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Annual Report 2014

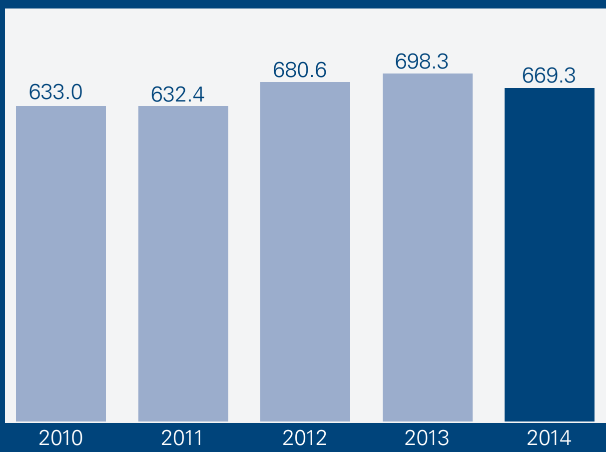
Talbot Underwriting Ltd Syndicate 1183

Contents

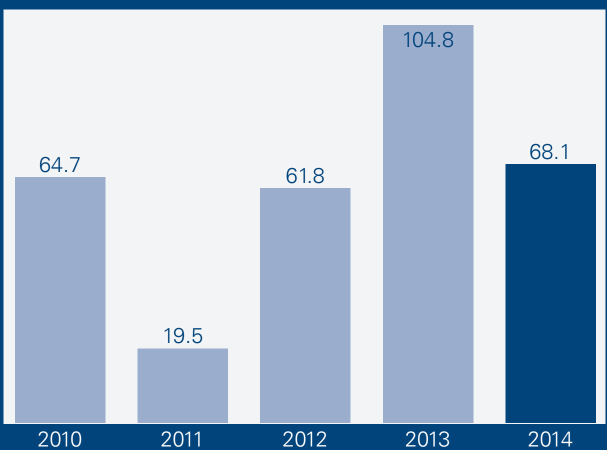
Financial highlights

Syndicate capacity (£m) (1)

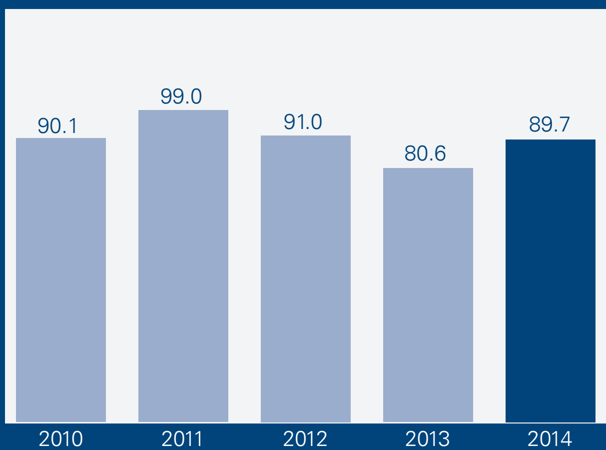
Gross premiums written (£m) (2)



Profit for the financial year (£m)



Combined ratio (%) (3)



1) Syndicate capacity is a non UK GAAP accounting measure used by Lloyd's and refers to the syndicate's capacity to write premiums net of acquisition costs
2) Gross premiums written is stated gross of acquisition costs
3) Combined ratio is net incurred claims plus expenses as a percentage of net earned premiums

Chief Executive’s report

Results for the year

Profit for the year was £68.1m compared to £104.8m in 2013. Gross premiums written decreased by £29.0m to £669.3m (at consistent rates of exchange this was a small increase) and premiums earned after reinsurance increased by £5.5m to £536.1m. Claims after reinsurance recoveries were £262.3m, an increase of £36.5m on last year. Operating expenses including acquisition costs increased by £16.9m to £218.7m. Investment return increased by £11.2m to £13.0m, partially offsetting the decrease in underwriting profit. The combined ratio for the year was 89.7% compared to 80.6% in 2013.

Solvency II

An EU directive covering the capital adequacy, risk management and regulatory reporting for insurers, known as Solvency II was adopted by the European Parliament in April 2009. The proposed implementation date has been changed more than once, but it is now intended to come into force on January 1, 2016. Insurers and reinsurers have been and continue to undertake a significant amount of work to ensure that they meet the new requirements and this may divert resources from other operational roles. Talbot’s implementation plans are materially complete and our Lloyd’s Solvency II compliance status is Green, with no outstanding issues, and the internal model has been approved for use.

Future developments

The syndicate capacity for the 2015 year of account is £625.0m. We expect the year ahead to be a challenging one given the surplus underwriting capacity in the market, the growing competition from ILS funds and the absence of significant catastrophe losses in 2014. In this environment, our disciplined approach to underwriting will continue to be important in ensuring that pricing levels are commensurate with the risk.

However, we continue to seek growth opportunities in classes that are performing well and further develop business from our overseas offices.

Talbot has again performed well in 2014 and I would like to thank all my colleagues in Talbot and Validus for their hard work and commitment during the year.

Rupert Atkin

Rupert Atkin
Chief Executive Officer
Talbot Underwriting Ltd
6th March 2015

Report of the directors of the managing agent

The directors of the managing agent, Talbot Underwriting Ltd ("Talbot"), present their annual report and audited accounts for the year ended 31 December 2014.

The annual report is prepared using the annual basis of accounting as required by Regulation 5 of Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

The comments below refer to both information prepared on an annual accounting basis and information derived from a Lloyd's year of account basis. The latter is included where it is used by management to manage the business.

Principal activity

The principal activity of the syndicate continues to be the underwriting of insurance and reinsurance business in the Lloyd's market.

Results for the calendar year

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Syndicate allocated capacity	**625.0**	620.0	600.0	560.0	600.0
Gross premiums written	**669.3**	698.3	680.6	632.4	633.0
Net premiums written	**552.5**	553.7	536.3	496.4	466.5
Net earned premiums	**536.1**	530.6	523.5	483.0	458.2
Net claims incurred	**(262.3)**	(225.8)	(269.5)	(306.2)	(252.5)
Net acquisition costs	**(122.6)**	(117.4)	(127.0)	(115.8)	(108.0)
Underwriting result before administrative expenses	**151.2**	187.4	127.0	61.0	97.7
Administrative expenses	**(96.1)**	(84.4)	(79.8)	(56.4)	(52.5)
Investment return	**13.0**	1.8	14.6	14.9	19.5
Profit for the financial year	**68.1**	104.8	61.8	19.5	64.7

Key performance indicators

	2014	2013	2012	2011	2010
Claims ratio	**48.9%**	42.6%	51.5%	63.4%	55.1%
Expense ratio	**40.8%**	38.0%	39.5%	35.6%	35.0%
Combined ratio	**89.7%**	80.6%	91.0%	99.0%	90.1%

The claims ratio is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance. The expense ratio is the ratio of acquisition costs plus administrative expenses, including exchange differences, to earned premiums net of reinsurance.

Traditionally, the performance of a syndicate has been assessed by measuring, as a percentage of syndicate capacity, the 36 month result on a funded accounting basis for a "closed" underwriting year of account. The return on capacity for the 2012 closed year of account at 31 December 2014 is shown below together with forecasts for the two open years of account.

