounts.

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# BALANCE SHEET
*AT 31 DECEMBER 2015*
Company number - 3223686

| | Notes | 2015 £ | 2014 £ |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 11 | **4,570,259** | 2,936,357 |
| Tangible assets | 12 | **1,603,587** | 888,342 |
| **CURRENT ASSETS** | | | |
| Debtors | 13 | **5,978,764** | 2,227,470 |
| Investments | 18 | **7,985,750** | 9,582,720 |
| Cash at bank and in hand | | **590,908** | 1,452,086 |
| | | **14,555,422** | 13,262,276 |
| **CREDITORS**: amounts falling due within one year | 15 | **4,376,567** | 749,834 |
| **NET CURRENT ASSETS** | | **10,178,855** | 12,512,442 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **16,352,701** | 16,337,141 |
| **CREDITORS**: amounts falling due after more than one year | 16 | **210,247** | 49,743 |
| **NET ASSETS** | | **16,142,454** | 16,287,398 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 19 | **1,723,132** | 1,723,132 |
| Profit and loss account | | **14,419,322** | 14,564,266 |
| **TOTAL SHAREHOLDER'S FUNDS** | | **16,142,454** | 16,287,398 |

Approved on behalf of the board of directors on 4 May 2016.

**S Kapur**
*Director*

The notes on pages 12 to 24 form part of these accounts.

NEWLINE UNDERWRITING MANAGEMENT LIMITED

# STATEMENT OF CHANGES IN EQUITY
*AT 31 DECEMBER 2015*

| | Note | Called up share capital £ | Retained earnings £ | Total £ |
|---|---|---|---|---|
| **At 1 January 2014** | | **1,723,132** | **14,476,215** | **16,199,347** |
| Profit for the year | | - | 88,051 | 88,051 |
| **Total comprehensive income for the year** | | **-** | **88,051** | **88,051** |
| Credit relating to equity settled share based payments | 9 | - | 533,446 | 533,446 |
| Charge from parent for equity settled share based payments | 9 | - | (533,446) | (533,446) |
| Total transactions with owners, recognised directly in equity | | - | - | - |
| **At 31 December 2014** | | **1,723,132** | **14,564,266** | **16,287,398** |
| Loss for the year | | - | (144,944) | (144,944) |
| **Total comprehensive income for the year** | | - | (144,944) | (144,944) |
| Credit relating to equity settled share based payments | 9 | - | 915,109 | 915,109 |
| Charge from parent for equity settled share based payments | 9 | - | (915,109) | (915,109) |
| Total transactions with owners, recognised directly in equity | | - | - | - |
| **At 31 December 2015** | | **1,723,132** | **14,419,322** | **16,142,454** |

The notes on pages 12 to 24 form part of these accounts.

# NOTES TO THE ACCOUNTS
*AT 31 DECEMBER 2015*

## 1) GENERAL INFORMATION

The principal activity of the Company is that of a Lloyd's managing agent responsible for the management of Newline Syndicate 1218. The capacity of Syndicate 1218 is 100% provided by Newline Corporate Name Limited. The registered office is Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

The Company also provides management services to other group companies, primarily Newline Insurance Company Limited and the London branch of Odyssey Reinsurance Company.

## 2) ACCOUNTING POLICIES

The individual financial statements of Newline Underwriting Management Limited ("NUML") have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and the Companies Act 2006.

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

The company has taken exemption from disclosing key management personnel compensation because it considers key management personnel to be the directors.

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

## 3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements for the first time. Details of the transition to FRS 102 are disclosed in note 23.

***Basis of preparation***

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss.

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

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

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

**a) *Turnover***
The Company's turnover consists of the reimbursement of expenses from other group undertakings recharged to them in accordance with intercompany agreements.

***b) Intangible assets***
Computer software is stated at cost less accumulated amortisation and accumulated impairment losses. Software is amortised over its estimated useful life, of between three and five years, on a straight line basis.

