

# NEWLINE INSURANCE COMPANY LIMITED

## REPORT AND ACCOUNTS

31 DECEMBER 2022



# **NEWLINE INSURANCE COMPANY LIMITED**

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# **NEWLINE INSURANCE COMPANY LIMITED**

## **COMPANY INFORMATION**

*AT 31 DECEMBER 2022*

Incorporated in England

Number 4409827

### **DIRECTORS**

M J Beane  
R F Beaver  
A R Carey  
J Christiansen  
N D Duncan  
S Kapur  
R B Kastner  
C A Overy  
A Pecover  
M G Wacek  
H J L Withinshaw

### **SECRETARY**

H J L Withinshaw

### **REGISTERED OFFICE**

1 Fen Court  
London  
EC3M 5BN

### **BANKERS**

Citibank  
Citigroup Centre  
Canada Square  
Canary Wharf  
London E14 5LB

### **REGSITERED INDEPENDENT AUDITORS**

PricewaterhouseCoopers LLP  
7 More London Riverside  
London  
SE1 2RT

# NEWLINE INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The Directors present their strategic report on the Company for the year ended 31 December 2022.

### REVIEW OF THE BUSINESS

Newline Insurance Company Limited ("NICL" and/or "the Company") is a UK insurance company that operates under the Newline Group brand ("Newline"). 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 Group ("Group").

The principal activity of the Company is the underwriting of casualty and property (re)insurance business in the UK, and, through a German subsidiary Newline Europe Versicherung AG ("NEVAG"), EU member states. The Company continues to focus on its core activities of writing casualty and property (re)insurance business.

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

#### **Clinical Trials**

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

#### **Crime**

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

#### **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 seeking to hold directors and officers liable for alleged wrongful acts in their capacity as directors and officers.

#### **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 alleged bodily injury and property damage losses, arising from employee injuries at work or activities of the company that are alleged to cause damage to employees or third parties.

#### **Life Sciences**

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

#### **Medical Malpractice**

This line of business protects hospitals, other health care facilities and individual physicians and other health care professionals against claims made during the policy period by third parties alleging negligence and seeking to hold the insureds liable.

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

#### **Affinity and Special Risks**

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

#### **Cargo and Specie**

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

# NEWLINE INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

(CONTINUED)

### Results and performance

The result for the calendar year is a profit before tax of £11.0m (2021: profit £5.3m). The shareholder's funds for the Company have increased by £9.4m during the year and total £84.2m (2021: £74.8m).

Gross written premiums for the year were £91.0m (2021: £88.9m), in converted sterling terms; casualty business accounting for £60.8m (2021: £52.6m) of this premium. NICL is party to a 70% quota share inwards reinsurance contract with its German subsidiary NEVAG. In 2022, NEVAG ceded £20.1m (2021: £13.6m) of premiums to NICL.

Net premiums written were £71.4m for the year ended 31 December 2022 (2021: £74.2m).

The combined ratio for 2022 is 87.6% (2021: 92.4%), resulting in an underwriting profit, excluding investment return and other technical income and charges, of £9,635k (2021: profit £5,235k). NICL continues to benefit from two 80% quota share reinsurance agreements with ORC. These were cancelled on a cut-off basis from 1<sup>st</sup> January 2018. The benefit to NICL is reducing as claims mature and settle for exposures covered by these arrangements.

Investment return for the year was a loss of £397k (2021: profit £3.3m) largely driven by losses on our equity portfolio. To mitigate market risk arising from the funds withheld by the Company in respect of the 80% quota share with ORC for direct business written, 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 this funds withheld balance in accordance with the agreement. As a result, £0.3m has been charged to the technical account, and credited to the funds withheld balance. In 2021 £3.4m has been charged to the technical account, and credited to the funds withheld balance.

Other non-technical charges of £497k represent net foreign exchange losses. As disclosed in note 12, £688k of foreign exchange gains are attributable to the funds withheld financial assets. Consequently, £688k has been charged to the non-technical account and credited to the funds withheld balance, in accordance with the amended ORC quota share agreement for direct insurance. In 2021, £69k of the foreign exchange gains of £288k are attributable to the funds withheld financial assets. As a result, £69k has been charged to the non-technical account and credited to the funds withheld balance.

Following a review of the recoverable amount of its investment in subsidiary (Newline Europe Holdings GmbH), the company has released in full an impairment provision of £2.6m.

Notwithstanding the cancellation of the 80% quota share reinsurance agreements with effect from 1<sup>st</sup> January 2018, ORC has entered into an agreement with NICL to provide financial support to the Company should NICL's own funds over its Solvency Capital Requirement ("SCR") fall below a ratio of 115%. The prospective SCR for 2023 is £62.9m, giving a net asset ratio of 155.6% over SCR under Solvency II. This agreement remains in effect unless and until terminated by 365 days prior written notice by ORC or the Company.

### 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. 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 has experienced the continued improvement that we first saw emerge in 2020, although we have seen a slowing down of the rate increases across all classes. We anticipate during 2023 a largely flat market with inflationary pricing increases in the better classes and continued rating pressure in the classes with market over-capacity (principally D&O).

# NEWLINE INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

(CONTINUED)

### Business environment (continued)

Casualty market participants continue to compete aggressively for business and we expect the rating environment to remain highly competitive. We will maintain our focus on maximising the opportunities presented by the current market: increasing price; rationalising line size; reducing acquisition cost; and tightening policy terms and conditions where possible.

### 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:

	2022	2021	
Gross Premiums Written	£91.0m	£88.9m	Gross Premiums Written, including acquisition costs, in respect of insurance contracts
Net Premiums Written	£71.4m	£74.2m	Gross Premiums Written less outward reinsurance in respect of insurance contracts
Technical result	£9.0m	£5.1m	Balance on technical account for general business
Net loss ratio	58.8%	64.8%	Ratio of net claims incurred to net earned premiums
Combined ratio	87.6%	92.4%	Ratio of net claims, commissions and net operating expenses to net earned premiums

### 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 risks:

#### 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.

# NEWLINE INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

(CONTINUED)

### Financial instruments

Information on the use of financial instruments by the Company and its management of financial risk is disclosed in Note 16 to the Report and 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'.

### Climate risk

Climate risk relates to a range of economic exposures that may impact the business, encompassing:

*Physical risk* arising from an increase in frequency and severity of natural weather events, leading to increased losses within property lines of business.

*Transition and litigation risk* resulting from the movement to a zero carbon footprint for individuals, companies and the global community. The impact may be felt in our investment portfolio, from certain assets in our investment portfolio that have to change their business models away from a high carbon emission base. Additionally, litigation risks may impact casualty lines of business in a variety of ways, including potentially through class actions being taken against publicly listed insureds that fail to meet increased reporting requirements, through to lawsuits against organisations' and individuals' perceived adverse impact upon the environment or claims against professional services firms and financial institutions alleging climate related breaches of duty.

*Reputational risk* in respect of insureds, employees and the wider Newline, Odyssey and Fairfax groups.

Since 2021, Newline has developed its' Environmental, Social and Governance ("ESG") framework and strategy, which is to embed ESG factors into our business activities and decision-making to ensure our business remains sustainable for the long-term to the benefit of our employees, customers, members and to promote resilience, inclusivity in our operations.

Newline has:

- Undertaken a risk assessment of underwriting exposures across all classes in 2020 and updated the assessment in 2021 and 2022.
- Updated underwriting guidelines and authorities to incorporate ESG factors in underwriting decisions
- Included financial risks from climate change in the risk management framework.
- Considered climate change as part of the underwriting loss distribution reviews for the internal model.
- Considered climate change risk in the annual ORSA reports since 2019.