Year of account	2014 open	2013 open	**2012 closed**	2011 closed	2010 closed
Capacity (£m)	625.0	620.0	**600.0**	560.0	600.0
Open year forecast/Closed year result (£m)	21.2	30.8	**93.5**	78.7	66.5
Return on capacity %	3.4	5.0	**15.6**	14.1	11.1

Report of the directors of the managing agent
continued

Review of the Business

Underwriting

Gross premiums written by class of business for the calendar year was as follows:

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Marine and Upstream Energy	**222.4**	223.1	228.0	194.2	181.8
War, Political Violence and Political Risk	**115.2**	119.3	116.5	109.0	94.3
Commercial Property, including Construction	**105.6**	94.8	80.1	63.4	64.7
Downstream Energy & Power	**65.7**	69.4	69.6	67.7	79.4
Financial Lines	**24.5**	24.4	22.5	23.4	25.5
Speciality	**29.4**	28.6	26.1	26.7	33.3
Airlines	**30.3**	35.3	38.4	41.3	45.0
Treaty reinsurance	**76.2**	103.4	99.4	106.7	109.0
Total gross premiums written	**669.3**	698.3	680.6	632.4	633.0

Premiums were primarily written in the London market. However, group coverholders underwriting on behalf of the syndicate in overseas markets contributed 17% (2013: 18%) of premiums written. These operations are located in Singapore, Labuan, Dubai, New York, Miami and Santiago. In addition, an office was opened in Sydney in January 2015.

Gross premiums written reduced by 4.2% to £669.3m in the calendar year although translated at 2013 exchange rates; gross premiums written would have seen a slight increase of 0.4% to £701.0m.

The majority of the syndicate's insurance and reinsurance business classes experienced reduced pricing for 2014. At a whole account level, pricing was down 3.8% with property, energy and aviation classes recording the largest rate decreases. The syndicate's underwriting strategy is to write for profit rather than premium income. The syndicate continued to manage its level of business through the insurance cycle via a deliberate strategy of reducing capacity where we felt the rating environment was not commensurate with the risk carried. Growth was sourced through sectors where we found the risk and rating environment better aligned to our appetite. Conversely, sectors where we encountered greatest rating pressure saw no growth or a reduction in income as we adjusted to trading conditions by re-aligning our exposures to suit the premiums offered.

The net claims ratio for the year was 48.9% compared to 42.6% for the previous year. The higher claims ratio was primarily driven by an increase in large losses in excess of $5m net which amounted to £62.2m compared with £26.5m in 2013.

Net claims incurred as a percentage of net earned premiums were as follows:

	2014	2013
Current year claims – large losses over $5m net	11.6%	5.0%
Current year claims – other losses	53.3%	55.2%
Release from prior years' net claims provision	(16.0)%	(17.6)%
	48.9%	42.6%

The claims ratio for large losses of 11.6% was higher than the prior year (2013: 5.0%) due to a higher number of large losses – twelve in comparison to five in 2013. 2014 large losses included the two Malaysian Airlines losses, the attack at Tripoli Airport and the loss of the Sewol Ferry. There was a release from the prior year net provision for claims of £85.8m (2013: £93.5m) arising from a number of classes. The board has applied reserving methodologies consistent with previous years.

We are encouraged that our diverse portfolio has returned an attractive underwriting result for 2014 which is testament to the balanced composition of the portfolio and the calibre of the personnel at the syndicate. Our consistent strategy and strong underwriting result ensures that we are well placed to continue our successful performance into 2015 despite the expected continued rating pressure.

Report of the directors of the managing agent
continued

Operating expenses

Net operating expenses for the year are set out below:

	2014 £m	2013 £m	Movement £m
Acquisition costs	**133.3**	137.2	(3.9)
Acquisition costs – change in deferred acquisition costs	**(3.7)**	(6.7)	3.0
Acquisition costs – underwriting expenses	**8.1**	7.3	0.8
Reinsurance commissions	**(15.1)**	(20.4)	5.3
Net acquisition costs	**122.6**	117.4	5.2
Administrative expenses			
– Management fees from service companies	**61.2**	47.0	14.2
– Direct syndicate expenses	**7.0**	6.6	0.4
– Managing agency fee	**6.3**	6.2	0.1
– Managing agency profit commission	**15.4**	16.6	(1.2)
– Lloyd's personal expenses	**3.6**	6.1	(2.5)
– Movement on foreign exchange	**2.6**	1.9	0.7
	96.1	84.4	11.7
Net operating expenses	**218.7**	201.8	16.9

Net acquisition costs as a percentage of net earned premiums were slightly higher at 22.9% (2013: 22.1%).

The management fee from service companies has increased as a result of the expansion of our group coverholders together with an increase in costs for our London operations as well as a reallocation of expenses, particularly variable expenses, to the syndicate from elsewhere in the group.

There is a loss on foreign exchange of £2.6m (2013: £1.9m) due to the revaluation of assets held in other currencies for regulatory purposes. These assets are primarily held in Euros, Swiss francs and Australian dollars. In 2014, all three currencies weakened relative to Sterling and contributed to the foreign exchange loss of £2.6m. The 2013 loss was driven by the weakening of the Australian dollar to Sterling during the year.

During the year, the US dollar strengthened against sterling with the closing exchange rate moving from $1.66/£1 to $1.56/£1. The Canadian dollar weakened against sterling with the closing exchange rate moving from C$1.76/£1 to C$1.81/£1.

Included in the statement of recognised gains and losses is a foreign exchange gain of £3.5m (2013: loss of £5.9m), which arises from the retranslation of the US and Canadian dollar opening balance sheets and profit and loss account entries at the closing rates of exchange.

Investment return

The return on syndicate funds by currency is shown below:

	Sterling	US dollars	Canadian dollars	Combined Sterling
2014				
Average syndicate funds available for investment (millions)	165.0	1,049.3	47.4	828.5
Investment return for the year (millions)	3.6	14.9	0.6	13.0
Calendar year investment return (%)	2.2	1.4	1.3	1.6
2013				
Average syndicate funds available for investment (millions)	171.3	1,107.2	46.6	850.8
Investment return for the year (millions)	-	2.3	0.5	1.8
Calendar year investment return (%)	-	0.2	1.0	0.2

Report of the directors of the managing agent
continued

Investment return (continued)

Syndicate funds are actively managed by third party investment managers and the returns compared to benchmarks agreed as part of the investment guidelines. Average funds available for investment decreased by 2.6% compared to the previous year. Higher yields have been achieved in 2014 reflecting the economic environment upturn, and the consequent expectation of increases in interest rates.

Cash flow

There was an increase of £4.2m (2013: £34.9m) in cash and investments during the year. Of this, a £82.9m inflow (2013: £101.4m inflow) was due to operating activities and a £78.7m outflow (2013: £66.5m) was due to the profit distribution.

Financial position

The main components of the balance sheet are technical provisions and financial investments. Each is discussed below.

