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Annual Report 2015

Talbot Underwriting Ltd Syndicate 1183

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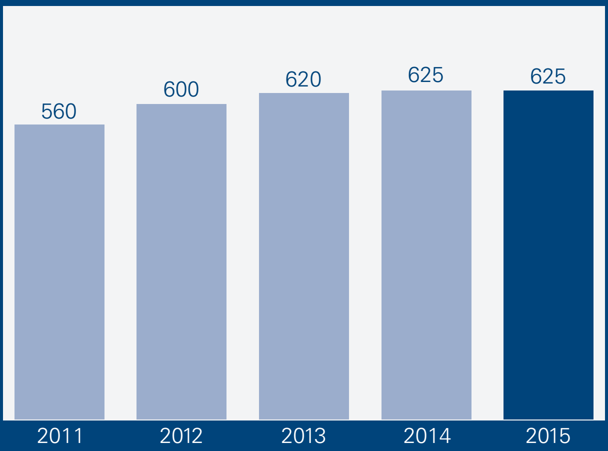
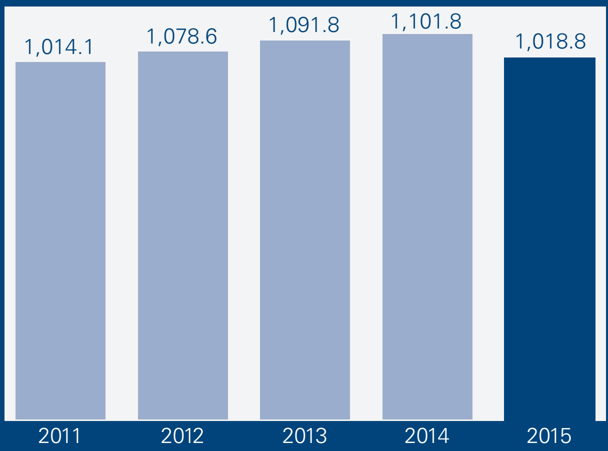
Financial highlights

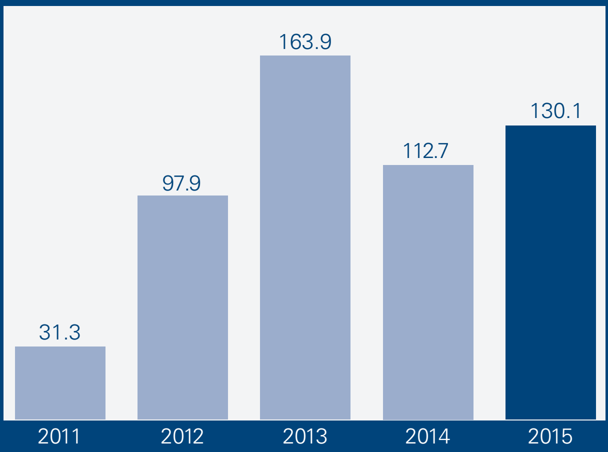
Syndicate capacity (£m) (1)



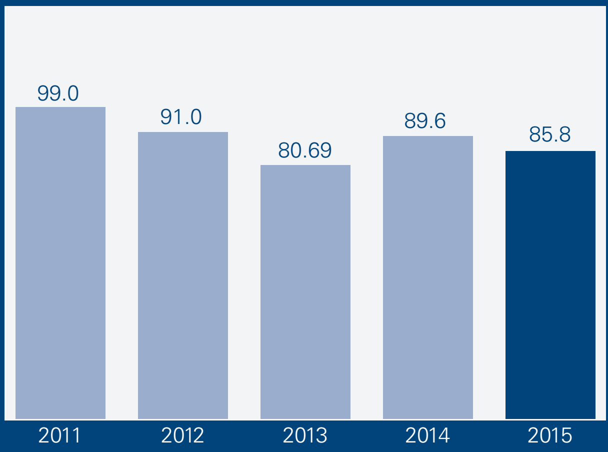
Gross premiums written ($m) (2)



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

Chairman's report

Results for the year

Profit for the year was $130.1m compared to $112.7m in 2014. Gross premiums written decreased by $83.0m to $1,018.8m and premiums earned after reinsurance decreased by $50.0m to $832.6m. Claims after reinsurance recoveries were $355.9m, a decrease of $76.0m on last year. Operating expenses including acquisition costs decreased by $0.5m to $358.9m. Investment return decreased by $9.1m to $12.3m, due to a downturn in market conditions. The combined ratio for the year was 85.8% compared to 89.6% in 2014.