Underwriting exposures have also been considered through a scenario analysis across the underwriting portfolio, looking at the physical, transition and litigation risks, the sectors/geographies at higher risk and the potential underwriting losses.

Newline is primarily a casualty underwriter and has very limited first party exposure to the physical risks of climate change. Within its casualty portfolio, there is limited exposure to high emission sectors, public administration, large utility/infrastructure risks and physically exposed territories. The most material potential exposures identified were in the D&O book due to the increasing disclosure requirements. This remains an emerging area as plaintiff firms do their utmost to be creative in filing new and varied lawsuits against a wide array of defendants and the Company's exposure here is under constant review.

### Inflation

Inflationary pressures in the UK and major world economies have resulted in commodity and wage inflation not seen since the 1980s. The rapid increase in inflation has largely emanated from increasing consumer demand post pandemic, complicated by supply chain disruption due to renewed lockdowns in China and the Russian invasion of Ukraine. This conflict has also exacerbated the rising cost of energy. In response to high levels of inflation, governments have been tightening monetary policy, with central banks raising interest rates and reversing the quantitative easing process.

A holistic inflation risk assessment was carried out by the Risk Management Function to determine the short and long term impacts on Newline's risk profile. This covered the impacts of both economic and excess inflation including social inflation on claims costs and expenses. The assessment included a detailed review with underwriters and claims adjusters to investigate and document key drivers of claims inflation within each class. The outcome of the review resulted in specific adjustments to current held reserves and appropriate explicit allowance for heightened claims inflation. The risk from inflationary pressures and economic uncertainty was considered to be stable. From an underwriting perspective, Newline has limited exposure to major catastrophic injury claims, where there was a particular risk from claims inflation.

# NEWLINE INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

(CONTINUED)

### **Inflation (continued)**

Within the bond portfolio, our fund manager increased the exposure to fixed income by purchasing government bonds with a maturity between 2 to 3 years during the calendar year, and subsequent to the year end, has increased the maturity to between 3 to 4 years.

### **Events in Ukraine**

As events in Ukraine are evolving with the human and economic consequences that follow, both locally and internationally, Newline has given consideration, based on the current position of this fast moving situation, to the possible financial impact on its insurance and investment portfolios.

Newline does not insure any of the following classes: property, war or terrorism, political risk, contract frustration, trade credit or surety, energy, hull, personal accident, A&H or medical expenses. Newline derives minimal premium income from Ukraine and Russia either directly or indirectly. Newline may face some indirect exposure in its Financial Lines book should third party claims be made against financial institutions or Directors and Officers for losses sustained as a result of the wider economic consequence of the international community's response to the events in Ukraine. Newline has written a small number of Cyber risks, from which it may also face some exposure.

The events unfolding in Ukraine have also been amongst the causal factors that have been instrumental in raising inflation across the world. This is considered within 'Inflation' above.

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

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

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

Our considered view remains that there is a limited likelihood of actual claims emerging against the notifications we have received to date and limited additional potential exposure.

### **FUTURE DEVELOPMENTS**

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

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.

On 16th March 2023, the employment contracts of employees of NUML were transferred to a newly established service company Newline Group Services Limited ("NGSL") in accordance with the 'Transfer of Undertakings (Protection of Employment) Regulations 2006'. As of this date, NGSL will recharge the Company for work performed on behalf of the NICL.

# NEWLINE INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

(CONTINUED)

### SOLVENCY II

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

### SECTION 172 OF THE UK'S COMPANIES ACT 2006

In summary, as required by Section 172 of the UK's Companies Act 2006, a director of a company must act in a way the director considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders.

In doing this, the director must have regard, amongst other matters, to the:

- a) likely consequences of any decisions in the long term;
- b) interests of the company's employees;
- c) need to foster the company's business relationships with suppliers, customers and others;
- d) impact of the company's operations on the community and environment;
- e) company's reputation for high standards of business conduct; and
- f) need to act fairly as between members of the company.

### The Board's approach to Section 172 and decision making

The role of the Board is to oversee the governance and management of the Company and to set the strategy of the business. The Board of NICL is comprised of six Executive Directors, three Non-Executive Directors and two Independent Non-Executive Directors.

Their duties are carried out in accordance with the relevant Companies' legislation and relevant regulatory requirements and they act within their powers to promote success for the business and to exercise independent judgment and reasonable care, skill and diligence, avoid conflicts of interest, not accept benefits from third parties and to declare any interest in proposed transactions or arrangements. The Board is also responsible for ensuring that effective governance frameworks are in place and are supported by the appropriate resources, documentation, systems and controls, including, but not limited to, underwriting, claims, reinsurance, risk management, and finance.

The Board has delegated certain responsibilities to its Board committees, and day-to-day management and decision making to executive directors, whilst retaining oversight. It retains oversight by receiving regular formal updates from the Chief Executive Officer ("CEO"), Chief Operating Officer ("COO"), Chief Underwriting Officer ("CUO"), Chief Finance Officer ("CFO"), Chief Actuary and Risk Officer, Head of Claims, and Head of Compliance. The Board met formally five times in 2022.

### Overview of how the Board performed its duties

The Board is responsible for a number of strategic decisions including annually approving the business plan and strategy of the Company. In making decisions concerning the business plan and strategy, the Board has regard to a number of stakeholders, the consequence of its decisions in the long term, and of its reputation. Long-term value is generated through profitability of the Company, maintenance of capital, and reputation of the Company with external stakeholders.

The Board considers the need to continue an EU presence as being fundamentally important to NICL and the Newline Group. In discharging its duties over the strategic investment in NEVAG, the Board also considers the needs of the EU customers and intermediaries, the local regulator, and the level of involvement of UK and German based employees.

Capital considerations have also been taken in the year, with the Board assessing the capital needs of NICL, and that of the German subsidiary, ensuring that capital held meets the requirements of local regulators, and balancing the needs of the parent on the efficient use of capital. The Board has assessed these needs, and employed sufficient capital.

# NEWLINE INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

(CONTINUED)

### Employee engagement

All UK employees were employed by Newline Underwriting Management Limited ("NUML"), a fellow subsidiary, which recharges NICL for their services.

Being a relatively small company, there is a high level of visibility of the executive directors by employees, and vice versa. Given that employees are fundamental to the success of the Company and are critical to the implementation of the strategy as set out by the Board, there is significant engagement between executive directors and employees. Executive directors have regular engagement with employees, and there are quarterly formal results presentations to all employees by members of the Board, outlining factors around the quarterly financial results of the Company and the wider Newline and Odyssey group, and any strategic initiatives currently taking place.

We are committed to protecting the health and wellbeing of our employees, and have made significant efforts in this area over recent years. With a family friendly policy offering enhanced maternity and paternity benefits, subsidised gym memberships, and a number of planned employee wide social events throughout the year, the Company aims to promote the physical and mental health of our employees. This was enhanced in 2020 with the establishment of a Wellbeing Committee, and, in light of the impact of COVID-19 on remote working for employees, we believe this to have had a positive impact. As the UK resumed 'normal' life with a return to the office environment, the Company offered flexible home / office working to promote a healthy work life balance, and has given practical support to look after employee health and wellbeing.

### Stakeholder engagement

#### Clients and Intermediaries

The reputation of Newline is fundamental to the long term success, and continued support of its client and intermediary base. The Newline Group employs highly specialised and dedicated claims managers to look after our insureds interest. Given the diverse nature of the policies we issue, and the exposures we cover, Newline ensures that a professional claims manager, who is knowledgeable in both the class of insurance bought and the industry, handles the claim. In addition to internally experienced staff, we employ specialist external advisors when necessary.

When handling a covered casualty claim, our claims adjusters have two overriding objectives:

- Protecting the policy holder interests; and
- Driving the claim to the fairest possible outcome.