Technical provisions

Technical provisions include a provision for outstanding claims of £867.9m (2013: £822.7m) and a provision for unearned premiums of £351.9m (2013: £326.9m). The reinsurers' share of technical provisions is £185.5m (2013: £203.4m) in respect of outstanding claims and £44.2m (2013: £50.1m) for unearned premiums.

The provision for outstanding claims is based on evaluations of reported claims and estimates for claims incurred but not reported ("IBNR"). As claims may not be settled for a number of years after they are incurred, the setting of provisions involves a degree of judgement as to the ultimate exposure to claims. Reserves set up in previous years are adjusted as new information becomes available and claims develop.

Financial investments

Financial investments consist primarily of debt securities issued by governments, government agencies, or high grade corporate entities. Investment guidelines do not allow the holding of equities or derivatives. All investments are traded within liquid markets. The fair value of investments carried in the balance sheet is determined by market prices or by industry standard valuation models based on observable inputs. At 31 December 2014 the portfolio composition was as follows:

	Total £m	AAA £m	AA £m	A £m	BBB £m	Non-Investment Grade £m
Government debt	**91.4**	36.5	54.9	-	-	-
Quasi Government debt	**14.1**	14.1	-	-	-	-
Agency debt	**68.9**	11.4	55.4	2.1	-	-
Corporate debt	**330.1**	37.6	69.1	161.7	59.1	2.6
Supranational debt	**3.6**	3.6	-	-	-	-
Asset backed securities	**104.1**	96.3	7.8	-	-	-
Mortgage backed securities	**90.0**	40.5	49.0	0.1	0.1	0.3
Short term investments	**89.4**	51.7	37.7	-	-	-
Overseas deposits	**42.8**	24.4	8.2	6.3	3.8	0.1
	834.4	316.1	282.1	170.2	63.0	3.0

S&P ratings as at 31 December 2014

The Government debt rated AA are securities issued by the U.S. Government. The non-investment grade securities represent assets which have been downgraded but which Talbot has decided, in conjunction with our asset managers, to continue to hold.

Report of the directors of the managing agent
continued

Financial position (continued)

At 31 December 2014 the portfolio included Euro zone investments as follows:

	Total £m	Belgium £m	Germany £m	France £m	Luxembourg £m	Netherlands £m
Quasi Government debt	**8.0**	-	8.0	-	-	-
Agency debt	**5.3**	-	-	5.3	-	-
Corporate debt	**38.5**	10.4	5.4	13.0	9.3	0.4
	51.8	10.4	13.4	18.3	9.3	0.4

The syndicate's investment portfolio also included £3.6m of supranational debt issued by European institutions.

The syndicate's investment valuation is provided by BlackRock Financial Management Inc. which in turn uses data from a number of sources including index providers (e.g. Barclays Capital), commercial valuation providers and broker-dealers. The managing agent cross checks these valuations against alternative valuations from independent sources.

Future developments

We anticipate that conditions in the coming year will be challenging and we expect further softening of rates across many classes given continuing competition from ILS funds and the over-capacity in the market. However, where classes perform well we will continue to seek opportunities for growth. The capacity for the 2015 year of account is £625.0m, the same as for the 2014 year of account.

Talbot, in conjunction with Validus, continues to grow the Talbot/ Validus brand and widen global distribution channels.

Principal risks and uncertainties

As the managing agent for the syndicate, Talbot is ultimately responsible for the management of risk both at company and at syndicate level. To facilitate this, Talbot maintains a comprehensive risk register and risk management framework on behalf of the syndicate and the companies in the Talbot Group. This allows new risks to be identified and new controls to be put in place as necessary, either to reduce the likelihood of an event or to mitigate its impact once it has happened. In doing this, Talbot defines gross risk to be "the inherent risk associated with a particular activity, product, line of business, sector or firm, before assessing the effectiveness of the controls or other mitigations that might be in place to reduce that risk" and net risk to be the risk once those controls are taken in to account. Net risk is compared with risk appetite, which is an expression of the level of risk that Talbot wants, or is prepared, to take.

The Talbot Board conducts its duties via a governance structure comprising three main committees:

- Risk Committee;
- Audit Committee; and
- Underwriting Committee.

The purpose of the Risk Committee is to oversee the risk management process, to review issues of policy and to drive the risk culture at Talbot. The Risk Committee monitors the conduct and co-ordination of risk management activities across the company and the syndicate on behalf of the Talbot Board, including the identification of key business risks and material changes to the business environment.

The Audit Committee is responsible for ensuring that adequate systems of internal control are in place so that the organisation is able to manage and run its affairs. In addition, the committee is responsible for recommending the approval of the annual report and accounts to the board.

The Underwriting Committee aims to ensure that underwriting activities are conducted in such a way as to meet the objectives of the business, in accordance with the strategy and risk appetite set for the syndicate and its business plan.

At syndicate level, all risks have been allocated to one of four management risk committees, within a structure established by the Talbot Chief Executive. As discussed below, all risks, are monitored at one of these committees.

Report of the directors of the managing agent
continued

Principal risks and uncertainties (continued)

The Talbot Executive Committee is responsible for ensuring that a risk register and key controls have been established and are maintained by the business, and for formulating the risk appetite from its knowledge of the sentiment of the Talbot Board and the owner of the Talbot Group, for approval by the Talbot Board. It also oversees the management of the key risks with regard to reserves, strategy and relationships with stakeholders.

The Executive Committee has established the following risk management committees:

- Insurance Management Committee;
- Operational Risk Committee; and
- Financial Risk Committee.

The responsibilities of these committees, as set out in their respective terms of reference, are to ensure that all risks recorded on the risk register at both the company and syndicate level are managed effectively.

The principal risks from the syndicate business are set out below:

Insurance risk

Insurance risk arises from the fluctuations in timing, frequency and severity of insured events, relative to expectations at the time of underwriting, as well as inappropriate pricing, selection and approval of insurance risks. A key contributor to insurance risk is catastrophe accumulations, whether natural or man-made. Various controls exist within the business to ensure that the syndicate accurately records and monitors these accumulations. In addition, the syndicate also purchases reinsurance, with an appropriate number of reinstatements, to arrive at an acceptable net risk. The syndicate also has in place detailed procedures and controls to manage and monitor the handling and assessment of claims and the setting of appropriate reserves.

Underwriting risks are monitored monthly by the Insurance Management Committee and quarterly by the Risk Committee. Reserving risks are monitored quarterly by both the Executive Committee and the Audit Committee.

Operational risk

Operational risk is attributable to people, processes, systems and external events and is the risk that the actions of people, or failings in processes or systems, or external events, may give rise to losses in the syndicate or the wider company. This is a large risk group and the risks within it are managed widely across the business. Operational risks are reported on monthly, generally at the Operational Risk Committee unless they are sufficiently material to be escalated to the Executive Committee.

Credit, liquidity and market risk

The activities of the syndicate expose it to financial risks such as credit risk, liquidity risk and market risk. The syndicate's risk management framework recognises the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the syndicate. These financial risks are monitored monthly by the Financial Risk Committee ("FRC").

The key objectives of the syndicate's asset and liability management strategy are to ensure sufficient liquidity is maintained at all times to meet the syndicate's obligations, including its settlement of insurance liabilities and within these parameters, to optimise investment returns for the syndicate.

