Company registration no 2202362

Talbot Underwriting Ltd

Report and financial statements

31 December 2015

Contents

Strategic report

The directors present the strategic report of Talbot Underwriting Ltd ("the company" or "TUL") for the year ended 31 December 2015.

Principal activity

The principal activity of the company is that of a Lloyd's managing agency. TUL manages the affairs of syndicate 1183 ("the syndicate") which recommenced underwriting for the 2002 year of account. The principal activity of the syndicate continues to be the underwriting of direct and reinsurance business in the Lloyd's market. Capacity for the 2015 year of account was £625m. This has been reduced to £600m for the 2016 year of account.

The company also acts as holding company for one UK-based and five overseas companies which underwrite business on behalf of the syndicate. These companies are disclosed in note 9.

Review of the business

The principal sources of revenue for TUL are the managing agency fee charged to the syndicate, currently 1% of syndicate capacity (2014: 1%) and profit commission on the underwriting results of the syndicate, currently 15% of the year of account result (2014: 15%), after personal expenses at 36 months. These are shown for the current and preceding year in the table below.

	2015 £'000	2014 £'000
Managed syndicate capacity	625,000	625,000
Managing agency fee	6,250	6,250
Profit commission	15,583	16,187
Total revenue	21,833	22,437

Syndicate capacity is provided by a fellow group company, Talbot 2002 Underwriting Capital Ltd.

The profit and the total comprehensive income for the financial year was £7.7m (2014: profit £10.7m).

Expenses consist primarily of a management fee charged to TUL by the service company Talbot Underwriting Services Ltd ("TUSL"). Administrative expenses were £15.6m against £13.3m in 2014.

The net asset position of the company has increased from £15.7m to £23.4m. The main asset on the balance sheet is a debtor of £16.3m (2014: £16.5m) due from the syndicate in respect of profit commission on the 2013 year of account (2014: 2012 year of account).

Transition to FRS 102

This is the first year that the company has presented its financial statements under FRS 102. The transition has not resulted in a restatement of the 2014 comparatives.

Principal risks and uncertainties

As a Managing Agent at Lloyd's, the principal risk to TUL arises from future cash flows in respect of income that it receives from its management of the syndicate. Income arises from fees charged to the syndicate and profit commission on the underwriting result. Managing agency fees are directly related to the future capacity of the syndicate. A reduction in the capacity due to unprofitable underwriting or reduction in capital support for the syndicate will reduce fee income to TUL. There is a level of uncertainty over the level of profit commission receivable by TUL as it is dependent on future syndicate results which can vary significantly.

The principal risks and uncertainties of the syndicate are disclosed in the syndicate's report and accounts.

Credit risk

The key risk is the risk of default by the syndicate and/or one or more group companies. To mitigate this risk, balances with the syndicate and group companies are reviewed and settled on a regular basis.

Regulatory and compliance risk

TUL is required to operate under the regulatory and compliance frameworks set by the Prudential Regulation Authority as regulator and Lloyd's as franchisor. As a Managing Agent, TUL is required by Lloyd's to maintain a minimum level of net assets. Regulatory and compliance risk is considered to be the inability or failure of the company to comply with UK regulatory requirements. TUL's net assets are monitored regularly to ensure that solvency requirements are met.

Approved by the Board of Directors and signed on behalf of the Board.

J. C

JS Clouting

Company Secretary

4 March 2016

Directors' report

The directors present their report and audited financial statements of the company for the year ended 31 December 2015. The results, key performance indicators and principal risks and uncertainties are discussed in the strategic report.

Future developments

The managed syndicate capacity for the 2016 year of account is £600m.

Dividend

The company did not pay a dividend during the year (2014: £5m). The company has proposed a dividend of £15m (2014: £nil).

Corporate governance

TUL Board

The TUL Board comprises executive directors and non-executive directors (including a Chairman, shareholder representatives and independent directors).