Claims managers and handlers follow written policies and procedures, have continual training and are offered support in gaining professional qualifications in order to maintain our high standards.

The Board has delegated responsibility of the overseeing and management of potentially high value claims (in excess of £250,000) and complex claims to the Claims Review Management Group, chaired by Head of Claims, and attended by the Chief Executive Officer and the Reserving Actuary. It also considers any matters that need to be brought to the attention of the Board. This management group met four times in 2022.

#### Reinsurers

The Board has established a reinsurance management group that reviews and monitors the purchase of reinsurance protection in line with the strategy set out by the Board. The strategy set out by the Board is used to protect capital against underwriting risk volatility. There is open communication between the Company, intermediary brokers and reinsurers in placing this reinsurance, and open communication over relevant underwriting losses.

#### Shareholder and Capital Provider

The Company prepares quarterly financial data reporting performance against the approved plan. Through the Own Risk and Solvency Assessment Report ("ORSA"), the directors also evaluate the capital required to support the Solvency Capital Requirement in the current financial year, and subsequent periods. As some members of the Executive Board also sit on the executive board of the capital provider (Newline Holdings UK Limited), there is full disclosure on the performance and capital needs of the Company.

# NEWLINE INSURANCE COMPANY LIMITED

## STRATEGIC REPORT

(CONTINUED)

### Regulators

NICL is authorised by the Prudential Regulation Authority and is regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA"). The relationship with these regulators is open and cooperative as required by the PRA's "Fundamental Rule 7" and the FCA's "Principle 11" with meetings being held periodically and with all reports, returns and requests for information being met in a timely manner.

### **Community and Environment**

The Board recognises the importance of leading a company that not only provides value for shareholders, clients and employees, but also supports the wider community. Fairfax Financial Holdings Limited (of which the Company is a member – see note 23), through encouraging philanthropic endeavours, has donated a portion of profits to charitable organisations since its inception. The Newline Group, also embraces this culture of giving, by donating a proportion of profits to local charitable organisations, selected by employees. The Company also operates a charitable donation matching scheme, whereby the Company will match the personal donation an employee has made to a charity.

### **Culture, values and standards**

The culture and standards of the Newline Group are aligned fully with those of Fairfax Financial Holdings Limited, underpinned by a fair and friendly approach to how we deal with insureds and intermediaries, and with our employees. These standards are how we aim to create and sustain value over the longer term and are key elements of how the Company maintains a reputation for high standards of business conduct.

Culture, values and standards underpin how a company creates and sustains value over the longer term and are key elements of how it maintains a reputation for high standards of business conduct. They also guide and assist in decision making and thereby help promote the company's success, recognising, amongst other things, the likely consequences of any decision in the long-term and wider stakeholder considerations. The standards set by the Board also take into consideration regulatory standards, and mandate certain requirements and behaviours with regards to the activities of its directors, employees and other stakeholders.

On behalf of the Board



**S Kapur**

*Director*

13 April 2023

# **NEWLINE INSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT**

*FOR THE YEAR ENDED 31 DECEMBER 2022*

The Directors present their report and audited financial statements of the Company for the year ended 31 December 2022.

### **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 (2021: £nil).

### **DIRECTORS**

The Directors listed below have held office from 1 January 2022 to the date of this report unless otherwise stated.

M J Beane	(appointed 25 April 2022)
R F Beaver	
W E Beveridge	(resigned 7 September 2022)
A R Carey	
J Christiansen	
N D Duncan	
S Kapur	
R B Kastner	
C A Overy	
A Pecover	(appointed 1 October 2022)
M Scales	(resigned 21 June 2022)
M G Wacek	
H J L Withinshaw	

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 has no active branches outside of the UK.

### **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

# NEWLINE INSURANCE COMPANY LIMITED

## DIRECTORS' REPORT

(CONTINUED)

### STREAMLINED ENERGY CARBON REPORTING

Streamlined Energy Carbon Reporting ("SECR") was introduced by the UK Government when the Companies (Directors Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations came into force. It is a mandatory reporting requirement for companies within its scope. Newline Insurance Company Limited falls under the scope of this regulation as it is a large unquoted company. The emissions data reported is for the NICL share of the UK operations of the Newline Group, based upon the proportion of property costs recharged to this business unit.

#### Our greenhouse gas emissions

		2022	2021
Scope 2 - Energy consumption incurred in the operation of facilities	kWh	54,801	36,605
Scope 2 - Estimate for shared energy consumption in the operation of facilities*	kWh	62,413	8,845
<b>Total</b>		<b>117,214</b>	<b>45,450</b>

<b>Emissions from purchased energy (including estimated energy consumption)</b>	kg CO <sub>2</sub> e	<b>21,996</b>	<b>9,650</b>
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<b>Emission intensity ratio – Kilograms of CO<sub>2</sub>e per £million gross written premium</b>	<b>241.8</b>	<b>108.6</b>
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\*Shared facilities comprise air handling and chilling within the Newline Group occupied areas of the leasehold property where UK operations are based.

The emissions are based on the proportion of shared facilities charged to NICL.

Reported greenhouse gas emissions are calculated using the 2022 carbon conversion factors published by the UK's Department for Business, Energy and Industrial Strategy. This includes all activities where we have operational control, namely the energy usage of the UK based Newline Group at its operational facilities. The company does not operate fleet or company vehicles and aircraft that are used for the purposes of business travel.

The emission from purchased energy and the intensity ratio have increased primarily due to the Newline Group relocating offices in 2022. During this relocation, there was a dual occupancy of approximately six months, and the consequential dual energy costs incurred. Office use has also increased in 2022, as COVID restrictions were gradually being eased during 2021.

#### Energy efficiency action:

The Company has a number of energy efficiency actions in place, including but not limited to:

LED motion activated lighting

Use of communication technology as an alternative to travel

# **NEWLINE INSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT**

*(CONTINUED)*

### **STATEMENT OF DISCLOSURE OF INFORMATION TO AUDITORS**

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

- so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2022 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.

### **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 IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

On behalf of the Board



**S Kapur**

*Director*

13 April 2023

# Independent auditors' report to the members of Newline Insurance Company Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Newline Insurance Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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, including 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 Report and Accounts (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2022; the Profit and loss account: Technical account - General Business, Profit and loss account: Non-technical 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.

Our opinion is consistent with our reporting to the Audit Committee.

### 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, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

# NEWLINE INSURANCE COMPANY LIMITED

## Our audit approach

### Overview

#### Audit scope

- The scope of our audit is driven by statutory requirements in the UK. Our audit objective is to obtain sufficient relevant and reliable audit evidence to enable us to issue opinions on the statutory financial statements.
- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

#### Key audit matters

- Methodologies and assumptions applied in the valuation of the IBNR component of claims outstanding

#### Materiality

- Overall materiality: £875,000 (2021: £690,000) based on the change of Net Earned Premium sufficient to cause a 1% movement in the Combined Operating Ratio.
- Performance materiality: £656,000 (2021: £517,000).