Credit risk

Credit risk is defined as the risk that a counterparty is unable, or unwilling, to settle its debts to the syndicate as they fall due. Credit risks are monitored by the FRC which meets monthly and on an ad hoc basis as necessary. The FRC monitors all types of credit risk appropriate to the syndicate.

Investment counterparties – Investment guidelines ensure that the syndicate's investments are held in high quality instruments. The portfolio is monitored for concentration with respect to issuers and credit ratings. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. Of the total fixed interest and cash investments, as at 31 December 2014, 92.1% (2013: 95.7%) are with counterparties having a credit agency rating of A- or better.

Report of the directors of the managing agent
continued

Principal risks and uncertainties (continued)

Reinsurance counterparties – The FRC ensures that reinsurance is placed with reinsurers who generally have a rating of A- or above and who have a good record of claims payment. The FRC also ensures there is no concentration of exposure to reinsurers in excess of agreed limits without prior approval. It is the reinsurers' share of claims paid and outstanding that exposes the syndicate to reinsurance credit risk. As at 31 December 2014, 97.5% (2013: 96.7%) of this balance is with reinsurers with a credit agency rating of A- or greater.

Broker and coverholder counterparties – Underwriters may only write business through an approved counterparty. New broker counterparties are approved by the FRC, and new coverholder counterparties are approved by the Coverholder Management Group ("CMG"), prior to any business being underwritten. The FRC and the CMG review approved counterparties periodically. Each counterparty is assigned a premium credit limit based on its financial net worth, its operational effectiveness and the business written through that counterparty. The premium credit limit utilisation is monitored by the FRC on a quarterly basis but managed on a daily basis within the business. Annual coverholder audits are required for all binding authority business led by the syndicate. The outputs from these audits are managed by the CMG. Short-term credit exposure to brokers can increase at times of high claims throughput.

Liquidity risk

Liquidity risk is defined as the risk that the syndicate is unable to pay debts as they fall due and can arise if the assets held to settle liabilities are either unable to be realised or they are only realisable at materially below market value.

Liquidity risk is also monitored by the FRC. Syndicate cash flow forecasts are prepared on a quarterly basis and reviewed by the FRC. Liquidity is also considered by the FRC and the Board when reviewing asset allocation constraints within the investment guidelines.

At 31 December 2014, the average duration of syndicate funds to maturity was 1.9 years compared to 1.7 years for syndicate claims outstanding.

Market risk

Market risk is the risk that the value of a portfolio of assets will decline due to changes in market factors. These factors include stock market prices, interest rates, foreign exchange rates and commodity prices. As the syndicate does not hold shares or commodities, it is not directly exposed to price risk relating to them. Market risks are monitored by the FRC.

Interest rate risk – This is the risk that an increase in interest rates or volatility in the fixed income markets could result in significant unrealised or realised losses in the market value of the investment portfolio. The syndicate is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the syndicate to cash flow interest rate risk. Fixed interest rate assets expose the syndicate to fair value risk. The syndicate's strategy is to invest in high quality, liquid, fixed and floating rate interest securities and cash and actively to manage duration. The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business. If interest rates had increased/decreased by 0.25%, profit for the year would have been lower/higher by £4.2m (2013: £4.1m).

Foreign exchange risk – This is the risk that foreign exchange rate movements could impact the valuation of assets and liabilities in the company's reporting currency. While the syndicate's results are reported in sterling, the syndicate's funds are principally held in US dollars. Funds are also held in other non-sterling currencies for regulatory purposes. Therefore there is a risk that fluctuations in exchange rates may have a significant effect on results and net assets. For management of the economic effect of this exposure, syndicate funds by currency are reviewed against liabilities on a quarterly basis. Where practical, the syndicate matches assets and liabilities by currency. However, the syndicate aims to hold surplus funds in US dollars, the reporting currency of its ultimate parent company Validus Holdings, Ltd. If sterling had weakened/strengthened by 5% against the US dollar, profit for the year would have been higher/lower by £13.4m (2013: £12.1m).

Corporate governance

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

The non-executive directors are expected to challenge the executive directors constructively on their recommendations and running of the business, to review the performance of management in meeting agreed objectives and targets and to monitor the reporting of performance, to satisfy themselves on the integrity of financial information and to satisfy themselves that financial controls and systems of risk management are adequate.

Report of the directors of the managing agent
continued

Corporate governance (continued)

The 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 the agency and its managed syndicate.

Professional indemnity insurance

Talbot purchases professional indemnity insurance protecting the company and all past, present and future directors and employees of the company in respect of errors and omissions and negligent acts.

Directors

The directors of the managing agent during the year from 1 January 2014 to the date of this report were as follows:

CNR Atkin	(Chief Executive)
PA Bilsby	
MEA Carpenter	(Chairman, non-executive)
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	

Statutory Information

Independent Auditors

The directors of the managing agent who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate'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 syndicate's auditors are aware of that information.

The current syndicate auditors, PricewaterhouseCoopers LLP, will be reappointed.

Annual General Meeting

Subject to the consent of Lloyd's, it is not intended to hold a Syndicate Annual General Meeting in 2015.

By order of the Board

Jane Clouting
Company Secretary
6th March 2015

Statement of managing agent's responsibilities in respect of the managing agent's report and the accounts

The directors of the managing agent are required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 to prepare syndicate annual accounts at 31 December each year which give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that year. The directors have elected to prepare the syndicate annual accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

In preparing those syndicate annual accounts, the directors of the managing agent are required to:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
4. prepare the syndicate annual accounts on the basis that the syndicate will continue to write business unless it is inappropriate to presume that the syndicate will do so.

The directors of the managing agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

The directors of the managing agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that its accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the member of Syndicate 1183

Report on the syndicate annual accounts

Our Opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the managing agent, comprise:

- the balance sheet as at 31 December 2014;
- the profit and loss account for the year then ended;
- the statement of total recognised gains and losses for the year then ended;
- the statement of cash flows; and
- the notes to the syndicate annual accounts, which include other explanatory information

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the managing agent has 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 matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the managing agent's report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the managing agent

As explained more fully in the statement of managing agent's responsibilities set out on page 10, the managing agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts 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 syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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.

Independent auditors' report to the member of Syndicate 1183

continued

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the managing agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the managing agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

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 syndicate annual accounts 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 Hill (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6th March 2015

Profit and loss account and statement of total recognised gains and losses

For the year ended 31 December 2014

Profit and loss account

	Notes	2014 £m	2013 £m
Gross premiums written	3	669.3	698.3
Outward reinsurance premiums		(116.8)	(144.6)
Net premiums written		552.5	553.7
Change in gross provision for unearned premiums		(8.2)	(26.8)
Reinsurers' share of change in the provision for unearned premiums		(8.2)	3.7
Change in the net provision for unearned premiums		(16.4)	(23.1)
Earned premiums, net of reinsurance		536.1	530.6
Allocated investment return transferred from the non-technical account		13.0	1.8
Gross claims paid		(295.2)	(358.8)
Reinsurers' share of claims paid		64.6	84.3
Claims paid net of reinsurance		(230.6)	(274.5)
Change in the gross provision for claims		(4.2)	76.9
Change in the provision for claims, reinsurers' share		(27.5)	(28.2)
Change in the net provision for claims		(31.7)	48.7
Claims incurred, net of reinsurance		(262.3)	(225.8)
Net operating expenses	5	(218.7)	(201.8)
Balance on the technical account		68.1	104.8
Investment income	7	10.3	9.2
Unrealised gains on investments		6.4	0.6
Investment expenses and charges		(0.7)	(0.5)
Unrealised losses on investments		(3.0)	(7.5)
Allocated investment return transferred to the technical account		(13.0)	(1.8)
Profit for the financial year	12	68.1	104.8

All operations relate to continuing activities.

