

NEWLINE INSURANCE COMPANY LTD

REPORT AND ACCOUNTS

31 DECEMBER 2016



NEWLINE GROUP™

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NEWLINE INSURANCE COMPANY LTD

COMPANY INFORMATION

AT 31 DECEMBER 2016

Incorporated in England

Number 4409827

DIRECTORS

J Christiansen
N D Duncan
S Kapur
R B Kastner
C A Overy
M Scales
J W J Spencer
M G Wacek
H J L Withinshaw

SECRETARY

H J L Withinshaw

REGISTERED OFFICE

Corn Exchange
55 Mark Lane
London
EC3R 7NE

BANKERS

Citibank
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB

AUDITORS

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

NEWLINE INSURANCE COMPANY LTD

STRATEGIC REPORT

AS AT 31 DECEMBER 2016

The Directors present their strategic report on the Company for the year ended 31 December 2016.

REVIEW OF THE BUSINESS

Newline Insurance Company Limited ("NICL") is a UK insurance company that operates under the Newline Group brand. NICL is a wholly owned subsidiary of Newline Holdings UK Limited ("NHUKL"), which is a wholly owned subsidiary of Odyssey Reinsurance Company ("ORC"), part of the Odyssey Re Group ("Group").

The principal activity of the Company is the underwriting of casualty (re)insurance business in the UK and other EU member states. The Company ceased writing new business in Japan in 2015. The Company continues to focus on its core activities of writing casualty (re)insurance business.

The casualty (re)insurance cover provided by the Company includes the following lines of business:-

Crime

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

Directors' and Officers' (D&O) Liability

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

Errors and Omissions (E&O)

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

General Liability

This line of business protects companies against claims made by employees or third parties for losses, that occur during the policy period, arising from employee injuries at work or activities of the company that cause damage to third parties.

Medical Malpractice

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

Results and performance

The result for the calendar year is a profit before tax of £2.2m (2015: loss £9.7m). The shareholder's funds for the Company have increased by £1.7m during the year and total £30.0m (2015: £28.3m).

Gross written premiums for the year were £24.1m (2015: £22.6m), in converted sterling terms; casualty business accounting for all of this premium.

Net premiums written are £4.0m for the year ended 31 December 2016 (2015: £3.9m). Net premiums written are significantly reduced by an 80% whole account quota share reinsurance arrangement with ORC and additional reinsurance protection purchased by the company. The combined ratio for 2016 is 142.5% (2015: 124.7%), resulting in an underwriting loss, excluding investment return and other technical charges, of £1.6m (2015: loss £0.9m).

Investment return for the year was £3.6m (2015: loss £8.9m) against a backdrop of historically low interest rates, and the political uncertainty surrounding the UK electorate's decision on Brexit and the Presidential elections in the United States. During the year, to mitigate market risk from the funds withheld by the Company in respect of the 80% whole account quota share with ORC, the reinsurance agreement was amended whereby financial assets held by the Company were specifically assigned to the funds withheld balance, and, in accordance with the agreement, all interest and dividend income and investment gains or losses in this portfolio, together with any fees charged by the Company's investment manager or by the financial institutions providing custodial services in respect of this portfolio, are credited or charged against the funds withheld account. As a result, £2.7m (2015: £nil as arrangement was not in place) has been charged to the technical account, and credited to the funds withheld balance.

NEWLINE INSURANCE COMPANY LTD

STRATEGIC REPORT

(CONTINUED)

Results and performance (continued)

Non-technical income of £4.6m (2015: £29k) represents net foreign exchange gains. Non-technical charges of £1.7m (2015: £nil as arrangement was not in place) represent net foreign exchange gains attributable to the funds withheld financial assets and the funds withheld balance which, in accordance with the amended ORC quota share agreement, have been credited to the funds withheld balance.

Business environment

Competition between insurance entities can be based on a number of factors, inter alia product, price, service, coverage, financial strength, distribution channels, enhanced commissions and reputation. In 2016, the insurance market continued to be extremely competitive as the supply of capital continued to exceed demand. Our competitors include independent insurance companies, subsidiaries or affiliates of established worldwide insurance companies and MGAs, and syndicates underwriting at Lloyd's. Some of these competitors have longer operating histories and larger capital bases than ours and, in addition, greater underwriting, marketing, and administrative resources.

For the Company, as a whole, the rating environment reduced slightly 2016. There were some variations at the product level, with Commercial Professional Liability maintaining rates.

Casualty market participants continue to compete aggressively for business and we expect the rating environment to remain highly competitive, given the slow and uncertain recovery of the global economy, and the changing landscape post Brexit. We anticipate rates being broadly flat next year across most casualty lines, with reductions anticipated for Commercial Directors' and Officers' and Medical Malpractice; with no signs of a hardening market in the near term.

Strategy

The Company views the development of excellent producer relationships as the key to providing commercial advantage in challenging market conditions.

Price is a primary means of competition in the insurance business. We continue to emphasise disciplined underwriting over premium growth, focusing on carefully selecting the risks we insure and determining the appropriate price for assuming such risks. We are committed to maintaining our discipline and underwriting 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 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.