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matter below is consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Methodologies and assumptions applied in the valuation of the IBNR component of claims outstanding</i></p> <p>The incurred but not reported ('IBNR') component of claims outstanding is a material balance within the financial statements which is also highly judgemental and complex to calculate.</p> <p>There are varying methods which can be adopted in the estimation of IBNR which are underpinned by a series of assumptions selected by management. These can rely on a large degree of judgement and relatively small changes in these assumptions can lead to significant movements in IBNR. The assumptions and methodologies applied by management are therefore areas of focus for us.</p> <p>There is inherent uncertainty around the IBNR estimation process as a consequence of the relatively limited volume of the company's own historical data. In addition, the company mainly writes long-tailed classes of business, where there is a greater length of time between initial claim event and settlement. These classes tend to be</p>	<p>Our audit approach for claims outstanding is centred on using independent re-projections and key indicator tests. The independent projections provide us with an independent estimate against which to compare management's booked reserves. We have performed a key indicator test for under 10% of NICL's net reserves and independent projections for the remaining reserves.</p> <p>We have leveraged our work on the related Syndicate 1218 to provide benchmark-based estimates which we use to produce an independent estimate of ultimate claims. Our understanding is that the NICL business is similar to that written by the Syndicate and this is therefore an appropriate proxy in the absence of sufficient historical data.</p> <p>Where differences arose, we investigated them. In performing the above we have also considered and tested the following:</p>

## NEWLINE INSURANCE COMPANY LIMITED

<p>more volatile in nature, and display greater variability between initial estimates and eventual settlements.</p> <p>Refer to accounting policies 3g and 3h and Notes 4 and 17 for further detail.</p>	<ul style="list-style-type: none"> <li>•The internal control environment in place over IBNR including control activities supporting key data used in the estimation process.</li> <li>•The underlying relevant data, including but not limited to claims case estimates and claims paid, to relevant evidence.</li> </ul> <p>Based on the work performed, we found the IBNR estimate to be consistent with the evidence we obtained.</p>
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### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The company's operations are primarily in the United Kingdom ("UK"). A full scope audit is performed for the company as its financial information is maintained in the UK.

### The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process that has been adopted to assess the extent of the potential impact of climate risk on the company's financial statements and to support disclosures made. Newline is primarily a casualty underwriter and has very limited first party exposure to the physical risks of climate change. We considered the consistency of the disclosures in relation to climate change with our knowledge obtained from our audit.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Overall company materiality</i>	£875,000 (2021: £690,000).
<i>How we determined it</i>	the change of Net Earned Premium sufficient to cause a 1% movement in the Combined Operating Ratio
<i>Rationale for benchmark applied</i>	In determining our materiality, we have considered financial metrics which we believe to be relevant to the primary users of the financial statements. We concluded that the use of the Combined Operating Ratio ("COR") is the most relevant benchmark to these users as the use of COR gives a consistent result-based benchmark, is a commonly used benchmark for entities of this type and performance ratios such as COR are considered to be key performance indicators by management and users of the financial statements.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £656,000 (2021: £517,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £43,000 (2021: £34,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

# NEWLINE INSURANCE COMPANY LIMITED

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the Directors' Going Concern assessment and challenging the appropriateness for the downside scenarios adopted and material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considering management's assessment of the regulatory solvency coverage and liquidity position in the forward looking scenarios considered, which have been driven by the Company's ORSA;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern; and
- Inquiring and understanding the actions taken by management to mitigate the identified risks, including review of Board and Audit Committee minutes and attendance at Audit Committees.

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 2022 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 in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied

## NEWLINE INSURANCE COMPANY LIMITED

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 posting inappropriate journal entries and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of insurance liabilities. 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;
- Identifying and testing journal entries using risk based criteria; and
- Challenging the methodologies and assumptions applied in the valuation of the IBNR component of Claims Outstanding as described in the related key audit matter.

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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](http://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.

### **Appointment**

Following the recommendation of the Audit Committee, we were appointed by the directors on 1 December 2006 to audit the financial statements for the year ended 31 December 2006 and subsequent financial periods. The period of total uninterrupted engagement is 17 years, covering the years ended 31 December 2006 to 31 December 2022.



Sue Morling (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
13 April 2023

# NEWLINE INSURANCE COMPANY LIMITED

## PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
<b>EARNED PREMIUMS, NET OF REINSURANCE</b>			
Gross premiums written	5	90,982	88,884
Outwards reinsurance premiums		(19,586)	(14,694)
Net premiums written		<u>71,396</u>	<u>74,190</u>
Change in the gross provision for unearned premiums		5,037	(10,707)
Change in the provision for unearned premiums, reinsurers' share		1,073	5,577
Change in the net provision for unearned premiums		<u>6,110</u>	<u>(5,130)</u>
<b>Earned premiums, net of reinsurance</b>		<b>77,506</b>	<b>69,060</b>
<b>Allocated investment return transferred from the non-technical account</b>		<b>(397)</b>	<b>3,255</b>
<b>CLAIMS INCURRED, NET OF REINSURANCE</b>			
Gross claims paid		(30,462)	(31,602)
Reinsurers' share		7,664	8,487
Net claims paid		<u>(22,798)</u>	<u>(23,115)</u>
Change in the gross provision for claims		(23,300)	(10,394)
Reinsurers' share		521	(11,212)
Change in the net provision for claims		<u>(22,779)</u>	<u>(21,606)</u>
<b>Claims incurred, net of reinsurance</b>		<b>(45,577)</b>	<b>(44,721)</b>
<b>Net operating expenses</b>	8	<b>(22,294)</b>	<b>(19,104)</b>
<b>Other technical charges, net of reinsurance</b>	9	<b>(277)</b>	<b>(3,433)</b>
<b>Balance on the technical account for general business</b>		<u><b>8,961</b></u>	<u><b>5,057</b></u>

All operations are continuing.

The accompanying notes on pages 24 to 49 form an integral part of these annual accounts.

# NEWLINE INSURANCE COMPANY LIMITED

## PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £'000	2021 £'000
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<b>8,961</b>	<b>5,057</b>
Investment income	11	1,697	2,695
Unrealised gains on investments	11	1,749	1,823
Unrealised losses on investments	11	(1,830)	(756)
Investment expenses and charges	11	(2,013)	(507)
		<u>(397)</u>	<u>3,255</u>
Allocated investment return transferred to the general business technical account		397	(3,255)
Other (charges) / income, including value adjustments	12	(497)	219
Impairment reversal of investment in subsidiary	13	2,556	-
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>		<b>11,020</b>	<b>5,276</b>
Tax charge on ordinary activities	7	(1,652)	(1,061)
<b>PROFIT FOR FINANCIAL YEAR</b>		<b>9,368</b>	<b>4,215</b>

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 £'000	2021 £'000
<b>Profit for the financial year</b>	<b>9,368</b>	<b>4,215</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>9,368</b>	<b>4,215</b>

The accompanying notes on pages 24 to 49 form an integral part of these annual accounts.

# NEWLINE INSURANCE COMPANY LIMITED

## BALANCE SHEET

AS AT 31 DECEMBER 2022

Company Number: 4409827

	Note	2022 £'000	2021 £'000
<b>ASSETS</b>			
<b>Investments</b>			
Investment in group undertaking	13	16,062	12,813
Financial investments	14	187,307	130,158
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		9,496	8,353
Claims outstanding		43,540	41,391
<b>Debtors</b>			
Deposits with ceding undertakings	18	63	205
Arising out of direct insurance operations, due from intermediaries		32,845	37,104
Arising out of reinsurance operations		1,457	2,136
Other debtors	19	226	186
<b>Other assets</b>			
Cash at bank and in hand		8,908	33,242
<b>Prepayments</b>			
Accrued interest and rent		909	904
Deferred acquisition costs	20	9,563	10,270
Other prepayments and accrued income		68	43
<b>TOTAL ASSETS</b>		<b>310,444</b>	<b>276,805</b>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	21	82,500	82,500
Profit & loss account		1,726	(7,642)
<b>Total shareholder's funds</b>		<b>84,226</b>	<b>74,858</b>
<b>Technical provisions</b>			
Provision for unearned premiums		44,733	48,477
Claims outstanding		155,071	127,194
<b>Creditors</b>			
Arising out of direct insurance operations, due to intermediaries		170	2,747
Arising out of reinsurance operations		11,665	11,644
Other creditors including taxation and social security		1,616	795
Amount due to Group undertakings	22	10,216	8,169
<b>Accruals and deferred income</b>		<b>2,747</b>	<b>2,921</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>310,444</b>	<b>276,805</b>

Approved by the Board of Directors on 13 April 2023.