Statement of total recognised gains and losses

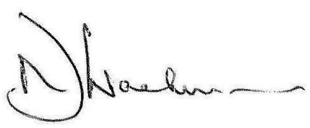
	Notes	2014 £m	2013 £m
Profit for the financial year	12	68.1	104.8
Currency translation differences	12	3.5	(5.9)
Total recognised gains in the financial year		71.6	98.9

Balance sheet

As at 31 December 2014

	Notes	2014 £m	2013 £m
Assets			
Financial investments	8	834.4	775.5
Deposits with ceding undertakings		0.2	0.2
Reinsurers' share of technical provisions			
Provision for unearned premiums		44.2	50.1
Claims outstanding		185.5	203.5
		229.7	253.6
Debtors			
Debtors arising out of direct insurance operations	9	164.4	163.2
Debtors arising out of reinsurance operations	10	52.9	45.2
Other debtors	11	3.1	2.3
		220.4	210.7
Cash at bank and in hand		44.2	58.6
Prepayments and accrued income			
Accrued interest and rent		3.4	2.9
Deferred acquisition costs		68.3	63.4
Other pre payments and accrued income		0.9	0.2
		72.6	66.5
Total assets		1,401.5	1,365.1
Liabilities			
Member's balance	12	60.1	67.1
Technical provisions			
Provision for unearned premiums		351.9	326.9
Claims outstanding		867.9	822.7
		1,219.8	1,149.6
Creditors			
Creditors arising out of direct insurance operations	13	1.7	8.1
Creditors arising out of reinsurance operations	14	73.0	83.0
Other creditors including taxation and social security	15	38.9	47.6
		113.6	138.7
Accruals and deferred income			
Accrued expenses		0.2	0.4
Reinsurers' share of deferred acquisition costs		7.8	9.3
		8.0	9.7
Total liabilities		1,401.5	1,365.1

The annual accounts on pages 13 to 27 were approved by the Board of Talbot Underwriting Ltd on 6th March 2015 and signed on its behalf by



ND Wachman – Finance Director

Statement of cash flows

Year ended 31 December 2014

	Notes	2014 £m	2013 £m
Net cash inflow from operating activities	16	**82.9**	101.4
Transfer to member in respect of underwriting participation			
Profit distribution – closed year of account	12	**(78.7)**	(66.5)
Net cash inflow		**4.2**	34.9
Cash flows were invested as follows:			
Decrease in cash holdings	17	**(16.0)**	(59.3)
Net increase in portfolio investments	17	**20.2**	94.3
Increase/(Decrease) in deposits with ceding undertakings	17	**-**	(0.1)
Net investment of cash flows	17	**4.2**	34.9

Notes to the accounts

1. Basis of preparation

These accounts have been prepared in accordance with Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and applicable Accounting Standards in the United Kingdom and comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 (as amended December 2006) ("the ABI SORP"), except for the deferral of acquisition costs, where costs other than brokerage and commissions have not been deferred and realised exchange gains and losses where they have been included in the technical account as they are considered to arise only in respect of technical account transactions.

The accounts have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance.

Where necessary, comparative amounts have been adjusted to conform to changes in presentation in the current year. See note 4 and 8.

2. Accounting policies

a Gross premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of acquisition costs such as brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet received or notified to the syndicate.

b Outward reinsurance premiums

Outward reinsurance premiums written comprise premiums for contracts incepting during the financial year together with adjustments to outwards reinsurance premiums ceded in previous years.

c Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The provision for unearned premiums is calculated on a daily pro rata basis. Outward reinsurance premiums are earned according to the type of policy. For losses occurring during (LOD) contracts, premiums are earned on a straight line basis over the period of coverage. For risks attaching during (RAD) contracts, premiums are earned in line with the gross premiums to which the risk attaching contract relates.

d Claims incurred

Claims incurred comprise: (i) claims and related expenses paid in the year; (ii) changes in the provisions for outstanding claims, including provisions for claims incurred but not reported; (iii) related claims expenses; and (iv) any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

e Claims provisions and related reinsurance recoveries

Provision is made at the year end 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 syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and an allowance for the expected value of salvage and other recoveries. The syndicate takes 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 from the provision established in a previous period.

For business where the syndicate is the lead underwriter the estimation of the cost of notified but unpaid claims has regard to the claim circumstances as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. For claims where the syndicate is not the lead underwriter, case reserves are established by the lead underwriter and/or by the second underwriter and are processed centrally by the Lloyd's market claims bureau.

2. Accounting policies (continued)

e Claims provisions and related reinsurance recoveries (continued)

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 syndicate, where more information about the claim event is generally available. Claims that are incurred but not reported may not be apparent until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of uncertainty of estimating these reserves. In calculating the estimated cost of unpaid claims the syndicate uses a variety of generally accepted estimation techniques; usually based upon analyses of historical experience, which assume that the development pattern of future claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions 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 which may include:

- changes in syndicate 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 or economic environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

Large claims that impact specific classes of business are assessed and measured on a case by case basis or projected separately because standard triangulation techniques are less appropriate for assessing the ultimate loss arising from large claims and in order to reduce the possible distortion of statistical analysis in the projection of the aggregate claims.

Where possible the syndicate adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each underwriting year.

The syndicate writes a mix of predominantly short tail business, insurance and reinsurance, wherein most of the claims are settled within relatively few years following the writing of the policy. A proportion of the syndicate's short tail business is, however, low frequency and high severity in nature, which makes the data more volatile and less reliable for predicting ultimate claims.

The syndicate additionally writes a relatively small amount of longer tail insurance business, predominantly financial lines (generally written on a claims made basis), aviation products & airports and marine & energy liabilities (generally written on an occurrence basis). For such business, the time from the occurrence of a claim to it being reported and in particular, the subsequent time before settlement of the claim, can be years, in which time additional facts regarding individual claims and trends often will become known and current laws and case law may change, affecting the ultimate value of the claim.

Taken together, these issues add considerable uncertainty to the process of estimating ultimate losses and claims provisions and this uncertainty is increased for reinsurance business compared with insurance business due to the increased number of parties in the chain of reporting from the original claimant to the reinsurer.

As a result of the uncertainties described above, the syndicate must establish IBNR reserves which consist of a provision for future development on known loss events as well as a provision for claims which have occurred but which have not yet been reported. Because of the degree of reliance placed on brokers for claims reporting, the time lag in reporting and the emergence and changing of facts and circumstances, reserve estimates are highly dependent on management's judgement and are subject to uncertainty.