Key performance indicators (KPI's) and metrics

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

	2016	2015	
Gross Premiums Written	£24.1m	£22.6m	Gross Premiums Written, including acquisition costs, in respect of insurance contracts
Net Premiums Written	£4.0m	£3.9m	Gross Premiums Written less outward reinsurance in respect of insurance contracts
Technical result	£(0.7)m	£(9.8)m	Balance on technical account for general business
Net loss ratio	83.6%	53.3%	Ratio of net claims incurred to net earned premiums
Combined ratio	142.5%	124.7%	Ratio of net claims, commissions and net operating expenses to net earned premiums

NEWLINE INSURANCE COMPANY LTD

STRATEGIC REPORT

(CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES

The process of risk acceptance 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 exposure to insurance risk and financial risk. These risks are considered and discussed at length in the section of this report and accounts dealing with financial risk and insurance risk management. In addition, the Company is exposed to the following risk:

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events other than those covered above. The Company 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.

Financial instruments

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in Note 15 to the annual accounts. In particular, the Company's exposures to market risk, credit risk and liquidity risk are separately disclosed in that note. The Company's exposure to cash flow risk is addressed under the headings of 'Credit risk', 'Liquidity risk' and 'Market risk'

FUTURE DEVELOPMENTS

Our client focus remains the mid-market and corporate sector in the UK and Continental Europe.

On 13th December 2016, the Company received regulatory approval to establish a new branch office in Cologne, Germany. This new branch office will be led by Manuel Wirtz, who has been appointed General Representative, and will begin underwriting Financial Lines, General Liability and Marine Cargo & Specie in early 2017.

To further complement the Company's product offering, during 2017, the Company will be establishing a new business line that will be focussed on UK and International Affinity and Special Risks products. This is an area in which we foresee significant opportunity in the coming years.

The Company will continue to seek to take advantage, through its expertise, of opportunities arising in its selected markets and chosen fields as and when they develop.

SOLVENCY II

Solvency II came into force on January 1, 2016. Pillar 1 quantitative requirements and Pillar 2 qualitative requirements have been embedded into our operations. Day One Pillar 3 reporting was completed in May 2016 and has subsequently been assimilated into our operations.

The Company is using the Standard Formula to determine its Solvency Capital Requirement, as we consider it to be the most appropriate approach.

On behalf of the Board



S. Kapur

Director

6 April 2017

NEWLINE INSURANCE COMPANY LTD

DIRECTORS' REPORT

AS AT 31 DECEMBER 2016

The Directors present their report and audited financial statements of the Company for the year ended 31 December 2016.

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 2016 to the date of this report unless otherwise stated.

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

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

The Company Secretary is H J L Withinshaw.

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.

BRANCHES OUTSIDE THE UK

The Company is establishing a new branch office in Cologne, Germany (see 'Future Developments' within the Strategic Report).

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments and risk management are discussed within the Strategic report under 'Principal Risks and Uncertainties'.

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 2016 of which the auditors are unaware; and
- each director has taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company auditors are aware of that information.

NEWLINE INSURANCE COMPANY LTD

DIRECTORS' REPORT

(CONTINUED)

INDEPENDENT AUDITORS

The Company's independent auditors are PricewaterhouseCoopers LLP and have acted as auditors of the Company since 2006. As an insurance company designated as a public interest entity, the external audit is subject to tender for the 2017 year end, and mandatory auditor rotation by 2025 under new EU rules on auditor rotation. As such, the appointment of external auditors for the 2017 year end is subject to tender.

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 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

6 April 2017

NEWLINE INSURANCE COMPANY LTD

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF NEWLINE INSURANCE COMPANY LTD

Report on the financial statements

Our opinion

In our opinion, Newline Insurance Company 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 2016 and of its profit 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 "Annual Report"), comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account and the statement of comprehensive income for the year then ended;
- the statement of changes in 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.

NEWLINE INSURANCE COMPANY LTD

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF NEWLINE INSURANCE COMPANY LTD

(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 7, 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 parent 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

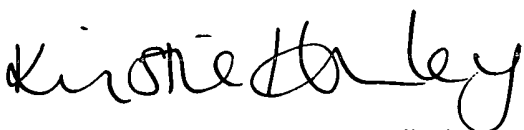
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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 Annual Report 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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 April 2017

NEWLINE INSURANCE COMPANY LTD

PROFIT & LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
EARNED PREMIUMS, NET OF REINSURANCE			
Gross premiums written	5	24,116	22,566
Outwards reinsurance premiums		(20,155)	(18,715)
Net premiums written		3,961	3,851
Change in the gross provision for unearned premiums		(629)	138
Change in the provision for unearned premiums, reinsurers' share		343	(490)
Change in the net provision for unearned premiums		(286)	(352)
Earned premiums, net of reinsurance		3,675	3,499
Allocated investment return transferred from the non-technical account		3,592	(8,887)
CLAIMS INCURRED, NET OF REINSURANCE			
Gross claims paid		(5,159)	(8,656)
Reinsurers' share		3,926	7,232
Net claims paid		(1,233)	(1,424)
Change in the gross provision for claims		(13,783)	1,304
Reinsurers' share		11,944	(1,745)
Change in the net provision for claims		(1,839)	(441)
Claims incurred, net of reinsurance		(3,072)	(1,865)
Net operating expenses	8	(2,165)	(2,500)
Other technical charges, net of reinsurance	9	(2,734)	-
Balance on the technical account for general business		(704)	(9,753)

All operations are continuing.

The accompanying notes on pages 14 to 36 form an integral part of these annual accounts.

