



REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2020



CONTENTS

	Page
COMPANY INFORMATION	2
STRATEGIC REPORT	3
DIRECTORS' REPORT	5
INDEPENDENT AUDITORS' REPORT	7
PROFIT & LOSS ACCOUNT	10
STATEMENT OF COMPREHENSIVE INCOME	10
BALANCE SHEET	11
STATEMENT OF CHANGES IN EQUITY	12
NOTES TO THE FINANCIAL STATEMENTS	13

COMPANY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2020

Incorporated in England

Number 3223686

DIRECTORS

R F Beaver
W E Beveridge
J Christiansen
A R Carey
N D Duncan
S Kapur
R B Kastner
C A Overy
M Scales
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

National Westminster Bank Plc
City of London Office
PO Box 12258
1 Princes Street
London
EC2R 8PA

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

PRINCIPAL ACTIVITIES

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 £165m for the 2020 year of account (2019: £137m). The capacity for the 2021 year of account is £190m.

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

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 profit for the year amounted to £58,417 (2019: profit of £122,892). The Directors consider that both the level of business and the overall financial position at the end of the year were acceptable. Dividends of £5m have been paid during the year.

FUTURE DEVELOPMENTS

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

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 takes account of 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.

- **Novel Coronavirus (COVID-19) pandemic**

The impact of Novel Coronavirus (COVID-19) pandemic on the business and potential exposures have been considered by the directors of Newline Underwriting Management Limited ("NUML"). There has been no interruption to the day to day operations of the business as staff have been able to work remotely whilst Government restrictions have been in place. The directors have considered the impact of COVID-19 on the 'supply chain' to NUML, the impact on Syndicate 1218 and other group companies NUML supports.

With respect to Syndicate 1218 and Newline Insurance Company Limited, we do not expect them to have any direct exposure as they do not underwrite the classes of business which are commonly considered to have direct exposure to Covid-19: Contingency; Event Cancellation; Trade Credit; Accident & Health; Private Health Insurance; Travel; or Property Business Interruption or Contingent Business Interruption.

It is conceivable that Newline could receive claims in the following classes:

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

The directors are of the view that there is a limited likelihood of claims emerging against the notifications we have received to date and limited additional potential exposure both to Syndicate 1218 and NICL, and the supply chain to NUML.

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
27 May 2021

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors of the Company present the audited Annual Report and Financial Statements of the Company for the year ended 31 December 2020.

FUTURE DEVELOPMENTS

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

DIVIDENDS

On 13th March 2020, the directors approved the payment of a final dividend of £5.0m (2019: £nil).

DIRECTORS

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

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

None of the Directors had any beneficial interests in the Company during the year 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.

Novel Coronavirus (COVID-19) pandemic

The impact of Novel Coronavirus (COVID-19) pandemic is discussed in the Strategic report.

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 2020 of which the auditors are unaware; and
- each director has taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the 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.

DIRECTORS' REPORT

(CONTINUED)

INDEPENDENT AUDITORS

The Company's independent auditors are PricewaterhouseCoopers LLP. A resolution proposing their reappointment will be submitted at the annual general meeting.

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
27 May 2021

Independent auditors' report to the members of Newline Underwriting Management Limited

Report on the audit of the financial statements

Opinion

In our opinion, Newline Underwriting Management Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 December 2020; profit and loss account, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

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

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

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of insurance regulations, such as those issued by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements and posting inappropriate journal entries. Audit procedures performed by the engagement team included:

- Discussions with management, internal audit and management involved in the Risk and Compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the regulators such as, Prudential Regulation Authority and the Financial Conduct Authority, in relation to compliance with laws and regulations; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the 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.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Mark Bolton (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

27 May 2021

PROFIT & LOSS ACCOUNT
 FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £	2019 £
Turnover	5	29,821,695	26,839,143
Operating expenses		(29,804,341)	(26,881,475)
OPERATING PROFIT / (LOSS)	6	17,354	(42,332)
Net realised gains on investments	17	21,426	54,661
Net interest payable and similar charges	17	(21,593)	(17,241)
PROFIT / (LOSS) BEFORE TAXATION		17,187	(4,912)
Tax on profit / (loss)	7	41,230	127,804
PROFIT FOR THE FINANCIAL YEAR		58,417	122,892

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

STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £	2019 £
Profit for the financial year	58,417	122,892
Other comprehensive income	-	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	58,417	122,892

The notes on pages 13 to 24 form part of these financial statements.