Assets under construction are initially valued at cost and are not amortised until in use.

If there is an indication that there has been a significant change in amortisation rate or residual value of an asset, the amortisation of that asset is revised prospectively to reflect the new expectations.

***c) Tangible assets***
Depreciation of tangible fixed assets is calculated using the straight line convention method by reference to cost at rates estimated to write off the relevant assets over their expected useful lives, taking into account normal commercial and technical obsolescence.

The estimated useful lives are:

| | |
|---|---|
| Computer equipment | 3 – 5 years |
| Office equipment | 5 years |
| Furniture, fittings & equipment | 5 years |
| Leasehold property improvements | 4 – 7 years |

***d) Taxation***
Current tax is recognised for the amount of income tax payable on the taxable profit for the year or prior years, on the basis of tax rates and laws that have been enacted, or substantively enacted, by the period end.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

***e) Employee benefits***
The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service in received.

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

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

***f) Share based remuneration***
The company participates in a share based payment plan operated by its ultimate parent undertaking, Fairfax Financial Holdings Limited ("Fairfax"). Under the plan, certain key employees and directors who were employed by, or provided services to the Company were granted awards of restricted shares or options in Fairfax common stock. These awards typically vest over a period of three and seven years.

On granting of an award, Odyssey Reinsurance Company Limited ("ORC"), an intermediate parent company, purchases Fairfax common stock on the open market. The fair value of the award is based upon the market price at grant date and amortised to expense on a straight line basis over the vesting period. This expense is recharged by ORC to the Company on a quarterly basis. Any differences between the fair value of the award and the amount recharged by ORC are recorded as a capital contribution or a distribution within retained earnings.

***g) Operating leases***
Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

The aggregate benefit of lease incentives are recognised as a reduction to the lease expense, recognised over the term of the lease on a straight line basis.

***h) Financial instruments***
The Company has chosen to adopt the provisions of Sections 11 and 12 of FRS 102 in respect of the valuation of financial instruments.

*i) Financial assets*
Basic financial assets, including trade and other receivables, cash at bank are initially recognised at transaction price.

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

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

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

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

*iii) Financial liabilities*
Basic financial liabilities, including trade and other payables, are measured at transaction price.

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

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

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

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

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or their valuation at the previous balance sheet date. The movement in unrealised gains and losses includes an adjustment for previously recognised unrealised gains and losses of those investments disposed of in the accounting period.

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

## 4) SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

*Assessment of intangible assets for potential impairment*
Intangible assets are assessed annually for impairment or more frequently if there are potential indicators of impairment. In performing this assessment, management considers the remaining useful life of the asset, whether it has been superseded by other software, and taking into consideration future economic benefits to the income generating units of the group. See note 11 for the carrying amount of intangible assets, and note 3 b) for the useful economic lives for each class of asset.

*Useful economic lives of tangible assets*
The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of tangible assets, and note 3 c) for the useful economic lives for each class of asset.

*Recoverability of deferred tax assets*
In determining the recoverability of deferred tax assets, the company primarily considers current and expected profitability of applicable operating companies and their ability to utilize any recorded tax assets, taking into consideration the availability of sufficient current and projected taxable profits, reversals of taxable temporary differences and tax planning strategies.

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 5) TURNOVER

Expenditure recharged to other group undertakings in relation to salary and other overhead costs is as follows:

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Syndicate 1218 | **14,958,594** | 12,756,110 |
| Odyssey Reinsurance Company | **6,073,740** | 5,070,533 |
| Newline Insurance Company Limited | **2,004,006** | 1,297,610 |
| Newline Corporate Name Limited | **30,017** | 52,642 |
| Newline Asia Services Pte Limited | **662,855** | 7,104 |
| Newline Australia Pty Limited | **55,654** | 1,119 |
| | **23,784,866** | 19,185,118 |