NEWLINE INSURANCE COMPANY LTD

PROFIT & LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		(704)	(9,753)
Investment income	11	697	1,263
Net unrealised gains / (losses) on investments	11	3,023	(9,965)
Investment expenses and charges	11	(128)	(185)
		<u>3,592</u>	<u>(8,887)</u>
Allocated investment return transferred to the general business technical account		(3,592)	8,887
Other income, including value adjustments	12	4,602	29
Other charges, including value adjustments	12	(1,678)	-
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAX		2,220	(9,724)
Tax (charge) / credit on ordinary activities	7	(478)	1,941
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAX		1,742	(7,783)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £'000	2015 £'000
Profit / (loss) for the financial year	1,742	(7,783)
Other comprehensive income	-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,742	(7,783)

The accompanying notes on pages 14 to 36 form an integral part of these annual accounts.

NEWLINE INSURANCE COMPANY LTD

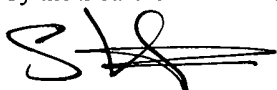
BALANCE SHEET

AS AT 31 DECEMBER 2016

Company Number: 4409827

	Notes	2016 £'000	2015 £'000
ASSETS			
Investments			
Financial investments	13	62,478	39,792
Reinsurers' share of technical provisions			
Provision for unearned premiums		7,283	6,255
Claims outstanding		77,759	62,170
Debtors			
Arising out of direct insurance operations, due from intermediaries		6,398	5,515
Arising out of reinsurance operations		-	1,017
Other debtors	17	1,982	6,046
Other assets			
Cash at bank and in hand		12,509	17,526
Prepayments			
Accrued interest and rent		117	159
Deferred acquisition costs	18	2,222	1,748
Other prepayments and accrued income		53	14
TOTAL ASSETS		170,801	140,242
LIABILITIES			
Capital and reserves			
Called up share capital	20	37,500	37,500
Profit & loss account		(7,516)	(9,258)
Total shareholder's funds		29,984	28,242
Technical provisions			
Provision for unearned premiums		8,618	7,177
Claims outstanding		89,600	71,642
Creditors			
Arising out of direct insurance operations, due to intermediaries		934	430
Arising out of reinsurance operations		4,460	4,386
Other creditors including taxation and social security		489	-
Amount due to Group undertakings	21	33,477	26,069
Accruals and deferred income		3,239	2,296
TOTAL LIABILITIES		170,801	140,242

Approved by the Board of Directors on 6 April 2017.



S Kapur
Director

The accompanying notes on pages 14 to 36 form an integral part of these annual accounts.

NEWLINE INSURANCE COMPANY LTD

STATEMENT OF CHANGES IN EQUITY

AT 31 DECEMBER 2016

	Called up share capital	Profit and loss account	Total
	£'000	£'000	£'000
At 1 January 2015	27,500	(1,475)	26,025
Loss for the year	-	(7,783)	(7,783)
Total comprehensive income for the year	-	(7,783)	(7,783)
Issue of share capital	10,000	-	10,000
Total transactions with owners, recognised in equity	10,000	-	10,000
At 31 December 2015	37,500	(9,258)	28,242
Profit for the year	-	1,742	1,742
Total comprehensive income for the year	-	1,742	1,742
Total transactions with owners, recognised in equity	-	-	-
At 31 December 2016	37,500	(7,516)	29,984

The accompanying notes on pages 14 to 36 form an integral part of these annual accounts.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 2016

1) GENERAL INFORMATION

The principal activity of the Company is the underwriting of casualty (re)insurance business in the UK and other EU member states. The registered office is Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

2) ACCOUNTING POLICIES

The individual financial statements of Newline Insurance Company Limited ("NICL") 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"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"), 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.

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

Basis of preparation

The Directors of the Company have prepared the financial statements on the basis that the Company 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 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.

a) Premiums written

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company. Premiums are stated gross of acquisition costs payable, and exclude taxes and duties levied on them.

b) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Company 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 Company's insurance products are classified as insurance contracts.

c) Unearned premiums

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earning patterns on a time apportionment basis as appropriate.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Acquisition costs

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

e) Reinsurance premiums ceded

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

f) Reinsurance

Contracts entered into by the Company with reinsurers, under which the Company is compensated for claims on one or more contracts issued by the Company 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 Company under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts; provided there is significant transfer of insurance risk.

In addition to reinsurance protection purchased, the Company is party to an 80% whole account quota share reinsurance arrangement with ORC, on a funds withheld basis. During the year, this arrangement was amended whereby financial assets held by the Company were specifically assigned to the funds withheld balance, and, in accordance with the revised quota share reinsurance agreement, all interest and dividend income and investment gains or losses in this portfolio, together with any fees charged by the Company's investment manager or by the financial institutions providing custodial services in respect of this portfolio, are credited or charged against the funds withheld account. The investment return of the funds withheld portfolio is reported in the technical account, and any foreign exchange gains or losses, attributable to the funds withheld financial assets and the funds withheld balance is reported in the non-technical account; these are subsequently charged or credited against the funds withheld balance.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due.

g) Claims incurred

Gross claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

h) Claims provisions and related reinsurance recoveries

Provision is made for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. 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 Company 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.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Claims provisions and related reinsurance recoveries (continued)

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having a due regard to collectability.

i) Unexpired risk provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by classes of business which are managed together, after taking into account the relevant investment return.

j) Financial instruments

The Company has chosen to adopt the provisions of Sections 11 and 12 of FRS 102 in respect of the valuation of financial instruments, which are designated by the Company at fair value through profit or loss.

i) Financial assets

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

Short term creditors, including creditors arising out of direct insurance and reinsurance operations are measured at transaction price.

iv) Derivative instruments

The Company 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 Company 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 liabilities when the fair value is negative.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Investment return

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

Dividend income is recognised when the right to receive payment is established. Interest and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price.