Provisions are calculated initially gross of any reinsurance recoveries. The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated non-recoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The syndicate uses a number of techniques to assist in making these estimates.

The directors consider that the provisions for gross claims and related reinsurance recoveries are stated fairly on the basis of the information currently available to them. However, the ultimate liability may vary as a result of subsequent information and this may result in significant adjustments in future years to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which they become known. The methods used and the estimates made, are reviewed regularly.

2. Accounting policies (continued)

f Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

g Acquisition costs

Acquisition costs, comprising brokerage and taxes and duties levied are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

h Foreign currencies

Transactions in US dollars and Canadian dollars are translated into sterling at the average rates of exchange for the period. Any other transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed. Realised exchange differences are included in the technical account within net operating expenses.

Assets and liabilities denominated in US dollars and Canadian dollars are translated into sterling at the closing rate of exchange for the period with exchange differences arising from the retranslation of the opening balance of members' funds and the result for the year, in the respective currency ledgers, recorded as a movement in reserves within the Statement of total recognised gains and losses.

The rates of exchange used in preparing the accounts were as follows:

	2014		2013	
	Average	Closing	Average	Closing
US dollar	**1.65**	**1.56**	1.56	1.66
Canadian dollar	**1.82**	**1.81**	1.61	1.76

i Investments

Investments are shown at market value, excluding accrued interest where applicable, at the balance sheet date. For this purpose listed investments are stated at bid-price. Accrued interest is included in prepayments and accrued income. The cost of syndicate investments held at the balance sheet date is the original cost of investments. Unrealised gains and losses are recognised in the profit and loss account. The syndicate investment valuation is provided principally by BlackRock Financial Management Inc. who in turn uses data from a number of sources including index providers (e.g. Barclays Capital), commercial valuation providers and broker-dealers. The syndicate cross checks these valuations against alternative valuations from independent sources.

Investments include overseas deposits lodged as a condition of conducting underwriting business in certain countries or states within countries. These are managed by Lloyd's Treasury and Investment Management Department.

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Realised investment gains and losses are included within investment income in the non-technical account.

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 purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

Investment return is recorded initially in the non-technical account. A transfer is made from the non-technical account to the technical account to reflect the investment return on funds supporting underwriting business. Investment return has been allocated wholly to the technical account as all investments relate to the technical account.

Notes to the accounts
continued

2. Accounting policies (continued)
j Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to the member is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate on behalf of the member during the year have been included in the balance sheet under the heading ‘other debtors’.

No provision has been made for any other overseas tax payable by the member on underwriting results.

k Profit commission

Profit commissions payable to the managing agency which are expected to arise on closure of a Lloyd’s year of account are recognised on an accruals basis, taking into consideration any deficit clauses.

3. Segmental analysis

Year ended 31 December 2014	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Direct business						
Accident and health	12.5	11.5	(6.3)	(6.3)	-	(1.1)
Motor (third party liability)	0.4	0.3	(0.2)	(0.1)	-	-
Motor (other classes)	0.9	0.7	(0.2)	(0.3)	-	0.2
Marine	53.1	50.4	(20.8)	(23.5)	(3.9)	2.2
Aviation	20.0	20.5	(12.6)	(6.1)	(4.1)	(2.3)
Transport	30.1	28.8	(17.3)	(14.0)	(1.2)	(3.7)
Energy – marine	52.2	54.3	(24.0)	(21.2)	0.5	9.6
Energy – non marine	26.1	25.4	(12.4)	(3.5)	(6.1)	3.4
Fire and other damage to property	114.8	104.0	(42.0)	(39.8)	(12.8)	9.4
Third party liability	16.5	15.5	(5.9)	(4.9)	(3.6)	1.1
Pecuniary loss	45.6	41.1	(21.1)	(16.5)	(0.5)	3.0
Total direct	372.2	352.5	(162.8)	(136.2)	(31.7)	21.8
Reinsurance business	297.1	308.6	(136.6)	(97.6)	(41.1)	33.3
Total	**669.3**	**661.1**	**(299.4)**	**(233.8)**	**(72.8)**	**55.1**

Notes to the accounts
continued

3. Segmental analysis (continued)

Year ended 31 December 2013	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Direct business						
Accident and health	**11.0**	10.9	(7.2)	(5.6)	-	(1.9)
Motor (third party liability)	**0.1**	0.1	(0.1)	(0.1)	-	(0.1)
Motor (other classes)	**0.5**	0.4	-	(0.2)	-	0.2
Marine	**50.3**	50.2	(24.3)	(22.8)	6.5	9.6
Aviation	**21.5**	23.8	(14.4)	(6.8)	(2.0)	0.6
Transport	**31.1**	30.2	(19.1)	(14.4)	3.3	-
Energy – marine	**54.0**	55.0	(14.3)	(21.3)	(4.1)	15.3
Energy – non marine	**26.6**	27.1	(8.3)	(3.1)	(10.6)	5.1
Fire and other damage to property	**96.1**	86.3	(29.8)	(31.6)	(4.0)	20.9
Third party liability	**14.6**	14.1	(5.6)	(4.2)	(2.3)	2.0
Pecuniary loss	**43.7**	35.7	(8.6)	(14.3)	(2.4)	10.4
Total direct	**349.5**	333.8	(131.7)	(124.4)	(15.6)	62.1
Reinsurance business	**348.8**	337.7	(150.2)	(97.8)	(48.8)	40.9
Total	**698.3**	671.5	(281.9)	(222.2)	(64.4)	103.0

The reinsurance balance represents the credit/ (charge) to the technical account from the aggregate of all items relating to outwards reinsurance.

All premiums written are for contracts concluded in the UK.

The geographical analysis of gross premiums written by destination (domicile of the insured) is as follows:

	2014 £m	2013 £m
UK	**114.1**	120.7
Other EU countries	**81.5**	82.0
US	**193.3**	180.8
Other	**280.4**	314.8
	669.3	698.3

4. Movement in prior year's provision for claims outstanding

There has been a reassessment of the net provision for claims outstanding held at the previous year end. The release in 2014 amounted to £85.8m (2013: £93.5m), attributable to the following classes of business:

	2014 £m	2013 £m
Marine and Upstream Energy	**14.9**	31.7
War, Political Violence and Political Risk	**14.9**	19.8
Commercial Property, including Construction	**14.9**	14.0
Downstream Energy and Power	**11.4**	8.9
Financial Lines	**10.9**	7.4
Specialty	**(1.1)**	(0.3)
Airlines	**7.5**	5.5
Treaty Reinsurance	**12.4**	6.5
	85.8	93.5

The 2013 analysis by class has been restated to conform with the current presentation of classes of business which is consistent with the premium analysis included in the report of the directors of the managing agent on page 3.

Notes to the accounts
continued

5. Net operating expenses

	2014 £m	2013 £m
Brokerage and commissions	**133.3**	137.2
Other acquisition costs	**8.1**	7.3
Acquisition costs	**141.4**	144.5
Acquisition costs – change in deferred acquisition costs	**(3.7)**	(6.7)
Administrative expenses	**93.5**	82.5
Exchange differences	**2.6**	1.9
Gross operating expenses	**233.8**	222.2
Reinsurance commissions and profit participation	**(15.1)**	(20.4)
	218.7	201.8

Commissions for direct insurance business for the year amounted to £79.7m (2013: £74.4m).