BALANCE SHEET
AT 31 DECEMBER 2020
 Company number - 3223686

	Notes	2020 £	2019 £
FIXED ASSETS			
Intangible assets	11	938,553	1,500,397
Tangible assets	12	1,279,084	1,323,637
CURRENT ASSETS			
Debtors	13	8,605,251	6,044,461
Investments	18	2,014,848	6,974,062
Cash at bank and in hand		4,874,609	3,024,922
		<u>15,494,708</u>	<u>16,043,445</u>
CREDITORS: amounts falling due within one year	15	<u>5,919,033</u>	<u>2,132,584</u>
NET CURRENT ASSETS		9,575,675	13,910,861
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>11,793,312</u>	<u>16,734,895</u>
CREDITORS: amounts falling due after more than one year	16	-	-
NET ASSETS		<u>11,793,312</u>	<u>16,734,895</u>
CAPITAL AND RESERVES			
Called up share capital	19	1,723,132	1,723,132
Profit and loss account		10,070,180	15,011,763
TOTAL SHAREHOLDERS' FUNDS		<u>11,793,312</u>	<u>16,734,895</u>

The financial statements on pages 10 to 24 were approved by the Board of Directors on 27 May 2021 and signed on its behalf by:



S Kapur
 Director

The notes on pages 13 to 24 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Called up share capital £	Retained earnings £	Total £
At 1 January 2019		1,723,132	14,888,871	16,612,003
Profit for the year		-	122,892	122,892
Total comprehensive income for the year		-	122,892	122,892
Credit relating to equity settled share based payments	9	-	900,829	900,829
Charge from parent for equity settled share based payments	9	-	(900,829)	(900,829)
Total transactions with owners, recognised directly in equity		-	-	-
At 31 December 2019		1,723,132	15,011,763	16,734,895
Profit for the year		-	58,417	58,417
Total comprehensive income for the year		-	58,417	58,417
Credit relating to equity settled share based payments	9	-	1,645,659	1,645,659
Charge from parent for equity settled share based payments	9	-	(1,645,659)	(1,645,659)
Dividend		-	(5,000,000)	(5,000,000)
Total transactions with owners, recognised directly in equity		-	(5,000,000)	(5,000,000)
At 31 December 2020		1,723,132	10,070,180	11,793,312

The notes on pages 13 to 24 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 Limited.

The Company is a private company limited by shares and is domiciled in England. The registered office is Corn Exchange, 55 Mark Lane, London, EC3R 7NE.

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.

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 FINANCIAL STATEMENTS (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 and equipment	5 years
Leasehold improvements	4 – 7 years

d) Taxation

Current tax is recognised for the amount of 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, defined contribution pension plans and the Fairfax share scheme.

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

NOTES TO THE FINANCIAL STATEMENTS

(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 to five 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 FINANCIAL STATEMENTS

(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 FINANCIAL STATEMENTS

(CONTINUED)

5) TURNOVER

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

	2020 £	2019 £
Syndicate 1218	19,079,444	15,884,192
Odyssey Reinsurance Company Limited	5,651,713	7,051,711
Newline Insurance Company Limited	4,773,937	3,335,059
Newline Corporate Name Limited	246,562	236,909
Newline Asia Services Pte Limited	41,436	260,840
Newline Malaysia Limited	12,573	6,586
Newline Australia Pty Limited	717	-
Newline Canada Insurance Limited	15,313	28,615
Newline Insurance Company Ltd Germany	-	35,231
	29,821,695	26,839,143

6) OPERATING PROFIT / (LOSS)