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

Investment expenses and charges comprise investment management expenses.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on the funds supporting the underwriting obligations arising from insurance policies.

l) Foreign currencies

i) Functional and presentation currency

The Company's functional and presentation currency is the Pound Sterling.

ii) Transactions and balances

Income and expenditure in US Dollars and Euros 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 the functional currency at the rates of exchange prevailing at the balance sheet date.

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

iii) Translation

Exchange differences arising from translating the result from average rates of exchange to closing rates of exchange, and the translation of the opening balance sheet to closing rates of exchange are taken through the non-technical account.

m) Net operating expenses

Expenses which are incurred jointly for other Group entities and the Company are apportioned between the group entities and the Company 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 are included within this expense.

n) Pension costs

Newline Underwriting Management Limited operates a Group Personal Pension Plan which is on a defined contribution basis. Pension contributions relating to NICL's share of costs are charged to the Company and included within net operating expenses.

o) Taxation

UK taxation in the profit and loss account is based on the profit for the year as determined in accordance with the relevant tax legislation, together with adjustments for prior years.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Deferred taxation

Provision is made for deferred tax liabilities, on all material timing differences between taxable profits and total comprehensive income as reported in the financial statements. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax assets are recognised to the extent that they are regarded as more likely than not recoverable.

Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in other comprehensive income. Deferred tax balances are not discounted.

q) 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 of NICL, 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:

Estimation of claims incurred but not reported

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 Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claim has happened. Classes of business where IBNR proportion of the total reserve is high will typically display greater variation between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the company 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 company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- changes in underlying terms and conditions;
- the impact of large losses; and
- movements in industry benchmarks.

In setting the provision for insurance liabilities, a best estimate is determined on an undiscounted basis. For areas of specific uncertainty, it may be necessary to include a loading for prudence as part of the reserve estimate, known as the Management Adjustment. At 31 December 2016, the carrying value of gross claims IBNR is £67.5m (2015: £55.6m), and the Management Adjustment in excess of the best estimate of net reserves is £1.1m (2015: £0.5m).

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

4) SIGNIFICANT JUDGEMENTS AND ESTIMATES (CONTINUED)

Premium income

Written premium include estimates of premiums due but not yet received or notified to the Company, 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 £2.4m (2015: £1.0m); of that £2.2m is unearned at 31 December 2016 (2015: £1.0m).

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 £1.7m (2015: £1.4m). The Company uses its judgement to select an appropriate method 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 which has been treated as one geographical segment. An analysis of the underwriting result before investment return is as follows:

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
2016					
Direct insurance					
Third party liability	23,827	23,011	(19,850)	(10,024)	5,063
Motor	(22)	(22)	1,105	-	(964)
Total direct	23,805	22,989	(18,745)	(10,024)	4,099
Reinsurance acceptances	311	498	(197)	(125)	(57)
Total	24,116	23,487	(18,942)	(10,149)	4,042
2015					
Direct insurance					
Third party liability	22,140	22,215	(6,629)	(8,611)	(7,711)
Motor	15	15	(609)	(4)	431
Total direct	22,155	22,230	(7,238)	(8,615)	(7,280)
Reinsurance acceptances	411	474	(114)	(147)	(176)
Total	22,566	22,704	(7,352)	(8,762)	(7,456)

Insurance risk concentrations

The Company 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 reserving classes are determined to be Third Party Liability and Motor.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

6) MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING

The movement in prior year's provision for claims outstanding, net of reinsurance recoveries is a deterioration of £0.6m (2015: deterioration of £0.1m relating to Motor) primarily relating to Third Party Liability.

7) TAXATION ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

	2016 £'000	2015 £'000
(a) Analysis of charge / (credit) for the year		
Current taxation		
Current tax charge / (credit) on ordinary activities	475	(1,942)
Adjustments in respect of prior periods	3	1
Prior year losses Group relieved	(3)	-
Current year losses carried forward	-	1,942
	<u>475</u>	<u>1</u>
Deferred taxation		
Adjustments in respect of prior periods	3	-
Origination and reversal of timing differences (note 19)	-	(1,942)
	<u>3</u>	<u>(1,942)</u>
Tax charge / (credit) on ordinary activities	<u>478</u>	<u>(1,941)</u>
(b) Factors affecting the tax charge / (credit)		
Profit / (loss) on ordinary activities before tax	<u>2,220</u>	<u>(9,724)</u>
UK corporation tax 20.0% (2015: 20.2%)	444	(1,964)
Tax effect of:		
Expenses not deductible for tax purposes	31	22
Adjustments in respect of prior periods	3	1
Tax charge / (credit) for the period (note 7a)	<u>478</u>	<u>(1,941)</u>

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

8) NET OPERATING EXPENSES

	2016 £'000	2015 £'000
Acquisition costs	8,411	7,113
Change in deferred acquisition costs	(213)	(23)
Administrative expenses	1,951	1,672
Reinsurers' commissions and profit participations	(7,984)	(6,262)
	<u>2,165</u>	<u>2,500</u>

Total commissions for direct insurance accounted for in the year amounted to £7.2m (2015: £5.7m).