S Kapur  
Director

The accompanying notes on pages 24 to 49 form an integral part of these annual accounts.

# NEWLINE INSURANCE COMPANY LIMITED

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Called up share capital	Profit and loss account	Total shareholder's funds
	£'000	£'000	£'000
<b>At 1 January 2021</b>	<b>72,500</b>	<b>(11,857)</b>	<b>60,643</b>
Profit for the year	-	4,215	4,215
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>4,215</b>	<b>4,215</b>
Issue of share capital	10,000	-	10,000
<b>Total transactions with owner, recognised in equity</b>	<b>10,000</b>	<b>-</b>	<b>10,000</b>
<b>At 31 December 2021</b>	<b>82,500</b>	<b>(7,642)</b>	<b>74,858</b>
Profit for the year	-	9,368	9,368
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>9,368</b>	<b>9,368</b>
<b>Total transactions with owner, recognised in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>At 31 December 2022</b>	<b>82,500</b>	<b>1,726</b>	<b>84,226</b>

The accompanying notes on pages 24 to 49 form an integral part of these annual accounts.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2022

### 1) GENERAL INFORMATION

The principal activity of the Company is the underwriting of casualty (re)insurance business in the UK and EU member states. The registered office is 1 Fen Court, London, EC3M 5BN.

### 2) ACCOUNTING POLICIES

The individual financial statements of Newline Insurance Company Limited ("NICL" and/or "the Company") 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.

NICL has further taken advantage of section 401 (1) of the Companies Act 2006 and has not prepared consolidated accounts, as the financial statements of Fairfax Financial Holdings Limited include consolidated accounts.

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***

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 which inceptioned 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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

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

#### *c) Unearned premiums*

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

#### *d) Acquisition costs*

Acquisition costs represent commissions and other related expenses 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 was until 31 December 2017 party to two 80% quota share reinsurance arrangements with Odyssey Reinsurance Company ("ORC"); one in respect of direct business underwritten by the Company and the other in respect of indirect business. The latter arrangement was put in place during 2017 as the former arrangement did not permit the cession of indirect business to ORC. For direct business underwritten by the Company and ceded under the 80% quota share, financial assets held by the Company are assigned to this funds withheld balance. 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 in respect of direct business ceded under the 80% quota share 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 (see note 22 – Amount due to Group undertakings).

The amounts that will be recoverable from reinsurers are estimated based upon the gross claims provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the 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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

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

#### *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. 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, 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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

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

#### *j) Financial instruments (continued)*

##### *iv) Derivative instruments*

The Company may use 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.

##### *k) Investment in group undertakings*

Investments in subsidiary undertakings are initially stated at cost. If their value has been impaired, they are valued at cost less impairment. In these circumstances the carrying value of subsidiary is considered to be the higher of the subsidiary's fair value less costs to sell, or value in use. Impairment losses are recognised in the profit and loss account. If the reason for an impairment loss has ceased to apply in a subsequent period, it is reversed.

##### *l) Investment return*

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

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

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

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price or their valuation at the previous balance sheet date. The movement in unrealised 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. All investment return is considered to arise on such funds.

##### *m) Foreign currencies*

##### *i) Functional and presentation currency*

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

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

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

#### *m) Foreign currencies (continued)*

##### *ii) Transactions and balances*

Income and expenditure in US Dollars, Canadian Dollars, Egyptian Pounds, Euros and Norwegian Krone 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 gains / (losses) are included in the non-technical account within other income / (charges).

##### *iii) Translation*

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

#### *n) 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.

#### *o) 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.

#### *p) 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.

#### *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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 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 the IBNR proportion of the total reserve is high will typically display greater variation between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. This uncertainty varies between classes written by NICK, but is typically highest for those classes where there are significant delays in the settlement of the final claims amount, more specifically from Liability and other long-tail direct and long-tailed reinsurance classes.

In calculating the estimated cost of unpaid claims the 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 as part of the reserve estimate, known as the Management Adjustment. At 31 December 2022, the carrying value of gross claims IBNR is £131.8m (2021: £103.4m) and the Management Adjustment in excess of the best estimate of net reserves is £9.5m (2021: £6.5m). This level of Management Adjustment is considered appropriate in light of the current economic environment.

#### *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 £1,934k (2021: £1,256k); of that £1,705k is unearned at 31 December 2022 (2021: £1,166k).

#### *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 £19.4m (2021: £15.6m). 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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 5) SEGMENTAL INFORMATION

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
<b>2022</b>					
<i>Direct insurance</i>					
Third party liability	40,626	38,346	(16,339)	(9,256)	(5,274)
Motor	9	9	-	(22)	-
Fire and other damage to property	20,767	25,206	(17,854)	(6,493)	(104)
Other direct classes	1,727	1,969	(794)	(691)	(69)
<b>Total direct</b>	<b>63,129</b>	<b>65,530</b>	<b>(34,987)</b>	<b>(16,462)</b>	<b>(5,447)</b>
<i>Reinsurance acceptances</i>	27,853	30,489	(18,775)	(9,496)	(1,217)
<b>Total</b>	<b>90,982</b>	<b>96,019</b>	<b>(53,762)</b>	<b>(25,958)</b>	<b>(6,664)</b>
	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000
<b>2021</b>					
<i>Direct insurance</i>					
Third party liability	33,220	30,036	(11,750)	(6,733)	(6,685)
Motor	-	-	2,055	-	(1,876)
Fire and other damage to property	19,908	20,769	(15,730)	(4,873)	(225)
Other direct classes	1,953	938	(703)	(369)	(122)
<b>Total direct</b>	<b>55,081</b>	<b>51,743</b>	<b>(26,128)</b>	<b>(11,975)</b>	<b>(8,908)</b>
<i>Reinsurance acceptances</i>	33,803	26,434	(15,868)	(8,262)	(1,801)
<b>Total</b>	<b>88,884</b>	<b>78,177</b>	<b>(41,996)</b>	<b>(20,237)</b>	<b>(10,709)</b>

The majority of business has been underwritten in the United Kingdom, and Germany through NEVAG. Gross direct business underwritten by geographical area is as follows:

	2022 £'000	2021 £'000
United Kingdom	70,161	61,961
Germany	20,060	25,788
Non EEA	761	1,135
	<b>90,982</b>	<b>88,884</b>

#### Insurance risk concentrations

The Company monitors and reports internally on insurance risk concentrations by reserving classes that have similar risk profiles and durations. Reserving classes are 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, Motor, and Fire and Other Damage to Property and Other.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

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

The movement in prior year's provision for claims outstanding, net of reinsurance recoveries is a favourable development of £3.7m primarily relating to Third Party Liability £4.2m, partially offset by deterioration of £0.5m in Fire and other damage to property (2021: deterioration of £0.2m primarily relating to Fire and other damage to property £0.7m, partially offset by a favourable development in Third Party Liability of £0.5m).