The non-executive directors: (i) challenge the executive directors constructively on their recommendations and running of the business; (ii) review the performance of management in meeting agreed objectives and targets and monitor the reporting of performance; and (iii) satisfy themselves that financial controls and systems of risk management are adequate.

TUL Audit Committee

The TUL Audit Committee is made up of five non-executive directors and is attended by various executive directors and members of management. The purpose of the Audit Committee is to review, with input from external auditors, internal audit and external actuaries, and to report to the Board on the control infrastructure and financial reporting of TUL and the syndicate.

This is the first year in which the Financial Statements have been prepared in accordance with FRS 102 and 103, and the Audit Committee has been actively involved in the review and oversight of the required changes which are limited to matters of disclosure. Further detail is provided in note 16.

Directors

The following directors have held office from 1 January 2015 to the date of this report.

CNR Atkin	(Chief Executive, to 29 February 2016; Chairman, non-executive from 1 March 2016)
PA Bilsby	(Chief Executive from 1 March 2016)
MEA Carpenter	(Chairman, non-executive to 29 February 2016, non-executive director from 1 March 2016)
JS Clouting	
JJ Hendrickson	(Non-executive)
BJ Hurst-Bannister	(Non-executive)
AJ Keys	(Non-executive)
EJ Noonan	(Non-executive)
JP Ritz	(Non-executive)
JG Ross	
JD Sangster	(Non-executive)
M Scales	(Non-executive)
JE Skinner	
ND Wachman	

Directors' report (continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have prepared the financial statements, in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 The Financial Standard Applicable in the UK and Republic of Ireland ("FRS 102").

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 year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.

JS Clouting

Company Secretary

4 March 2016

Independent auditors' report

Independent auditors' report to the members of Talbot Underwriting Ltd

Report on the financial statements

Our opinion

In our opinion, Talbot Underwriting Ltd's financial statements (the "financial statements"):

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

What we have audited

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

- the Balance sheet as at 31 December 2015;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Independent auditors' report (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

Andrew G Hill (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

4 March 2016

Profit and loss account and statement of comprehensive income

	Note	Year ended 31 December 2015 £	2014 £
Turnover	4	21,833,015	22,437,378
Administrative expenses		(15,627,416)	(13,327,601)
Operating profit	5	6,205,599	9,109,777
Income from shares in group undertakings	9	2,789,095	3,519,480
Profit on ordinary activities before taxation		8,994,694	12,629,257
Tax on profit on ordinary activities	8	(1,281,277)	(1,957,295)
Profit and total comprehensive income for the year		7,713,417	10,671,962

Balance sheet

	Note	As at 31 December 2015 £	2014 £
Fixed assets			
Investments	9	1,102,029	1,102,029
Current assets			
Debtors	10	23,505,800	17,645,213
Creditors - amounts falling due within one year	11	(3,223,494)	(5,762,760)
Net current assets		20,282,306	11,882,453
Accrued income – due after more than one year	12	2,009,500	2,695,936
Net assets		23,393,835	15,680,418
Capital and reserves			
Called-up share capital	13	400,000	400,000
Retained earnings		22,993,835	15,280,418
Total equity		23,393,835	15,680,418

The notes on pages 10 to 14 are an integral part of these financial statements.

The financial statements on pages 7 to 14 were authorised for issue by the Board of Directors on 4 March 2016 and were signed on its behalf.

.... (Director)

ND Wachman

Statement of changes in equity

	Called-up share capital £	Retained earnings £	Total £
Balance at 1 January 2014	400,000	9,608,456	10,008,456
Profit and total comprehensive income	-	10,671,962	10,671,962
Dividends	-	(5,000,000)	(5,000,000)
Balance at 31 December 2014	400,000	15,280,418	15,680,418
Profit and total comprehensive income	-	7,713,417	7,713,417
Balance at 31 December 2015	400,000	22,993,835	23,393,835

Notes to the financial statements

1 General information

Talbot Underwriting Ltd is a Lloyd's managing agency. TUL manages the affairs of Lloyd's syndicate 1183 ("the syndicate").