Administrative expenses include:

	2016 £'000	2015 £'000
Auditors' remuneration		
Audit services		
Company audit fees	49	48
Non-audit services		
Audit related assurance services	60	8
	<u>109</u>	<u>56</u>

9) OTHER TECHNICAL CHARGES, NET OF REINSURANCE

	2016 £'000	2015 £'000
Credit to funds withheld		
Interest income on financial assets at fair value through profit and loss	618	-
Realised gains on realisation of investments	674	-
Realised losses on realisation of investments	(189)	-
Net unrealised gains on investments	1,585	-
Investment management expenses, including charges	46	-
	<u>2,734</u>	<u>-</u>

All interest and dividend income and investment gains or losses in respect of the ORC funds withheld portfolio, together with any fees charged by the Company's investment manager or by the financial institutions providing custodial services in respect of this portfolio, are credited or charged against the ORC funds withheld account.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

10) DIRECTORS' EMOLUMENTS AND STAFF COSTS

All employees are employed by Newline Underwriting Management Limited ("NUML"), a fellow subsidiary. A management charge from NUML of £1.9m has been borne by the Company during 2016 (2015: £1.9m).

The management charge includes the following amounts in respect of emoluments paid to Directors for their services to the Company:

	2016 £'000	2015 £'000
Emoluments	186	156
Contribution to pension scheme	30	11

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

The highest paid director received the following remuneration:

	2016 £'000	2015 £'000
Emoluments	75	55
Contribution to pension scheme	4	3

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

11) INVESTMENT INCOME

	2016 £'000	2015 £'000
Investment income (including realised gains and losses on investments)		
Interest income on financial assets at fair value through profit and loss	1,080	782
Dividend income	149	150
Realised gains on realisation of investments	925	1,132
Realised losses on realisation of investments	(1,457)	(801)
	<u>697</u>	<u>1,263</u>
Total investment expenses and charges		
Investment management expenses, including charges	(128)	(185)
	<u>(128)</u>	<u>(185)</u>
Net unrealised gains / (losses) on investments	<u>3,023</u>	<u>(9,965)</u>
Total investment return	<u>3,592</u>	<u>(8,887)</u>

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

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

12) OTHER NON-TECHNICAL INCOME AND CHARGES

	2016 £'000	2015 £'000
Other non-technical income		
Net foreign exchange gains	4,602	29
	<u>4,602</u>	<u>29</u>
Other non-technical charges		
Net foreign exchange gains credited to funds withheld	(1,678)	-
	<u>(1,678)</u>	<u>-</u>

All foreign exchange gains and losses in respect of the ORC funds withheld portfolio and funds withheld account, are credited or charged against the funds withheld account.

13) FINANCIAL INVESTMENTS

	2016 £'000 Fair value	2015 £'000 Fair value	2016 £'000 Cost	2015 £'000 Cost
Shares and other variable yield securities	14,232	12,212	12,838	21,256
Debt securities and other fixed income securities	48,246	27,580	48,302	28,616
	<u>62,478</u>	<u>39,792</u>	<u>61,140</u>	<u>49,872</u>

Of the above financial investments, £14.2m of shares and other variable yield securities (2015: £nil), and £15.9m of debt securities and other fixed income securities (2015: £nil) have been assigned to the ORC funds withheld portfolio.

14) 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 and liabilities. The Company has adopted the amendment to FRS 102 issued in March 2016 to the fair value hierarchy disclosure of financial instruments.

Level 1

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

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

14) FAIR VALUE HIERARCHY (CONTINUED)

During the year ended 31 December 2016 the Company held £1.7m (2015: £1.4) of financial instruments that are classified as Level 3. Financial instruments classified as Level 3 include assets invested in common stock, limited partnerships and fixed income securities.

Common stocks are also valued utilising the net asset value approach. The significant unobservable inputs used in their valuation include price / earnings multiples.

Limited partnerships are valued based on the net asset values received from the general partners. These limited partnerships invest in securities that trade in active markets, and as a result, their net asset values reflect their fair values. The unobservable inputs in valuing limited partnerships include inputs such as time lags in receiving distributions by the general partners.

The Company 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.

2016	Fair value hierarchy			Assets held at fair value	Balance sheet total
	Level 1	Level 2	Level 3		
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Shares and other variable yield securities	7,858	4,657	1,717	14,232	14,232
Debt securities and other fixed income securities	40,392	7,854	-	48,246	48,246
	<u>48,250</u>	<u>12,511</u>	<u>1,717</u>	<u>62,478</u>	<u>62,478</u>

2015	Fair value hierarchy			Assets held at fair value	Balance sheet total
	Level 1	Level 2	Level 3		
	£'000	£'000	£'000	£'000	£'000
Financial assets					
Shares and other variable yield securities	7,396	3,435	1,381	12,212	12,212
Debt securities and other fixed income securities	13,278	14,302	-	27,580	27,580
	<u>20,674</u>	<u>17,737</u>	<u>1,381</u>	<u>39,792</u>	<u>39,792</u>

15) FINANCIAL RISK MANAGEMENT

The Company is exposed to a range of financial risks, in particular, the key financial risk is that the proceeds from financial assets are insufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, price risk and currency risk), credit risk and liquidity risk.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

15) FINANCIAL RISK MANAGEMENT (CONTINUED)

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, taken into account and managed through the asset liability management (“ALM”) framework. The control environment operating around these key risks is regularly reviewed to ensure that controls are operating effectively.