	2020 £	2019 £
Operating profit / (loss) is stated after charging:		
Operating lease charges	837,569	835,058
Depreciation of tangible fixed assets	516,942	481,753
Amortisation of intangible fixed assets	580,230	1,110,454
Auditors' remuneration:		
- Audit services – Company audit fee	17,958	8,033

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

7) TAX ON PROFIT / (LOSS)

a) Analysis of credit for the year:

	2020 £	2019 £
Current taxation		
Current tax (credit) / charge	(2,929)	43,876
Adjustments in respect of prior periods	28,479	(55,157)
Current tax charge / (credit) for the year	<u>25,550</u>	<u>(11,281)</u>
Deferred taxation		
Origination and reversal of timing differences	(66,780)	(116,523)
Deferred tax credit for the year	<u>(66,780)</u>	<u>(116,523)</u>
Tax credit for the year	<u>(41,230)</u>	<u>(127,804)</u>

b) Factors affecting the tax credit for the year:

	2020 £	2019 £
Profit / (Loss) before tax	<u>17,187</u>	<u>(4,912)</u>
UK corporation tax 19% (2019: 19%)	3,266	(933)
Tax effect of:		
Accelerated capital allowances and other timing differences	(72,975)	(71,714)
Adjustments in respect of prior periods	28,479	(55,157)
Tax credit for the year	<u>(41,230)</u>	<u>(127,804)</u>

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

8) EMPLOYEES AND STAFF COSTS

The average number of employees during the year was:

	2020 Number	2019 Number
Management	10	10
Underwriting	61	60
Claims	15	14
Information technology	6	6
Administration, finance and compliance	45	43
	<u>137</u>	<u>133</u>

The employment costs for the year were:

	2020 £	2019 £
Wages and salaries	17,132,071	13,999,954
Social security costs	2,231,842	1,866,240
Other pension costs	1,545,614	1,237,433
	<u>20,909,527</u>	<u>17,103,627</u>

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 2020 of £115,608 (2019: £96,354).

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 are 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 to five years.

	Number		Weighted average price £	
	2020	2019	2020	2019
Outstanding at 1 January 2020	23,594	19,265	393.49	379.15
Granted	8,563	7,493	251.19	372.33
Forfeited	-	-	-	-
Exercised	3,919	3,164	480.00	326.55
Outstanding at 31 December 2020	<u>28,238</u>	<u>23,594</u>	<u>349.84</u>	<u>393.49</u>
Exercisable at 31 December 2020	<u>13,752</u>	<u>8,375</u>	<u>366.17</u>	<u>313.28</u>

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. 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.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

9) SHARE BASED REMUNERATION (CONTINUED)

The charge to Newline Underwriting Management Limited during the year 2020 was £1,645,659 (2019: £900,829).

As at 31st December 2020 the outstanding liability from Newline Underwriting Management Limited was £nil (2019: £nil).

Any liability between Newline Underwriting Management Limited and ORC 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:

	2020 £	2019 £
Emoluments	2,587,564	2,113,257
Contributions to pension schemes	18,000	30,000
Total Emoluments	<u>2,605,564</u>	<u>2,143,257</u>

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

	2020 £	2019 £
Aggregate emoluments	847,297	776,998
Contributions to pension schemes	-	-
Total Emoluments	<u>847,297</u>	<u>776,998</u>

The highest paid director has exercised, and been awarded additional share options in the year under the Fairfax share based payments plan, and a number of shares are receivable in respect of qualifying service under this scheme.

During the year the Company made contributions to defined contribution pension schemes on behalf of three directors (2019: three).

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

11) INTANGIBLE ASSETS

	Software £	Assets in construction £	Total £
Cost:			
January 1, 2020	5,624,775	893,326	6,518,101
Additions	-	18,386	18,386
Disposals	-	-	-
December 31, 2020	5,624,775	911,712	6,536,487
Accumulated amortisation and impairment:			
January 1, 2020	5,017,704	-	5,017,704
Charge for the year	580,230	-	580,230
December 31, 2020	5,597,934	-	5,597,934
Net book value:			
December 31, 2019	607,071	893,326	1,500,397
December 31, 2020	26,841	911,712	938,553

Software and assets in construction include the company's underwriting system ("Synergy2"). The software was created and developed by an external company. Synergy2 currently in use is classified within software and carried at £0 (2019: £526,548). The charge for amortisation for the year ended 31 December 2019 was £1,110,454.