## 6) OPERATING LOSS

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Operating loss is stated after charging: | | |
| Operating lease charges | **790,687** | 788,038 |
| Depreciation of tangible fixed assets | **748,258** | 450,698 |
| Amortisation of intangible fixed assets | **621,381** | 79,228 |
| Auditors' remuneration: | | |
| - Audit services – Company audit fee | **8,354** | 7,210 |
| Foreign exchange losses | **32,994** | 41,985 |

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# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 7) TAXATION ON LOSS ON ORDINARY ACTIVITIES

**a) Analysis of charge / (credit) for the period:**

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| **Current taxation** | | |
| Current tax credit on loss on ordinary activities | **(54,988)** | (107,990) |
| Adjustments in respect of prior periods | **11,431** | (91,620) |
| Current year losses carried forward | **54,988** | 107,990 |
| Current tax charge / (credit) for the period | **11,431** | (91,620) |
| **Deferred taxation** | | |
| Origination and reversal of timing differences | **52,514** | (396) |
| Adjustments in respect of prior periods | **-** | - |
| Deferred tax charge / (credit) for the period | **52,514** | (396) |
| Tax charge / (credit) for the period | **63,945** | (92,016) |

**b) Factors affecting the tax charge / (credit) for the period:**

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Loss on ordinary activities before tax | **(80,999)** | (3,965) |
| UK corporation tax 20.2% (2014: 21.5%) | **(16,362)** | (852) |
| Tax effect of: | | |
| Accelerated capital allowances and other timing differences | **71,075** | 2,652 |
| Adjustments in respect of prior periods | **11,431** | (91,620) |
| Expenses not deductible for tax purposes | **(2,199)** | (2,196) |
| Tax charge / (credit) for the period | **63,945** | (92,016) |

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 8) EMPLOYEES AND STAFF COSTS

**The average number of employees during the period was:**

| | 2015 Number | 2014 Number |
|---|---|---|
| Management | **10** | 9 |
| Underwriting | **45** | 41 |
| Claims | **14** | 14 |
| Information technology | **5** | 5 |
| Administration, finance and compliance | **40** | 38 |
| | **114** | 107 |

The employment costs for the period were:

| | 2015 £ | 2014 £ |
|---|---|---|
| Salaries | **10,730,955** | 10,868,745 |
| Social security costs | **1,502,411** | 1,446,424 |
| Pension costs | **1,345,607** | 1,046,367 |
| | **13,578,973** | 13,361,536 |

Pension costs represent the Company's contributions to a Group Personal Pension Plan, which is on a defined contribution basis and maintained by Scottish Widows. Employees may, but are not obliged to, contribute to the scheme. The Company's contributions are paid one month in arrears, with an outstanding liability as at 31st December 2015 of £601 (2014: £82,778).

## 9) SHARE BASED REMUNERATION

The company participates in a share based payment plan operated by its ultimate parent undertaking, Fairfax Financial Holdings Limited ("Fairfax"). Under the plan, certain key employees and directors who were employed by, or provided services to the Company were granted awards of restricted shares or options in Fairfax common stock. These awards typically vest over a period of three and seven years.

On granting of an award, Odyssey Reinsurance Company Limited ("ORC"), an intermediate parent company, purchases Fairfax common stock on the open market. The fair value of the award is based upon the market price at grant date and amortised to expense on a straight line basis over the vesting period. This expense is recharged by ORC to the Company quarterly, this charge being attributable to the cost of shares relating to those employees of NUML. Any differences between the fair value of the award and the amount recharged by ORC are recorded as a capital contribution or a distribution within retained earnings.

| | **Number** | **Weighted average price £** |
|---|---|---|
| **Outstanding at 1 January 2015** | **10,338** | **251.28** |
| Granted | **5,475** | **368.80** |
| Forfeited | **357** | **278.68** |
| Exercised | **508** | **260.68** |
| **Outstanding at 31 December 2015** | **14,948** | 295.64 |
| **Exercisable at 31 December 2015** | **1,379** | 280.99 |

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 9) SHARE BASED REMUNERATION (CONTINUED)

The charge to Newline Underwriting Management Limited during the year 2015 was £915,109 (2014: £533,446).