All key policies are approved by the Board and the framework is subject to ongoing review by management, Risk Management and Internal Audit as part of the ORSA process. An ORSA report is presented to the Board on at least a quarterly basis. The ORSA report sets out the risk profile and key risk indicators of the Company, together with the resulting impact on the SCR, and confirmation that sufficient own and ancillary funds are in place.

The Company has sought to further mitigate market risk from the funds withheld in respect of the 80% whole account reinsurance agreement with ORC. During the year, this arrangement was amended whereby financial assets held by the Company were specifically assigned to the funds withheld balance, and, in accordance with the quota share reinsurance agreement, all interest and dividend income and investment gains or losses in this portfolio, together with any fees charged by the Company’s investment manager or by the financial institutions providing custodial services in respect of this portfolio, are credited or charged against the funds withheld account. The investment return of the funds withheld portfolio is reported in the technical account, and any foreign exchange gains or losses, attributable to the funds withheld financial assets and the funds withheld balance is reported in the non-technical account; these are subsequently charged or credited against the funds withheld balance.

The following table reconciles the balance sheet to the categories used in the asset / liability management framework, between those supporting the underwriting obligations arising from insurance policies and capital.

2016	Insurance £’000	Corporate £’000	Total £’000
Other financial investments	32,019	30,459	62,478
Provision for unearned premiums	7,283	-	7,283
Claims outstanding	77,759	-	77,759
Arising out of direct insurance operations	6,398	-	6,398
Arising out of reinsurance operations	-	-	-
Other debtors	1,982	-	1,982
Cash at bank and in hand	12,509	-	12,509
Accrued interest and rent	117	-	117
Deferred acquisition costs	2,222	-	2,222
Other prepayments and accrued income	53	-	53
Total assets	140,342	30,459	170,801
Provision for unearned premiums	8,618	-	8,618
Claims outstanding	89,600	-	89,600
Arising out of direct insurance operations	934	-	934
Arising out of reinsurance operations	4,460	-	4,460
Other creditors including taxation and social security	14	475	489
Amount due to Group undertakings	33,477	-	33,477
Accruals and deferred income	3,239	-	3,239
Total liabilities	140,342	475	140,817
Shareholder’s funds	-	29,984	29,984

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

15) FINANCIAL RISK MANAGEMENT (CONTINUED)

2015	Insurance £'000	Corporate £'000	Total £'000
Other financial investments	13,577	26,215	39,792
Provision for unearned premiums	6,255	-	6,255
Claims outstanding	62,170	-	62,170
Arising out of direct insurance operations	5,515	-	5,515
Arising out of reinsurance operations	1,017	-	1,017
Other debtors	4,019	2,027	6,046
Cash at bank and in hand	17,526	-	17,526
Accrued interest and rent	159	-	159
Deferred acquisition costs	1,748	-	1,748
Other prepayments and accrued income	14	-	14
Total assets	112,000	28,242	140,242
Provision for unearned premiums	7,177	-	7,177
Claims outstanding	71,642	-	71,642
Arising out of direct insurance operations	430	-	430
Arising out of reinsurance operations	4,386	-	4,386
Amount due to Group undertakings	26,069	-	26,069
Accruals and deferred income	2,296	-	2,296
Total liabilities	112,000	-	112,000
Shareholder's funds	-	28,242	28,242

The Company has exposure to the following key areas of risk:

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 Company monitors interest rate risk by modelling the impact of changes in interest rates (+/-100 bps, +/-200 bps) on the values of the fixed interest securities and liabilities. The Investment Committee monitors the sensitivity of the investment portfolio to movements in current interest rates. Holding a proportion of the investment portfolio in cash and cash equivalents also helps to mitigate interest rate risk.

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

		2016 £'000	2015 £'000
Investments - Debt securities and other fixed income securities	+0.5%	-	(884)
	-0.5%	-	977

As exposure to interest rate risk is held by assets specifically assigned to the ORC funds withheld account, the Company has minimal exposure to interest rate risk at December 2016.

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 Company, 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.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

15) FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risks (continued)

Price risk (continued)

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

		2016 £'000	2015 £'000
Investments – equity and related investments	+5%	-	619
	-5%	-	(619)

As all equity and related investments have been specifically assigned to the ORC funds withheld account, there is minimal price risk sensitivity retained by the Company at December 2016.

Currency risk

Currency risk is the risk of loss arising from adverse exchange rate movements in unhedged foreign exchange exposures. The Company writes business internationally, and so is exposed to foreign exchange risk from various activities conducted in the normal course of business. The Company monitors currency exposure, and through its Investment Committee, mitigates this risk by appropriately matching significant foreign currency denominated liabilities with assets denominated in the same currency and the purchase or sale of the relevant currencies and forward exchange contracts.

The table below sets out the significant currency exposures of the Company.