The company also acts as holding company for one UK-based and five overseas companies which underwrite business on behalf of the syndicate. These companies are disclosed in note 9.

The company is incorporated and domiciled in the UK. The address of its registered office is 60 Threadneedle Street, London EC2R 8HP.

2 Statement of compliance

The individual financial statements of Talbot Underwriting Ltd have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements. Details of the transition to FRS 102 are disclosed in note 3b.

(a) Basis of Preparation

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 ("the Act") and applicable accounting standards in the United Kingdom, including FRS 102.

(b) Transition to FRS 102

This is the first year that the company has presented its results under FRS 102. The last financial statements under UK GAAP were for the year ended 2014. The date of transition to FRS 102 was 1 January 2014. There is no difference in the equity at 1 January 2014 or the profit for the financial year ended 31 December 2014 as reported under FRS 102 and previously under UK GAAP.

(c) Exemptions for qualifying entities under FRS 102

Under s401 of the Companies Act 2006 the company is exempt from preparing consolidated financial statements on the basis that the ultimate parent undertaking, Validus Holdings, Ltd, prepares consolidated financial statements.

The company has taken advantage of the exemption, under FRS 102 Section 7, paragraph 3.17(d), from preparing a statement of cash flows on the basis that it is a qualifying entity and its ultimate parent company, Validus Holdings, Ltd, includes the company's cash flows in its own consolidated financial statements.

(d) Foreign currency

(i) Functional and presentation currency

The company's functional and presentational currency is sterling.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using either the spot exchange rate at the date of the transaction or the average rate for the period.

At each period end, foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historic cost are translated using the exchange rate at the date of translation.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(e) Taxation

Current tax is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(f) Investments

Investments in subsidiary companies are included at cost unless the value of net assets for a subsidiary is lower than its cost value. In this case, the difference between cost and net asset value is written off to the profit and loss account as an impairment of investment.

(g) Revenue recognition

Revenue consists of managing agency fees and profit commission receivable from the insurance underwriting activities of the syndicate. Managing agency fees are recognised during the first twelve months of the underwriting year.

Profit commission ("PC") expected to arise on closure of a Lloyd's year of account is recognised on an accruals basis subject to an assessment of certainty over the year of account's profitability. PC on a year of account is recognised initially at 24 months when the year of account result can be forecast with reasonable certainty. At this point only 50% of the expected ultimate PC is recognised to allow for future factors that may potentially affect the year of account result. The remaining PC is recognised over the following twelve months as these factors diminish.

Dividends due from subsidiary companies are recognised as income once the dividend has been approved by the board of the subsidiary company.

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(i) Distributions to equity holders

Dividends and other distributions to the company's shareholder are recognised in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholder. These amounts are recognised in the statement of changes in equity.

4 Turnover

	2015	2014
	£	£
Managing agency fee	6,250,000	6,250,000
Profit commission	15,583,015	16,187,378
	21,833,015	22,437,378

All income arises in the United Kingdom.

5 Profit on ordinary activities before taxation

The profit before tax of 8,994,694 (2014: £12,629,257) is stated after management charges of £15,627,416 (2014: £13,327,472).

6 Audit and non-audit fees

The audit fees for TUL are borne by TUSL and are recharged to the company as part of the management charge. During the year, TUSL incurred £24,972 (2014: £22,521) in respect of audit fees to TUL's auditors and associates. There are no non-audit fees in 2015 (2014: £nil).

7 Employees and directors

The company has no employees. All members of staff are employed by Talbot Underwriting Services Ltd ("TUSL"), a fellow group company, which pays all their remuneration. No emoluments were paid to directors of the company in respect of their services as directors of the company.