An analysis of the amounts paid to the syndicate's auditors and associates is given below. The audit and non-audit fees are borne by Talbot Underwriting Services Ltd ("TUSL") and are incorporated in the management fee charged referred to in note 21.

	2014 £m	2013 £m
Fees payable to syndicate's auditors and its associates for the audit of syndicate financial statements	**0.4**	0.3
Fees payable to syndicate's auditors and its associates for other services:		
– Audit-related assurance services	-	-
– Other services pursuant to legislation	**0.1**	0.3
	0.5	0.6

Other services represent fees payable in respect of Solvency II project review costs.

6. Directors and employees

The syndicate has no direct employees. The staff and directors that provide services to the syndicate are employed by various group companies. As disclosed in Note 21, these group companies charge management fees to the syndicate for providing services to the syndicate. Estimated staff costs allowed for within the management fees are shown below. The increases in staff costs and headcount during 2014 reflect the expansion of our group coverholders together with a reallocation of expenses, particularly variable expenses, to the syndicate from elsewhere in the group.

	2014 £m	2013 £m
Salaries, pensions and related costs	**46.3**	33.1
Cost of share based payments	**6.2**	5.7
	52.5	38.8

The average number of employees (including directors) employed by group companies that performed duties on behalf of the syndicate was as follows:

	2014 Number	2013 Number
Underwriting	**138**	116
Claims administration	**24**	24
Other administration	**164**	146
	326	286

6. Directors and employees (continued)

The aggregate emoluments of the active underwriter considered in the calculation of the management fees charged by group companies to the syndicate were as follows:

	2014 £m	2013 £m
Aggregate emoluments	0.7	0.4
Contributions to money purchase pension schemes	-	-
	0.7	0.4

The following directors' emoluments were considered in the calculation of the management fees charged by group companies to the syndicate:

	2014 £m	2013 £m
Aggregate emoluments	3.3	1.9
Contributions to money purchase pension schemes	0.1	0.1
	3.4	2.0

Included in the above are the emoluments of the highest paid director as follows:

	2014 £m	2013 £m
Aggregate emoluments	0.8	0.4
Contributions to money purchase pension schemes	-	-
	0.8	0.4

Retirement benefits are accruing to the following number of directors as under:

	2014	2013
Defined contribution schemes	7	7

7. Investment income

	2014 £m	2013 £m
Income from investments	12.9	12.5
Gains on the realisation of investments	2.3	1.2
Losses on the realisation of investments	(4.9)	(4.5)
	10.3	9.2

Notes to the accounts
continued

8. Other financial investments

	Cost 2014 £m	Market Value 2014 £m	Cost 2013 £m	Market Value 2013 £m
Shares and other variable yield securities	51.6	51.6	39.2	39.2
Debt securities and other fixed income securities	721.6	721.8	668.8	665.4
Participation in investment pools	18.0	18.2	19.0	19.1
Overseas deposits	42.8	42.8	51.8	51.8
	834.0	834.4	778.8	775.5

Debt securities and other fixed income securities are actively traded on regulated markets. Shares and other variable yield securities represent liquid funds invested in collective investment schemes.

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries or states within countries. These are managed by Lloyd's Treasury and Investment Management Department. Overseas deposits were previously classified as other assets.

9. Debtors arising out of direct insurance operations

	2014 £m	2013 £m
Due within one year – intermediaries	164.1	162.8
Due after one year – intermediaries	0.3	0.4
	164.4	163.2

10. Debtors arising out of reinsurance operations

	2014 £m	2013 £m
Due within one year	52.6	44.4
Due after one year	0.3	0.8
	52.9	45.2

11. Other debtors

	2014 £m	2013 £m
Amounts due from group companies	1.4	0.7
Overseas taxes	1.6	1.5
Other debtors	0.1	0.1
	3.1	2.3

Notes to the accounts
continued

12. Reconciliation of member's balance

Year ended 31 December 2014	2011 yoa Closed £m	2012 yoa Closed £m	2013 yoa Open £m	2014 yoa Open £m	Total 2014 £m
Retained profit (loss)					
At 1 January	78.7	17.1	(28.6)	-	**67.2**
Profit/(loss) for the year	-	72.0	38.5	(42.4)	**68.1**
Other recognised gains/(losses)	-	4.4	0.8	(1.7)	**3.5**
At 31 December	78.7	93.5	10.7	(44.1)	**138.8**
Cash distributions					
At 1 January	-	-	-	-	**-**
For the year	(78.7)	-	-	-	**(78.7)**
At 31 December	(78.7)	-	-	-	**(78.7)**
Net balance at 31 December	-	93.5	10.7	(44.1)	**60.1**

Year ended 31 December 2013	2010 yoa Closed £m	2011 yoa Closed £m	2012 yoa Open £m	2013 yoa Open £m	Total 2013 £m
Retained profit (loss)					
At 1 January	66.5	1.7	(33.5)	-	**34.7**
Profit/(loss) for the year	-	82.3	52.2	(29.7)	**104.8**
Other recognised (losses)/gains	-	(5.3)	(1.6)	1.0	**(5.9)**
At 31 December	66.5	78.7	17.1	(28.7)	**133.6**
Cash distributions					
At 1 January	-	-	-	-	**-**
For the year	(66.5)	-	-	-	**(66.5)**
At 31 December	(66.5)	-	-	-	**(66.5)**
Net balance at 31 December	-	78.7	17.1	(28.7)	**67.1**

The member participates on the syndicate by reference to underwriting years of account and its ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of its membership of a particular year.

13. Creditors arising out of direct insurance operations

	2014 £m	2013 £m
Due within one year	**1.7**	8.1
Due after one year	**-**	-
	1.7	8.1

14. Creditors arising out of reinsurance operations

	2014 £m	2013 £m
Due within one year	**73.0**	83.0
Due after one year	**-**	-
	73.0	83.0

15. Other creditors

	2014 £m	2013 £m
Amounts due within one year:		
Profit commission	**16.5**	13.9
Amounts due to group companies	**20.5**	30.7
	37.0	44.6
Amounts due after one year:		
Profit commission	**1.9**	3.0
	38.9	47.6

16. Reconciliation of operating profit to net cash inflow from operating activities

	2014 £m	2013 £m
Profit for the financial year	**68.1**	104.8
Realised and unrealised (gain)/loss on cash and investments including foreign exchange movements	**(40.3)**	24.1
Increase/(Decrease) in net technical provisions	**94.1**	(40.3)
Increase in debtors	**(15.7)**	(6.0)
(Decrease)/increase in creditors	**(26.8)**	24.7
Foreign currency translation differences	**3.5**	(5.9)
Net cash inflow from operating activities	**82.9**	101.4