2016	GBP £'000	USD £'000	EUR £'000	Other £'000	Total £'000
Financial investments	32,371	24,991	3,527	1,589	62,478
Reinsurers' share of technical provisions	47,445	3,828	33,769	-	85,042
Cash and cash equivalents	1,851	2,387	8,271	-	12,509
Other assets	7,053	340	3,379	-	10,772
Total assets	88,720	31,546	48,946	1,589	170,801
Technical provisions	54,985	4,407	38,826	-	98,218
Insurance and reinsurance payables	4,363	1,474	2,267	-	8,104
Other creditors	18,336	2,628	12,812	719	34,495
Total liabilities	77,684	8,509	53,905	719	140,817
<i>The currency exposures are attributed to:</i>					
Funds withheld	(16,272)	23,313	(7,618)	870	293
Shareholder's funds	27,308	(276)	2,659	0	29,691
	11,036	23,037	(4,959)	870	29,984

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

15) FINANCIAL RISK MANAGEMENT (CONTINUED)

Market risks (continued)

2015	GBP £'000	USD £'000	EUR £'000	Other £'000	Total £'000
Financial investments	12,940	22,181	3,065	1,606	39,792
Reinsurers' share of technical provisions	46,574	3,176	18,675	-	68,425
Cash and cash equivalents	6,404	865	10,257	-	17,526
Other assets	11,843	-	2,656	-	14,499
Total assets	77,761	26,222	34,653	1,606	140,242
Technical provisions	53,813	3,653	21,353	-	78,819
Insurance and reinsurance payables	3,478	654	684	-	4,816
Other creditors	10,961	4,984	12,420	-	28,365
Total liabilities	68,252	9,291	34,457	-	112,000
<i>All of the currency exposures are borne by Shareholder's funds</i>					
Shareholder's funds	9,509	16,931	196	1,606	28,242

All of the above currency risk is borne by shareholders' funds.

Credit risks

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 Company 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 Company 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 Company's liability as primary insurer.

If a reinsurer fails to pay a claim, the Company 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.

i) Premiums receivable and reinsurers share of claims outstanding

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of receivables on the balance sheet.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

15) FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risks (continued)

An ageing analysis for certain receivables is provided below. Other receivable balances have not been shown below as they either have no overdue amounts or represent an insignificant portion of overdue amounts.

2016	Neither due nor impaired	Up to 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance debtors	5,574	333	226	151	114	6,398
Reinsurance debtors	-	-	-	-	-	-
Total	5,574	333	226	151	114	6,398

2015	Neither due nor impaired	Up to 3 months	3 to 6 months	6 months to 1 year	Greater than 1 year	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Insurance debtors	4,592	318	296	238	71	5,515
Reinsurance debtors	1,017	-	-	-	-	1,017
Total	5,609	318	296	238	71	6,532

ii) Credit rating of financial assets

The following tables provide information regarding assets bearing credit risk that are neither overdue nor impaired, based on credit ratings produced by external rating agencies. These ratings for assets relating to reinsurers' share of claims outstanding relate to balances accumulated over a number of years and so will not necessarily align with the rating allocations for current reinsurance programs. The credit risk relating to investments is monitored and assessed within an agreed risk appetite.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

15) FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risks (continued)

The maximum exposure to credit risk loss at the end of the reporting period is the carrying amount of the investments on the balance sheet as they are measured at fair value.

Financial assets by credit rating	2016 £'000	2015 £'000
AAA	9,307	17,997
AA	49,856	13,435
A	76,295	70,246
BBB and below	3,056	6,615
Not rated	14,232	12,212
	<u>152,746</u>	<u>120,505</u>
Financial assets	2016 £'000	2015 £'000
Shares and other variable yield securities	14,232	12,212
Debt securities and other fixed income securities	48,246	27,580
Reinsurers' share of claims outstanding	77,759	62,170
Reinsurance debtors	-	1,017
Cash at bank and in hand	12,509	17,526
	<u>152,746</u>	<u>120,505</u>

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 net 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	
Maturity analysis	2016 £'000	2015 £'000	2016 £'000	2015 £'000
No stated maturity	-	-	14,232	12,212
Within 1 year or less	8,802	5,010	40,392	13,277
Within 1 to 2 years	10,025	5,695	-	-
Within 2 to 3 years	10,470	6,350	-	-
Within 3 to 4 years	10,203	6,510	-	-
Over 5 years	50,100	48,077	7,854	14,303
	<u>89,600</u>	<u>71,642</u>	<u>62,478</u>	<u>39,792</u>

The maturity of reinsurance claims recoveries follow the gross outstanding claims liability maturity analysis above.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

16) 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 Company 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.

A proportion of the Company'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 Company 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 Company estimates the ultimate settlement and administration costs of the claims incurred.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

16) INSURANCE RISK MANAGEMENT (CONTINUED)

Assumptions

In order to determine the ultimate cost of claims, the Company 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 underwriting years that have reached a relatively stable development pattern.

The Bornhuetter-Ferguson method is a standard actuarial method used to project a set of underwriting year claims ultimates, and is usually used for more recent underwriting years where there is little claims development. The Bornhuetter-Ferguson method weights two independent estimates of the ultimates, the estimate calculated from the basic chain-ladder method and another independent estimate of the claims ultimate.

There has been no change in the assumptions used in determining the ultimate cost of claims in the year.

Development

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

Conditions and trends that have affected the development of the liabilities in the past may not occur in the future. Accordingly, conclusions about future results may not necessarily be derived from the information presented in the table below.