Notes to the financial statements (continued)

8 Income tax

(a) Tax expense included in profit and loss

Current tax	2015 £	2014 £
UK corporation tax on profit for the year	1,264,924	1,957,228
Adjustment in respect of prior periods	16,353	67
Tax on profit on ordinary activities	1,281,277	1,957,295

(b) Reconciliation of tax charge

The tax assessed for the period is lower (2014: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2015 of 20.25% (2014: 21.49%). The differences are explained below:

	2015 £	2014 £
Profit on ordinary activities before taxation	8,994,694	12,629,257
Profit on ordinary activities multiplied by 20.25% (2014: 21.49%)	1,821,177	2,714,425
Tax effect of:		
Dividend income not subject to tax	(564,697)	(756,447)
Notional interest on intercompany balances subject to tax	8,504	(778)
Expenses not deductible for tax	-	28
Adjustments to tax in respect of previous years	16,353	67
Tax charge for the year	1,281,277	1,957,295

(c) Tax rate changes

The tax rate for the current period is lower than the prior period due to changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2015. Further reductions to the UK corporation tax rates have been substantively enacted; these reduce the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

Notes to the financial statements (continued)

9 Investments in subsidiaries and related undertakings

The company has five wholly owned subsidiary companies which underwrite as coverholders on behalf of the syndicate and one that is 99% owned as follows:

Subsidiary	Country of incorporation	Interest
Talbot Risk Services Pte Ltd ("Talbot Asia")	Singapore & Australia	100% ordinary shares
Talbot Underwriting (MENA) Ltd ("Talbot MENA")	UAE	100% ordinary shares
Talbot Underwriting Services (US) Ltd ("Talbot NY")	USA	100% ordinary shares
Talbot Risk Services (Labuan) Ltd ("Talbot Labuan")	Malaysia	100% ordinary shares
Talbot Underwriting (LATAM) S.A. ("Talbot Chile")	Chile	99% ordinary shares
Talbot Underwriting Risk Services Ltd ("TURSL")	England and Wales	100% ordinary shares

The table below shows the value of investments at the end of each year; there was no movement in the carrying value during the year.

	Talbot Asia	Talbot MENA	Talbot NY	Talbot Labuan	Talbot Chile	TURSL	Total
	£	£	£	£	£	£	£
31 December 2015	200,000	766,288	6	109,600	1,135	25,000	1,102,029
31 December 2014	200,000	766,288	6	109,600	1,135	25,000	1,102,029

Dividends received during the year

	Talbot Asia	Talbot MENA	Talbot NY	Talbot Labuan	Talbot Chile	TURSL	Total
	£	£	£	£	£	£	£
2015	470,310	-	2,318,785	-	-	-	2,789,095
2014	1,957,300	62,180	-	-	-	1,500,000	3,519,480

The company does not prepare consolidated financial statements on the basis that the ultimate parent undertaking, Validus Holdings, Ltd, prepares consolidated financial statements.

10 Debtors

	2015	2014
	£	£
Amounts owed by managed syndicate	16,269,451	17,645,213
Amounts owed by group companies	7,236,349	-
	23,505,800	17,645,213

Amounts owed by group companies and the managed syndicate, subject to Lloyd's distribution rules, are unsecured, interest free, have no fixed date of payment and are payable on demand.

Notes to the financial statements (continued)

11 Creditors - amounts falling due within one year

	2015	2014
	£	£
Amounts owed to group companies	1,263	3,821,808
Corporation tax	3,222,231	1,940,952
	3,223,494	5,762,760

Amounts owed to group companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

12 Accrued income – due after more than one year

	2015	2014
	£	£
Profit commission accrued	2,009,500	2,695,936

13 Share capital

Ordinary shares of £1 each

	2015	2015
Allotted and fully paid	No.	£
At 1 January and 31 December	400,000	400,000

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

14 Controlling parties

The company is a subsidiary undertaking of Talbot Underwriting Holdings Ltd, incorporated and registered in England and Wales. The registered office is 60 Threadneedle Street, London, EC2R 8HP.

The ultimate parent company and controlling party is Validus Holdings, Ltd, a company registered in Bermuda. The registered office is 29 Richmond Road, Pembroke Parish, HM 08, Bermuda.

15 Related party transactions

The related undertakings whose results or financial performance principally affect the figures shown in the financial statements have been disclosed in note 9.