Solvency II

Solvency II, the EU directive covering the capital adequacy, risk management and regulatory reporting for insurers, was implemented on January 1, 2016. Throughout 2015 the syndicate continued the hard work to ensure all requirements were met prior to the implementation date.

Future developments

The syndicate capacity for the 2016 year of account is £600m. 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 2015. 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.

I would like to thank all my colleagues at Talbot and Validus for their hard work both during this year and throughout my tenure at Talbot. Without Michael Carpenter who is standing down as Chairman, it is unlikely that Talbot would ever have been formed and I would like to thank him, and my other executive directors, for all the support I have received over the years. Finally, I would like to wish Peter Bilsby, my successor as CEO, and Talbot, every success in the future.

R. Atkin

Rupert Atkin
Chairman
Talbot Underwriting Ltd
4 March 2016

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 2015. The annual report is prepared using the annual basis of accounting as required by Regulation 5 of 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.

Overview

The syndicate result for the year was a profit of $130.1m (2014: $112.7m). Gross premiums written during the year were $1,018.8m (2014: $1,101.8m).

As a result of the implementation of the Financial Reporting Standard 102 on 1 January 2015, the syndicate has elected the US dollar to be its functional and presentational currency. In the 2014 annual report and audited accounts the presentational currency was sterling. Within the following accounts the 2014 comparatives have been translated and restated.

Results for the calendar year	2015 $m	2014 $m	2013 $m	2012 $m	2011 $m
Gross premiums written	1,018.8	1,101.8	1,091.8	1,078.6	1,014.1
Net premiums written	819.9	909.6	865.7	849.9	796.0
Net earned premiums	832.6	882.6	829.6	829.7	774.5
Net claims incurred	(355.9)	(431.9)	(353.0)	(427.1)	(491.0)
Net acquisition costs	(200.7)	(201.7)	(183.6)	(201.3)	(185.7)
Underwriting result before administrative expenses	276.0	249.0	293.0	201.3	97.8
Administrative expenses	(156.0)	(153.9)	(128.9)	(123.8)	(87.8)
Foreign exchange gains/(losses)	(2.2)	(3.8)	(3.0)	(2.7)	(2.6)
Investment return	12.3	21.4	2.8	23.1	23.9
Profit for the financial year	130.1	112.7	163.9	97.9	31.3

Key performance indicators	2015	2014	2013	2012	2011
Claims ratio %	42.7	48.9	42.6	51.5	63.4
Expense ratio %	43.1	40.7	38.0	39.5	35.6
Combined ratio %	85.8	89.6	80.6	91.0	99.0

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,[1] the 36 month result on a funded accounting basis for a "closed" underwriting year of account. The return on capacity for the 2013 closed year of account at 31 December 2015 is shown below together with forecasts for the two open years of account.

Year of account	2015 open	2014 open	2013 closed	2012 closed	2011 closed
Capacity (£m)	625.0	625.0	620.0	600.0	560.0
Open year forecast/Closed year result (£m)	26.8	22.8	92.2	93.5	78.7
Return on capacity %	4.3	3.6	14.9	15.6	14.1

[1] Syndicate capacity is a measure used by Lloyd's and refers to a syndicate's capacity to write premiums net of acquisition costs. Syndicate capacity is agreed by Lloyd's in sterling based on prescribed rates of exchange.

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 were as follows:

	2015 $m	2014 $m	2013 $m	2012 $m	2011 $m
Marine	302.9	366.1	348.8	361.3	311.4
Political Lines	187.4	189.7	186.5	184.6	174.8
Property	281.4	282.0	256.7	237.2	210.3
Specialty	141.0	138.6	138.1	138.0	146.5
Treaty	106.1	125.4	161.7	157.5	171.1
Total gross premiums written	1,018.8	1,101.8	1,091.8	1,078.6	1,014.1

Premiums were primarily written in the London market. However, group coverholders underwriting on behalf of the syndicate in overseas markets contributed 18% (2014: 17%) of premiums written. These coverholder operations are located in Singapore, Labuan, Sydney, Dubai, New York, Miami and Santiago.

Gross premiums written reduced by 7.5% to $1,018.8m in the calendar year. Translated at 2014 exchange rates gross premiums written would have been $1,033.2m, a decrease of 6.2%.

The majority of the syndicate's insurance and reinsurance business classes experienced decreased pricing for 2015. Rates charged for renewal business decreased by 6.6% in 2015 across the portfolio (2014: decreased 3.8%). The largest premium movement was in Marine where gross written premium decreased by $63.2m to $302.9m. This was predominantly due to Upstream Energy and Cargo which decreased $29.8m and $17.8m respectively. Both classes have suffered from market and economic conditions, particularly with regard to falling oil prices. Treaty gross written premium reduced by $19.3m to $106.1m which was driven by a reduction in Latin American business following a transfer of some of this business to a fellow Validus subsidiary.