Gross of reinsurance	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
At end of reporting year	7,254	4,187	4,449	2,775	2,898	7,782	29,345
1 year later	16,720	12,541	16,620	12,246	6,906		65,033
2 years later	17,013	13,163	18,200	17,817			66,193
3 years later	16,054	16,577	17,914				50,545
4 years later	14,710	20,006					34,716
5 years later	13,597						13,597
Cumulative payments	<u>7,038</u>	<u>4,756</u>	<u>2,958</u>	<u>479</u>	<u>82</u>	<u>2</u>	<u>15,315</u>
Estimated balance to pay	<u>6,559</u>	<u>15,250</u>	<u>14,956</u>	<u>17,338</u>	<u>6,824</u>	<u>7,780</u>	<u>68,707</u>
2010 & prior							20,893
Total gross provision included in the balance sheet							<u>89,600</u>

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

16) INSURANCE RISK MANAGEMENT (CONTINUED)

Net of reinsurance	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
At end of reporting year	1,243	709	718	1,973	386	1,169	6,198
1 year later	2,732	1,950	2,007	1,772	919		9,380
2 years later	2,749	1,998	2,159	2,428			9,334
3 years later	2,596	2,521	2,109				7,226
4 years later	2,381	3,178					5,559
5 years later	2,287						2,287
Cumulative payments	1,407	928	584	96	16	-	3,031
Estimated balance to pay	880	2,250	1,525	2,332	903	1,169	9,059
2010 & prior							2,782
Total net provision included in the balance sheet							11,841

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 for the year and net assets	2016 £'000	2015 £'000
Change in net claims reserves		
+1%	(106)	(85)
-1%	106	85
Changes in claims handling		
+10%	(12)	(10)
-10%	12	10

17) OTHER DEBTORS

	2016 £'000	2015 £'000
Amounts due from fellow group undertakings	1,939	3,759
Corporation tax	-	85
Deferred tax asset (see note 19)	-	1,942
Other debtors	43	260
	<u>1,982</u>	<u>6,046</u>

Other debtors are due within one year.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

18) DEFERRED ACQUISITION COSTS

All deferred acquisition costs relate to insurance contracts. The reconciliation of opening and closing deferred acquisition costs is as follows:

	2016 £'000	2015 £'000
At 1 January	1,748	1,811
Expenses for the acquisition of insurance contracts	8,411	7,113
Change in deferred acquisition costs	(8,198)	(7,090)
Foreign exchange	261	(86)
At 31 December	<u>2,222</u>	<u>1,748</u>

19) DEFERRED TAX

	2016 £'000	2015 £'000
Tax effect of trading losses available for Group relief	<u>-</u>	<u>1,942</u>
Deferred tax asset at the start of the year	1,942	514
Taxation effect of trading losses Group relieved	(1,939)	(514)
Deferred tax (charge) / credit in profit and loss account	(3)	1,942
Deferred tax asset	<u>-</u>	<u>1,942</u>

20) SHARE CAPITAL

	2016 £'000	2015 £'000
Allotted, called up and fully paid 37,500,000 (2015: 37,500,000) Ordinary shares of £1 each	<u>37,500</u>	<u>37,500</u>

There is a single class of ordinary shares, with no restrictions on the distribution of dividends and the repayment of capital.

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

21) AMOUNTS DUE TO GROUP UNDERTAKINGS

	2016 £'000	2015 £'000
Amounts due to fellow group undertakings	2,697	2
Deposit received from group reinsurance arrangements	30,780	26,067
	<u>33,477</u>	<u>26,069</u>

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 Fairfax are available from the company secretary of NHUKL, Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

23) TRANSACTIONS WITH RELATED PARTIES

As permitted by FRS 102 the Company has taken advantage of the exemption from disclosure of transactions with other members of the Fairfax Group.

Mr. J Spencer, a non-executive director of the Company was until 30th September 2016, also a non-executive director of Thompson Heath & Bond Limited ("THB"). In 2016, THB placed £120,000 (2015: £285,000) of gross written premiums with the Company, on an arm's length basis. During 2016, Mr. J Spencer became a non-executive director of Markel Syndicate Management Limited and Markel International Insurance Company Limited. In 2016, the Company has placed outwards written premiums of £0.4m with companies associated with the Markel Group, on an arm's length basis. At the year end, £nil was due on recoveries.

24) CAPITAL

The Company maintains a capital structure comprising only its equity shareholder's funds, consistent with its risk profile and the regulatory and market requirements of the business. The Company's objectives in managing its capital are to:

- match the profile of its assets and liabilities to the risk profile of the business
- satisfy the requirements of its policyholders and regulators
- retain financial flexibility by maintaining adequate liquidity

Regulatory capital requirements are determined under the EU Solvency II Directive using the Solvency II Standard Formula to determine its Solvency Capital Requirement ("SCR").

NEWLINE INSURANCE COMPANY LTD

NOTES TO THE ACCOUNTS

(CONTINUED)

24) CAPITAL *(CONTINUED)*

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

The Company is regulated by the Prudential Regulatory Authority ("PRA") and the Financial Conduct Authority ("FCA") and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The Company manages capital in accordance with these rules and performs the necessary tests to ensure continuous and full compliance with such regulations. The level of capital held and capital requirements are reported to the Board on a regular basis.