17. Movement in opening and closing cash and portfolio investments net of financing

	2014 £m	2013 £'000
Decrease in cash holdings	**(16.0)**	(59.3)
Cash flow – deposits with ceding undertakings	**-**	(0.1)
Cash flow – portfolio investments	**20.2**	94.3
Movement arising from cash flows	**4.2**	34.9
Decrease/(increase) in market values and exchange rates	**40.3**	(24.1)
Total movement in portfolio investments net of financing	**44.5**	10.8
Balance brought forward at 1 January	**834.3**	823.5
Balance carried forward at 31 December	**878.8**	834.3

	At 1 January 2014 £m	Cash flow £m	Changes in market value and currencies £m	At 31 December 2014 £m
Cash at bank and in hand	58.6	(16.0)	1.6	**44.2**
Deposits with ceding undertakings	0.2	-	-	**0.2**
Total cash and deposits with ceding undertakings	58.8	(16.0)	1.6	**44.4**
Shares and other variable yield securities	39.2	10.7	1.8	**51.7**
Debt securities and other fixed income securities	665.5	19.4	37.0	**721.9**
Participation in investment pools	19.1	(0.6)	(0.3)	**18.2**
Overseas deposits	51.7	(9.3)	0.2	**42.6**
Total portfolio investments	775.5	20.2	38.7	**834.4**
Total cash and portfolio investments	834.3	4.2	40.3	**878.8**

18. Net cash outflow on portfolio investments

	2014 £m	2013 £m
Purchase of shares and other variable yield securities	(10.7)	(22.1)
Purchase of debt securities and other fixed income securities	(604.4)	(494.8)
Sale of debt securities and other fixed income securities	585.0	432.2
Decrease/(Increase) in participation in investment pools	0.6	(19.0)
Decrease in overseas deposits	9.3	9.4
	(20.2)	(94.3)

19. Post balance sheet events

The managing agent is proposing a transfer to the personal reserve fund of Talbot 2002 Underwriting Capital Ltd ("T2002") for the following amount during 2015 (2014).

	2014 £m	2013 £m
2012 (2011) year of account	93.5	78.7

20. Related parties

Ultimate parent company

The immediate parent company of Talbot is Talbot Underwriting Holdings Ltd, a company registered in England and Wales.

The ultimate parent and controlling party of Talbot is Validus Holdings, Ltd ("Validus"), the registered office of which is 29 Richmond Road, Pembroke, HM 08, Bermuda. Validus is listed on the New York Stock Exchange. Certain of Talbot's management and staff own shares in this company.

Corporate Members

Talbot 2002 Underwriting Capital Ltd ("T2002") is the sole corporate member underwriting on the syndicate.

Coverholders

The following group companies underwrite on behalf of the syndicate as coverholders.

Talbot Underwriting Risk Services Ltd
Talbot Risk Services Pte Ltd
Talbot Risk Services (Labuan) Pte Ltd
Talbot Underwriting (MENA) Ltd
Talbot Underwriting Services (US) Ltd
Talbot Underwriting (LATAM) S.A.
Validus Reaseguros, Inc.

The syndicate is charged management fees under normal market conditions for services provided.

Service Companies

The following group companies provide services to the syndicate.

Talbot Underwriting Services Limited
Validus Research Inc.
Validus Services (Bermuda) Ltd

The syndicate is charged management fees under normal market conditions for services provided.

21. Funds at Lloyd's

A member is required to hold capital at Lloyd's, which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet the members underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's, based on the requirements of the Prudential Regulatory Authority (PRA) and resource criteria. FAL has regard to a number of factors, including the nature and amount of risk to be underwritten by the member and an assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these accounts by way of capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

Seven year summary of closed year results at 36 months (unaudited)

£m	2006	2007	2008	2009	2010	2011	**2012**
Syndicate allocated capacity	307.0	325.0	325.0	410.0	600.0	560.0	**600.0**
Gross premiums	337.7	345.0	354.3	486.6	498.4	502.8	**537.8**
Net premiums	265.1	292.4	295.2	368.8	374.8	383.3	**421.2**
Reinsurance to close received	170.4	164.0	213.0	263.9	299.0	341.4	**354.0**
Net claims	(127.9)	(161.8)	(171.0)	(199.6)	(214.5)	(238.5)	**(248.3)**
Reinsurance to close paid	(176.5)	(208.4)	(264.6)	(308.2)	(346.8)	(339.2)	**(346.2)**
Underwriting result	131.1	86.2	72.6	124.9	112.5	147.0	**180.7**
Profit (loss) on exchange	(12.5)	(2.0)	4.1	(1.0)	0.6	2.2	**(3.5)**
Syndicate expenses	(17.7)	(23.0)	(27.9)	(37.3)	(36.1)	(52.7)	**(67.4)**
Balance on technical account	100.9	61.2	48.8	86.6	77.0	96.5	**109.8**
Investment return net of investment expenses	25.4	20.0	18.6	17.8	15.0	6.7	**10.1**
Profit before personal expenses	126.3	81.2	67.4	104.4	92.0	103.2	**119.9**
Personal expenses							
Managing agent's fee	(4.6)	(4.9)	(4.9)	(6.1)	(9.0)	(5.6)	**(6.0)**
Profit commission	(17.5)	(10.6)	(8.8)	(14.1)	(11.7)	(13.9)	**(16.5)**
Contribution to Lloyd's Central Fund	(3.7)	(4.0)	(2.0)	(2.2)	(2.4)	(2.5)	**(1.3)**
Lloyd's subscription	(1.5)	(1.6)	(1.6)	(2.3)	(2.4)	(2.5)	**(2.6)**
	(27.3)	(21.1)	(17.3)	(24.7)	(25.5)	(24.5)	**(26.4)**
Profit on ordinary activities after personal expenses	99.0	60.1	50.1	79.7	66.5	78.7	**93.5**
Exchange rates (USD:GBP)	1.44	1.59	1.55	1.55	1.62	1.66	**1.56**
Exchange rates (CAD:GBP)	1.77	1.67	1.55	1.58	1.61	1.76	**1.81**
Gross premiums as a % of allocated capacity	110.0	106.2	109.0	118.7	83.1	89.8	**89.6**
Net premiums as a % of allocated capacity	86.4	90.0	90.8	89.9	62.5	68.4	**70.2**
Underwriting result as a % of gross premiums	38.8	25.0	20.5	25.7	22.6	29.2	**33.6**
Return on allocated capacity (%)	32.2	18.5	15.4	19.4	11.1	14.1	**15.6**

This summary does not form part of the audited accounts of the syndicate.

Officers and professional advisors

Managing agent

Talbot Underwriting Ltd
60 Threadneedle Street
London
EC2R 8HP

Managing agent's registered number

2202362

Directors

CNR Atkin	(Chief Executive)
PA Bilsby	
MEA Carpenter	(Chairman, non-executive)
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	

Company secretary

JS Clouting

Syndicate

TAL Syndicate 1183

Active underwriter

JE Skinner

Bankers

Barclays Bank plc
Citibank NA
J.P Morgan
Lloyds Bank plc
Royal Bank of Canada

Investment managers

BlackRock Investment Management (UK) Ltd
12 Throgmorton Avenue
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EC2N 2DL

Conning Asset Management Limited
55 King William Street
London
EC3R 9AD

Lloyd's Treasury and Investment Management Department
One Lime Street
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