As at 31st December 2015 the outstanding liability to Newline Underwriting Management Limited was £nil (2014: £nil).

Any liability between Newline Underwriting Management Limited and Odyssey Re Holdings Corp. is settled on a quarterly basis.

## 10) DIRECTORS' EMOLUMENTS

The total emoluments paid to directors, before recharge to other group entities, during the year were:

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Emoluments | **1,557,896** | 1,682,182 |
| Contributions to pension schemes | **104,683** | 152,785 |
| Total Emoluments | **1,662,579** | 1,834,967 |

The emoluments of directors disclosed above include the following paid to the highest paid director:

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Emoluments | **594,567** | 556,074 |
| Contributions to pension schemes | **34,000** | 39,444 |
| Total Emoluments | **628,567** | 595,518 |

During the year the Company made contributions to defined contribution pension schemes on behalf of four directors (2014: five).

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 11) INTANGIBLE FIXED ASSETS

| | Software | Assets in construction | Total |
|---|---|---|---|
| | £ | £ | £ |
| **Cost:** | | | |
| January 1, 2015 | 1,108,001 | 1,938,510 | 3,046,511 |
| Additions | 4,193,793 | - | 4,193,793 |
| Transfers | - | (1,938,510) | (1,938,510) |
| December 31, 2015 | **5,301,794** | - | **5,301,794** |
| **Amortisation and impairment:** | | | |
| January 1, 2015 | 110,154 | - | 110,154 |
| Charge for the year | 621,381 | - | 621,381 |
| December 31, 2015 | **731,535** | - | **731,535** |
| **Net book value:** | | | |
| January 1, 2015 | 997,847 | 1,938,510 | 2,936,357 |
| December 31, 2015 | **4,570,259** | - | **4,570,259** |

Software and assets in construction include the company's underwriting system ("Synergy2"). The software was created and developed by an external company. Synergy2 in use and classified within software is carried at £4,408,776 (2014: £983,178) and has a remaining amortisation period of 4.5 years (2014: 4.5 years).

## 12) TANGIBLE FIXED ASSETS

| | Leasehold Improvements | Computer Equipment | Office Equipment | Fixtures, Fittings and Equipment | Assets in Construction | Total |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ |
| **Cost:** | | | | | | |
| January 1, 2015 | 1,670,159 | 518,551 | 138,765 | 553,874 | - | 2,881,349 |
| Additions | - | 178,543 | - | - | 1,284,960 | 1,463,503 |
| December 31, 2015 | **1,670,159** | **697,094** | **138,765** | **553,874** | **1,284,690** | **4,344,852** |
| **Depreciation:** | | | | | | |
| January 1, 2015 | 1,089,725 | 300,435 | 115,660 | 487,187 | - | 1,993,007 |
| Charge for the year | 580,434 | 97,054 | 9,243 | 61,527 | - | 748,258 |
| December 31, 2015 | **1,670,159** | **397,489** | **124,903** | **548,714** | - | **2,741,265** |
| **Net book value:** | | | | | | |
| January 1, 2015 | 580,434 | 218,116 | 23,105 | 66,687 | - | 888,342 |
| **December 31, 2015** | - | **299,605** | **13,862** | **5,160** | **1,284,960** | **1,603,587** |

Assets under construction relates to leasehold improvements at the company's new premises. Upon relocation, these will be transferred to leasehold improvements and depreciated in accordance with our accounting policy.