### 7) TAX CHARGE ON ORDINARY ACTIVITIES

	2022 £'000	2021 £'000
<b>(a) Analysis of charge for the year</b>		
<b>Current taxation</b>		
Current tax charge on ordinary activities	1,670	1,051
Adjustments in respect of prior periods	(18)	10
	<u>1,652</u>	<u>1,061</u>
<b>Tax charge on ordinary activities</b>	<u>1,652</u>	<u>1,061</u>
<b>(b) Factors affecting the tax charge</b>		
Profit / (loss) on ordinary activities before tax	<u>11,020</u>	<u>5,276</u>
UK corporation tax 19.00% (2021: 19.00%)	2,094	1,002
Tax effect of:		
Expenses not deductible for tax purposes	(424)	49
Adjustments in respect of prior periods	(18)	10
<b>Tax charge for the period (note 7a)</b>	<u>1,652</u>	<u>1,061</u>

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 8) NET OPERATING EXPENSES

	2022 £'000	2021 £'000
Acquisition costs	21,415	20,838
Change in deferred acquisition costs	1,042	(3,187)
Administrative expenses	3,501	2,586
Reinsurers' commissions and profit participations	(3,664)	(1,133)
	<u>22,294</u>	<u>19,104</u>

Total commissions for direct insurance accounted for in the year amounted to £12.6m (2021: £9.6m).

Administrative expenses include:

	2022 £'000	2021 £'000
<b>Auditors' remuneration</b>		
Audit services		
Company audit fees	92	85
	<u>92</u>	<u>85</u>

### 9) OTHER TECHNICAL CHARGES, NET OF REINSURANCE

	2022 £'000	2021 £'000
Interest income on financial assets at fair value through profit and loss	1	4
Dividend income	29	13
Realised losses on realisation on investments	-	(35)
Realised gains on realisation of investments	-	1,273
Net unrealised gains on investments	261	2,215
Investment management expenses	(14)	(37)
<b>Credit to funds withheld</b>	<u>277</u>	<u>3,433</u>

All interest and dividend income and investment gains or losses in respect of the ORC funds withheld portfolio for direct business, 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 LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 10) DIRECTORS' EMOLUMENTS AND STAFF COSTS

All employees were employed by Newline Underwriting Management Limited ("NUML"), a fellow subsidiary. A management charge from NUML of £6.2m has been borne by the Company during 2022 (2021: £4.3m).

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

	2022 £'000	2021 £'000
Emoluments	386	356
Contribution to pension scheme	2	1

Retirement benefits are accruing for three Directors (2021: three) under money purchase schemes.

The highest paid director received the following remuneration:

	2022 £'000	2021 £'000
Emoluments	77	62

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

### 11) INVESTMENT INCOME

	2022 £'000	2021 £'000
<b>Investment income (including realised gains on investments)</b>		
Interest income on financial assets at fair value through profit and loss	1,455	657
Dividend income	153	21
Realised gains on realisation of investments	89	2,017
	<u>1,697</u>	<u>2,695</u>
<b>Net unrealised gains / (losses) on investments</b>		
Unrealised gains on investments	1,749	1,823
Unrealised losses on investments	(1,830)	(756)
	<u>(81)</u>	<u>1,067</u>
<b>Total investment expenses and charges</b>		
Realised losses on realisation of investments	(1,560)	(264)
Investment management expenses	(453)	(243)
	<u>(2,013)</u>	<u>(507)</u>
<b>Total investment return</b>	<u>(397)</u>	<u>3,255</u>

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

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 12) OTHER NON-TECHNICAL INCOME AND CHARGES

	2022 £'000	2021 £'000
<b>Other non-technical charges</b>		
Net foreign exchange gains / (losses)	191	288
Net foreign exchange gains transferred to funds withheld	(688)	(69)
	<u>(497)</u>	<u>219</u>

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

### 13) INVESTMENT IN GROUP UNDERTAKING

Investment in subsidiary	2022 £'000	2021 £'000
As at 1 January 2022	12,813	13,613
Change in valuation – foreign exchange	693	(800)
Impairment reversal	2,556	-
<b>As at 31 December 2022</b>	<u>16,062</u>	<u>12,813</u>

The subsidiary undertaking is as follows:

Name	Activity	Holding	Registered
Newline Europe Holdings GmbH	Non-trading holding company	100%	Germany

Newline Europe Holdings GmbH is the sole owner of the common stock of Newline Europe Versicherung AG ("NEVAG", an insurance company based in Germany. The registered address of both companies is Schanzenstrasse 28a, 51063 Köln, Germany.

The Directors, having considered the carrying value of the subsidiary undertakings, have released the impairment provision against those undertaking costs.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 14) FINANCIAL INVESTMENTS

	2022 £'000	2021 £'000	2022 £'000	2021 £'000
	Fair value	Fair value	Cost	Cost
Shares and other variable yield securities	36,431	32,546	37,592	31,129
Debt securities and other fixed income securities	150,304	97,612	134,168	98,137
Other	572	-	417	-
	<u>187,307</u>	<u>130,158</u>	<u>172,177</u>	<u>129,266</u>

Of the above financial investments, £9.8m of shares and other variable yield securities (2021: £9.4m), £0.4m of debt securities and other fixed income securities (2021: £nil) have been assigned to the ORC funds withheld portfolio.

#### Listed investments

Included within the carrying values above are amounts in respect of listed investments as follows:

	2022 £'000	2021 £'000
Shares and other variable yield securities	15,099	11,887
Debt securities and other fixed income securities	149,804	97,112
	<u>164,903</u>	<u>108,999</u>

### 15) 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.

#### 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.

During the year ended 31 December 2022 the Company held £19.4m (2021: £15.8m) of financial instruments that are classified as Level 3. Financial instruments classified as Level 3 include assets invested in common stock and limited partnerships.

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

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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 15) FAIR VALUE HIERARCHY (CONTINUED)

2022	Fair value hierarchy			Assets held at fair value	Balance sheet total
	Level 1	Level 2	Level 3		
	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
Shares and other variable yield securities	10,987	7,133	18,311	36,431	36,431
Debt securities and other fixed income securities	149,804	-	500	150,304	150,304
Other	-	-	572	572	572
	<u>160,791</u>	<u>7,133</u>	<u>19,383</u>	<u>187,307</u>	<u>187,307</u>
2021	Fair value hierarchy			Assets held at fair value	Balance sheet total
	Level 1	Level 2	Level 3		
	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>					
Shares and other variable yield securities	8,289	8,999	15,258	32,546	32,546
Debt securities and other fixed income securities	97,112	-	500	97,612	97,612
	<u>105,401</u>	<u>8,999</u>	<u>15,758</u>	<u>130,158</u>	<u>130,158</u>

### 16) FINANCIAL RISK MANAGEMENT

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

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls as set out in the Risk Management Framework. This ensures that all risks are identified, recorded, assessed, 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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 16) FINANCIAL RISK MANAGEMENT (CONTINUED)

The Company has sought to further mitigate market risk from the funds withheld in respect of the 80% quota share reinsurance agreement with ORC for direct business ceded. During 2016, 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. This reinsurance agreement has been cancelled, on a cut-off basis, with effect from 31 December 2017.

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, retained in the corporate entity.