12) TANGIBLE ASSETS

	Leasehold Improvements £	Computer Equipment £	Office Equipment £	Fixtures, Fittings and Equipment £	Total £
Cost:					
January 1, 2020	2,153,712	643,575	33,844	368,786	3,199,917
Additions	33,109	420,679	18,601	-	472,389
Disposals	-	-	-	-	-
December 31, 2020	2,186,821	1,064,254	52,445	368,786	3,672,306
Accumulated depreciation:					
January 1, 2020	1,129,217	470,262	21,257	255,544	1,876,280
Charge for the year	328,402	122,856	6,814	58,870	516,942
Disposals	-	-	-	-	-
December 31, 2020	1,457,619	593,118	28,071	314,414	2,393,222
Net book value:					
December 31, 2019	1,024,495	173,313	12,587	113,242	1,323,637
December 31, 2020	729,202	471,136	24,374	54,372	1,279,084

The charge for depreciation for the year ended 31 December 2019 was £481,753.

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

13) DEBTORS

	2020	2019
	£	£
Amounts owed by group undertakings	7,266,568	4,598,568
Prepayments and other debtors	1,226,688	1,400,678
Deferred Tax	111,995	45,215
	<u>8,605,251</u>	<u>6,044,461</u>

14) DEFERRED TAX

	2020	2019
	£	£
Accelerated capital allowances	111,995	45,215
Total deferred tax asset	<u>111,995</u>	<u>45,215</u>
Deferred tax asset/(liability) at the start of the year	45,215	(71,308)
Deferred tax credit in profit and loss account	66,780	116,523
Taxation effect of trading losses Group relieved	-	-
Deferred tax asset at the end of the year	<u>111,995</u>	<u>45,215</u>

15) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2020	2019
	£	£
Taxation and social security	413,599	311,659
Other creditors	5,505,434	1,820,925
	<u>5,919,033</u>	<u>2,132,584</u>

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

	2020	2019
	£	£
Deferred tax liability (note 14)	-	-
	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

(CONTINUED)

17) INVESTMENT INCOME

	2020 £	2019 £
Realised and unrealised gains and losses on investments		
Net realised gains on investments	21,426	54,661
	<u>21,426</u>	<u>54,661</u>
Net interest payable and similar charges		
Investment management expenses, including charges	(21,593)	(17,241)
	<u>(21,593)</u>	<u>(17,241)</u>

18) INVESTMENTS

	2020 £ Fair value	2019 £ Fair value	2020 £ Cost	2019 £ Cost
Debt securities and other fixed income securities	<u>2,014,848</u>	<u>6,974,062</u>	<u>2,014,848</u>	<u>6,974,062</u>

19) CALLED UP SHARE CAPITAL

	2020 £	2019 £
Allotted and fully paid 2020: 1,723,132 (2019: 1,723,132) ordinary shares of £1 each	<u>1,723,132</u>	<u>1,723,132</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20) FINANCIAL INSTRUMENTS

The Company has the following financial instruments:

	2020 £	2019 £
<i>Financial assets</i>		
Amounts owed by group undertakings	7,276,995	4,598,568
Sundry debtors	190,526	351,219
Debt securities and other fixed income securities	2,014,848	6,974,062
Cash at bank and in hand	4,874,609	3,024,922
	<u>14,356,978</u>	<u>14,948,771</u>
<i>Financial liabilities</i>		
Taxation and social security	413,599	311,659
Other creditors	5,505,434	1,820,925
	<u>5,919,033</u>	<u>2,132,584</u>

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.

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 Limited ("ORC") part of the Odyssey 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.