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 13) DEBTORS

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Amounts owed by group undertakings | **4,498,486** | 1,515,561 |
| Sundry debtors | **1,480,279** | 711,909 |
| | **5,978,764** | 2,227,470 |

## 14) DEFERRED TAX

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| The effect of trading losses available for Group relief | **54,988** | 107,990 |
| Accelerated capital allowances | **(265,235)** | (157,733) |
| Total deferred tax (liability) | **(210,247)** | (49,743) |

| | | |
|---|---|---|
| Deferred tax (liability) / asset at the start of the year | **(49,743)** | 9,984 |
| Deferred tax credit / (charge) in profit and loss account | **(52,514)** | 396 |
| Taxation effect of trading losses Group relieved | **(107,990)** | (60,123) |
| Deferred tax (liability) at the end of the year | **(210,247)** | (49,743) |

## 15) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Taxation and social security | **503,509** | 310,881 |
| Other creditors | **3,873,058** | 438,953 |
| | **4,376,567** | 749,834 |

## 16) CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Deferred tax liability (note 14) | **210,247** | 49,743 |
| | **210,247** | 49,743 |

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 17) INVESTMENT INCOME

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| **Income receivable and similar income** | | |
| Net unrealised gains on investments | **1,639** | 685 |
| Net realised gains on investments | **41,504** | 32,730 |
| | **43,143** | 33,415 |
| **Interest payable and similar charges** | | |
| Investment management expenses, including charges | **(18,300)** | 114,997 |

## 18) INVESTMENTS

| | **2015** | 2014 | **2015** | 2014 |
|---|---|---|---|---|
| | **£** | £ | **£** | £ |
| | **Fair value** | Fair value | **Cost** | Cost |
| Debt securities and other fixed income securities | **7,985,750** | 9,582,720 | **7,979,930** | 9,578,539 |

## 19) SHARE CAPITAL

| | **2015** | 2014 |
|---|---|---|
| | **£** | £ |
| Allotted and fully paid | | |
| 2015: 1,723,132 ordinary shares of £1 each (2014: 1,723,132) | **1,723,132** | 1,723,132 |

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 20) FINANCIAL INSTRUMENTS

The Company has the following financial instruments:

| | 2015 £ | 2014 £ |
|---|---|---|
| *Financial assets* | | |
| Amounts owed by group undertakings | **4,498,486** | 1,515,561 |
| Sundry debtors | **133,975** | 87,447 |
| Debt securities and other fixed income securities | **7,985,750** | 9,582,720 |
| Cash at bank and in hand | **590,908** | 1,452,085 |
| | **13,209,119** | 12,637,813 |
| *Financial liabilities* | | |
| Taxation and social security | **503,509** | 310,881 |
| Other creditors | **3,873,059** | 438,953 |
| | **4,376,568** | 749,834 |

The valuation of debt securities and other fixed income securities measured at fair value through profit or loss is determined through quoted bid prices in an active market for identical instruments.

## 21) RELATED PARTY TRANSACTIONS

As permitted by FRS 102 the Company has taken advantage of the exemption from disclosure of transactions with other group companies.

Mr. J Spencer, a non-executive director of the Company is also a non-executive director of Thompson Heath & Bond Limited ("THB"). In 2015, THB placed £742,000 (2014: £557,000) of gross written premiums with Syndicate 1218, and £285,000 (2014: £301,000) with Newline Insurance Company Limited on an arm's length basis.

## 22) ULTIMATE PARENT UNDERTAKING

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

# NOTES TO THE ACCOUNTS
*(CONTINUED)*

## 23) TRANSITION TO FRS 102

This is the first year that the Company has adopted FRS 102 and has restated the comparative year amounts. The impact to the reported financial position of the Company is disclosed below:

There have been no changes to the comparative Profit and Loss Account or Statement of Comprehensive Income following the adoption of this standard.

Presentation of the Balance Sheet and the Statement of Changes in Equity have been affected following the transition to FRS 102.

*Share Based Payments*
FRS 102 permits members in a group to recognise and measure the share based payment charge on the basis of a reasonable allocation of the charge for the group. There has been no change to the charge recognised by the Company. As the Company is recharged the cost of the share based payments by another member of the group, both the cost of the share based payment, and the recharge, are reported within the Statement of Changes in Equity.

*Computer Software*
Computer software with a net book value of £2,936,357 at 31 December 2014 has been reclassified from tangible to intangible assets as required under FRS 102.