2022	Insurance £'000	Corporate £'000	Total £'000
Investment in group undertaking	-	16,062	16,062
Financial investments	117,659	69,648	187,307
Provision for unearned premiums	9,496	-	9,496
Reinsurers' share of claims outstanding	43,540	-	43,540
Deposits with ceding undertakings	63	-	63
Arising out of direct insurance operations	32,845	-	32,845
Arising out of reinsurance operations	1,457	-	1,457
Other debtors	226	-	226
Cash at bank and in hand	8,908	-	8,908
Accrued interest and rent	909	-	909
Deferred acquisition costs	9,563	-	9,563
Other prepayments and accrued income	68	-	68
<b>Total assets</b>	<b>224,734</b>	<b>85,710</b>	<b>310,444</b>
Provision for unearned premiums	44,733	-	44,733
Claims outstanding	155,071	-	155,071
Arising out of direct insurance operations	170	-	170
Arising out of reinsurance operations	11,665	-	11,665
Other creditors including taxation and social security	132	1,484	1,616
Amount due to Group undertakings	10,216	-	10,216
Accruals and deferred income	2,747	-	2,747
<b>Total liabilities</b>	<b>224,734</b>	<b>1,484</b>	<b>226,218</b>
<b>Shareholder's funds</b>	<b>-</b>	<b>84,226</b>	<b>84,226</b>

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 16) FINANCIAL RISK MANAGEMENT (CONTINUED)

2021	Insurance £'000	Corporate £'000	Total £'000
Investment in group undertaking	-	12,813	12,813
Financial investments	67,643	62,515	130,158
Provision for unearned premiums	8,353	-	8,353
Reinsurers' share of claims outstanding	41,391	-	41,391
Deposits with ceding undertakings	205	-	205
Arising out of direct insurance operations	37,104	-	37,104
Arising out of reinsurance operations	2,136	-	2,136
Other debtors	186	-	186
Cash at bank and in hand	33,242	-	33,242
Accrued interest and rent	904	-	904
Deferred acquisition costs	10,270	-	10,270
Other prepayments and accrued income	43	-	43
<b>Total assets</b>	<b>201,477</b>	<b>75,328</b>	<b>276,805</b>
Provision for unearned premiums	48,477	-	48,477
Claims outstanding	127,194	-	127,194
Arising out of direct insurance operations	2,747	-	2,747
Arising out of reinsurance operations	11,644	-	11,644
Other creditors including taxation and social security	325	470	795
Amount due to Group undertakings	8,169	-	8,169
Accruals and deferred income	2,921	-	2,921
<b>Total liabilities</b>	<b>201,477</b>	<b>470</b>	<b>201,947</b>
<b>Shareholder's funds</b>	<b>-</b>	<b>74,858</b>	<b>74,858</b>

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:

		2022 £'000	2021 £'000
Investments - Debt securities and other fixed income securities	+0.5%	(568)	-
	-0.5%	584	-

Exposure to interest rate risk was minimal in 2021, however, as the Company has increased the duration of its fixed interest securities during 2022, the exposure to changes in interest rates has heightened.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 16) FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Market risks (continued)

##### Price risk

Price risk is the risk that changes in equity market prices will impact upon the fair value of financial instruments held by the 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. 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:

		2022 £'000	2021 £'000
Investments – equity and related investments	+5%	1,386	1,198
	-5%	<u>(1,386)</u>	<u>(1,198)</u>

##### 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.

2022	GBP £'000	USD £'000	EUR £'000	Other £'000	Total £'000
Investment in group undertaking	-	-	16,062	-	16,062
Financial investments	108,082	30,455	30,726	18,044	187,307
Deposits with ceding undertakings	-	63	-	-	63
Reinsurers' share of technical provisions	33,110	4,886	15,040	-	53,036
Cash and cash equivalents	4,135	1,446	3,230	97	8,908
Other assets	34,274	2,334	11,902	(3,442)	45,068
Total assets	<u>179,601</u>	<u>39,184</u>	<u>76,960</u>	<u>14,699</u>	<u>310,444</u>
Technical provisions	109,589	22,529	55,598	12,088	199,804
Insurance and reinsurance payables	11,031	634	170	-	11,835
Other creditors	(131)	8,994	4,232	1,484	14,579
Total liabilities	<u>120,489</u>	<u>32,157</u>	<u>60,000</u>	<u>13,572</u>	<u>226,218</u>
<i>The currency exposures are attributed to:</i>					
Funds withheld	(7,472)	5,471	134	1,867	-
Balance of shareholder's funds	66,584	1,556	16,826	(740)	84,226
Total shareholder's funds	<u>59,112</u>	<u>7,027</u>	<u>16,960</u>	<u>1,127</u>	<u>84,226</u>

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 16) FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Market risks (continued)

2021	GBP £'000	USD £'000	EUR £'000	Other £'000	Total £'000
Investment in group undertaking	-	-	12,813	-	12,813
Financial investments	85,796	24,386	12,251	7,725	130,158
Deposits with ceding undertakings	-	205	-	-	205
Reinsurers' share of technical provisions	29,756	3,949	16,039	-	49,744
Cash and cash equivalents	16,780	2,544	3,743	10,175	33,242
Other assets	29,349	1,681	20,127	(514)	50,643
Total assets	161,681	32,765	64,973	17,386	276,805
Technical provisions	95,693	17,105	52,767	10,106	175,671
Insurance and reinsurance payables	9,471	2,173	2,747	-	14,391
Other creditors	(3,386)	8,847	4,324	2,100	11,885
Total liabilities	101,778	28,125	59,838	12,206	201,947
<i>The currency exposures are attributed to:</i>					
Funds withheld	(6,272)	4,806	(347)	1,813	-
Balance of shareholder's funds	66,175	(166)	5,482	3,367	74,858
Total shareholder's funds	59,903	4,640	5,135	5,180	74,858

#### Derivative financial instruments

The Company has entered into a number of forward currency contracts to mitigate the exchange rate risk of its foreign currency denominated assets and liabilities. At 31 December 2022, the outstanding contracts mature within 2 months of the year end. The company is committed to sell US\$13.3m, CAD \$4.3m and receive fixed Sterling, and to sell GBP £8.1m and receive fixed Euro amounts. (2021: sell US\$14.2m and receive fixed Sterling amounts).

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

The change in the fair value of the forward currency contract recognised in the profit and loss in the year was a loss of £1,339k (2021: loss of £227k). The corresponding foreign exchange profit recognised in the profit and loss account relating to the hedged foreign currency assets and liabilities was £842k (2021: profit £446k).

#### 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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 16) FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Credit risks (continued)

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 reinsurance debtors

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

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

2022	Neither due nor impaired £'000	Up to 3 months £'000	3 to 6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000	Total £'000
Deposits with ceding undertakings	63	-	-	-	-	63
Insurance debtors	31,712	542	263	156	172	32,845
Reinsurance debtors	1,457	-	-	-	-	1,457
<b>Total</b>	<b>33,232</b>	<b>542</b>	<b>263</b>	<b>156</b>	<b>172</b>	<b>34,365</b>
2021	Neither due nor impaired £'000	Up to 3 months £'000	3 to 6 months £'000	6 months to 1 year £'000	Greater than 1 year £'000	Total £'000
Deposits with ceding undertakings	205	-	-	-	-	205
Insurance debtors	32,557	2,120	1,033	709	685	37,104
Reinsurance debtors	2,136	-	-	-	-	2,136
<b>Total</b>	<b>34,898</b>	<b>2,120</b>	<b>1,033</b>	<b>709</b>	<b>685</b>	<b>39,445</b>

#### 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 LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 16) FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Credit risks (continued)

##### ii) Credit rating of financial assets (Continued)

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

Financial assets by credit rating	2022 £'000	2021 £'000
AAA	34,176	13,945
AA	127,435	95,393
A	40,516	64,747
BBB and below	1,646	-
Not rated	37,502	33,047
	<b>241,275</b>	<b>207,132</b>

Financial assets	2022 £'000	2021 £'000
Shares and other variable yield securities	36,431	32,546
Debt securities and other fixed income securities	150,304	97,612
Derivative asset	572	-
Deposits with ceding undertakings	63	205
Reinsurers' share of claims outstanding	43,540	41,391
Reinsurance debtors	1,457	2,136
Cash at bank and in hand	8,908	33,242
	<b>241,275</b>	<b>207,132</b>

#### 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.

Maturity analysis	Gross outstanding claims liability		Financial investments	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
No stated maturity	-	-	37,003	32,546
Within 1 year or less	17,121	12,268	108,346	97,112
Within 1 to 2 years	19,503	13,335	2,146	500
Within 2 to 3 years	18,033	12,618	39,812	-
Within 3 to 4 years	15,081	11,391	-	-
Within 4 to 5 years	11,954	10,003	-	-
Over 5 years	73,379	67,579	-	-
	<b>155,071</b>	<b>127,194</b>	<b>187,307</b>	<b>130,158</b>

The maturity of reinsurance claims recoveries follow the gross outstanding claims liability maturity analysis above. The strategic investment in NEVAG is not reported in the above maturity analysis.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 17) 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.

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

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 17) INSURANCE RISK MANAGEMENT (CONTINUED)

#### Development

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

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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At end of reporting year	4,459	2,786	2,905	7,953	8,468	7,354	15,519	15,780	22,515	28,234	
1 year later	16,763	12,449	6,928	13,585	20,337	19,534	40,746	40,109	51,005		
2 years later	18,434	18,200	7,285	14,796	21,418	23,731	44,087	41,462			
3 years later	18,101	16,844	7,259	14,763	21,884	25,185	46,504				
4 years later	16,477	14,310	4,928	9,806	20,341	23,772					
5 years later	15,204	12,870	4,825	7,730	18,980						
6 years later	12,636	15,772	3,995	6,808							
7 years later	11,007	16,387	4,515								
8 years later	7,029	16,011									
9 years later	6,500										
Cumulative payments	6,049	5,772	2,304	4,338	9,113	10,862	22,552	14,575	14,336	4,069	93,970
Estimated balance to pay	451	10,239	2,211	2,470	9,867	12,910	23,952	26,887	36,669	24,165	149,821
2012 & prior											5,250
Total gross provision included in the balance sheet											155,071

Net of reinsurance	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At end of reporting year	719	1,981	387	1,191	1,156	5,481	13,058	13,786	18,015	22,303	
1 year later	2,025	1,798	920	1,983	8,328	15,440	35,703	35,364	39,090		
2 years later	2,183	2,473	1,070	2,255	9,543	19,708	38,911	37,938			
3 years later	2,129	2,376	1,082	2,252	12,309	21,460	41,600				
4 years later	2,362	2,142	815	1,793	13,325	20,219					
5 years later	2,225	1,937	939	1,311	12,420						
6 years later	1,800	2,744	807	1,232							
7 years later	1,455	2,667	920								
8 years later	1,218	2,591									
9 years later	1,108										
Cumulative payments	1,017	1,151	456	858	6,662	10,862	22,552	14,575	8,034	2,145	68,312
Estimated balance to pay	91	1,440	464	374	5,758	9,357	19,048	23,363	31,056	20,158	111,109
2012 & prior											422
Total net provision included in the balance sheet											111,531

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 17) INSURANCE RISK MANAGEMENT (CONTINUED)

#### *Sensitivity*

The following table presents the sensitivity of the value of net insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities. The sensitivity impact on the result for the year and net assets is determined by applying the factors listed below separately to net claims reserves (excluding future claims handling costs), and future claims handling costs.

		2022 £'000	2021 £'000
<b>Impact on the result for the year and net assets</b>			
Change in net claims reserves	+1%	(1,097)	(842)
	-1%	1,097	842
Changes in claims handling	+10%	(187)	(158)
	-10%	187	158

### 18) DEPOSITS WITH CEDING UNDERTAKINGS

	2022 £'000	2021 £'000
Deposit held under group reinsurance arrangements	63	205
	<u>63</u>	<u>205</u>

### 19) OTHER DEBTORS

	2022 £'000	2021 £'000
Amount owed by group undertakings	226	13
Other debtors	-	173
	<u>226</u>	<u>186</u>

Other debtors are due within one year.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 20) DEFERRED ACQUISITION COSTS

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

	2022 £'000	2021 £'000
At 1 January	10,270	7,266
Expenses for the acquisition of insurance contracts	21,415	20,838
Amortisation of acquisition costs	(22,457)	(17,651)
Foreign exchange	335	(183)
At 31 December	<u>9,563</u>	<u>10,270</u>

### 21) CALLED UP SHARE CAPITAL

	2022 £'000	2021 £'000
Allotted, called up and fully paid 82,500,000 (2021: 82,500,000) Ordinary shares of £1 each	<u>82,500</u>	<u>82,500</u>

No additional share capital was issued in the year (2021: the Company issued 10.0m ordinary £1 shares to its immediate parent, Newline Holdings UK Limited, for consideration of £10.0m).

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

### 22) AMOUNT DUE TO GROUP UNDERTAKINGS

	2022 £'000	2021 £'000
Amount due to fellow group undertakings	3,841	1,492
Deposit received from group reinsurance arrangements	6,375	6,677
	<u>10,216</u>	<u>8,169</u>

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 23) 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 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, 1 Fen Court, London, EC3M 5BN.

### 24) TRANSACTIONS WITH RELATED PARTIES

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

### 25) 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").

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.

With effect from 1st January 2018, ORC has entered into agreement with NICL to provide financial support to the Company should NICL's own funds over its SCR fall below a ratio of 115%. No support from ORC has been called upon from the 31<sup>st</sup> December 2022 and the date of signing of this Report and Accounts.

The Company is regulated by the Prudential Regulation 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.

# NEWLINE INSURANCE COMPANY LIMITED

## NOTES TO THE ACCOUNTS

(CONTINUED)

### 26) STATEMENT OF STATUTORY ACCOUNTING PRINCIPLES No. 97

Statement of Statutory Accounting Principles No. 97, Investments in Subsidiaries, Controlled or Affiliated Entities (SSAP No. 97) provides the statutory accounting guidance for the valuation of subsidiary, controlled or affiliated entities owned by an insurance entity (Odyssey Group Holdings Inc. parent company of the Odyssey Group). This guidance requires the valuation of a non-insurer downstream holding company (and its' subsidiaries) to be on an audited US GAAP equity basis, and an insurance subsidiary is valued on the audited statutory equity basis in order for the assets to be an admitted asset. The following reconciliation statement reports the Profit and Loss Account, and Balance Sheet of NICL on a US GAAP basis.

	2022 £'000	2021 £'000
<b>Profit reconciliation</b>		
Profit / (loss) after tax per UK GAAP	9,368	4,215
Unrealised gain / (loss) transferred to Other Comprehensive Income	81	(1,067)
Tax on unrealised (loss) / gain transferred to Other Comprehensive Income	(15)	203
DAC reported at historic rates	(40)	(124)
UPR reported at historic rates	955	391
<b>Net income per US GAAP</b>	<b>10,349</b>	<b>3,618</b>
	2022 £'000	2021 £'000
<b>Net asset reconciliation</b>		
Net assets per UK GAAP	84,226	74,858
Reconciling items to achieve Net Assets per US GAAP	1,061	136
<b>Net Assets per US GAAP</b>	<b>85,287</b>	<b>74,994</b>

Overview of US GAAP adjustments in profit and net asset reconciliation:

Financial investments, including equities, bonds and collective investment undertakings are designated at fair value through profit and loss. Under US GAAP, valuation gains and losses are reported through Other Comprehensive Income ("OCI").

Deferred acquisition costs ("DAC") and unearned premium reserve ("UPR") are reported through the profit and loss at average rates of exchange, and revalued on the balance sheet at closing rates of exchange. Under US GAAP, these are at historic rates.

## **NEWLINE INSURANCE COMPANY LIMITED**

### **NOTES TO THE ACCOUNTS**

(CONTINUED)

#### **27) EVENTS AFTER THE BALANCE SHEET DATE**

##### *Newline Group Services Limited*

On 16<sup>th</sup> March 2023, the employment contracts of employees of NUML were transferred to a newly established service company Newline Group Services Limited ("NGSL") in accordance with the 'Transfer of Undertakings (Protection of Employment) Regulations 2006'. As of this date, NGSL will recharge the Company for work performed on behalf of the NICL.