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 considered that 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 syndicate purchases outwards reinsurance principally to limit the impact of catastrophes or multiple large losses. Reinsurance is purchased on both an excess of loss and proportional basis. Reinsurance premiums for the calendar year were $198.9m (2014:$192.2m).

The net claims ratio for the year was 42.7% compared to 48.9% for the previous year.
Net claims incurred as a percentage of net earned premiums were as follows:

	2015	2014
Current year notified claims – large losses over $5m net	5.8%	11.6%
Current year claims – other losses	54.5%	53.3%
Release from prior years' net claims provision	(17.6%)	(16.0)%
	42.7%	48.9%

The lower claims ratio was primarily driven by a decrease in large losses in excess of $5m net which amounted to $48.5m (5.8%) compared with $102.0m (11.6%) in 2014. This reflected the lower number of large losses – five in comparison to twelve in 2014. In 2015, large losses were the Pemex explosion, the Tianjin explosion, Troll Solution jackup rig fault, the stranded bulk carrier Adamastos and the Germanwings loss. A release was made from the prior year net provision for claims of $146.7m (2014: $141.22m) driven by positive movements in energy and property 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 2015 which is testament to the balanced composition of the portfolio and the calibre of the personnel at the syndicate. We will continue to pursue our strategy consistently with the aim of continuing our successful performance into 2016 despite the expected ongoing rating pressure.

Net operating expenses

Net operating expenses for the year are set out below:

	2015 $m	2014 $m	Movement $m
Acquisition costs	209.3	219.4	(10.1)
Acquisition costs - change in deferred acquisition costs	2.0	(6.1)	8.1
Acquisition costs - underwriting expenses	13.6	13.3	0.3
Reinsurance commissions	(24.2)	(24.9)	0.7
Net acquisition costs	200.7	201.7	(1.0)
Administrative expenses			
- management fees from service companies	106.5	100.8	5.7
- direct syndicate expenses	11.0	11.4	(0.4)
- managing agency fee	9.6	10.4	(0.8)
- managing agency profit commission	22.9	25.4	(2.5)
- Lloyd's subscription and Central Fund charges	6.0	5.9	0.1
Administrative expenses	156.0	153.9	2.1
Foreign exchange (gains)/losses	2.2	3.8	(1.6)
Net operating expenses	358.9	359.4	(0.5)

Net acquisition costs decreased over the period by $1.0m. Net acquisition costs as a percentage of net earned premiums were higher at 24.1% (2014: 22.9%). This was driven by increases in gross acquisition costs across the Marine classes of business, notably Upstream Energy, and the impact of reinstatement costs on Pemex.

The increase in management fees from service companies reflects the growth in overseas group coverholders and a greater allocation of costs to the syndicate.

During the year, the US dollar strengthened against both sterling and the Canadian dollar, with the closing exchange rate moving from £0.64/$1 to £0.68/$1 and C$1.16/$1 to C$1.39/$1 respectively. The loss on foreign exchange reflecting the strengthening of the US dollar was $2.2m (2014: $3.7m). The 2014 loss on exchange was also impacted by the strengthening of the US dollar against the euro in 2014.

Investment return

The return on syndicate funds by currency is shown below:

	Sterling	US dollars	Canadian dollars	Combined US dollars
2015				
Average syndicate funds available for investment (millions)	129.4	1,068.2	42.5	1,299.2
Investment return for the year (millions)	1.5	9.7	0.5	12.3
Calendar year investment return (%)	1.1	0.9	1.2	0.9
2014				
Average syndicate funds available for investment (millions)	165.0	1,049.3	47.4	1,363.8
Investment return for the year (millions)	3.6	14.9	0.6	21.4
Calendar year investment return (%)	2.2	1.4	1.3	1.6

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 4.7% compared to the previous year. Lower yields have been earned in 2015 reflecting the downturn in the investment market.

Report of the directors of the managing agent

continued

Financial position

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

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 2015 the fair value of investments was $1,183.5m (2014: $1,299.8m) and the portfolio composition is shown in note 9 to the accounts.

Cash flow

There was a decrease of $20.8m (2014: decrease of $12.6m) in cash and cash equivalents during the year. This decrease was driven by differences in the timing of transfers to investments.

Technical provisions

Technical provisions include a provision for outstanding claims of $1,302.6m (2014: $1,352.0m) and a provision for unearned premiums of $529.2m (2014: $548.2m). The reinsurers' share of technical provisions is $292.3m (2014: $289.0m) in respect of outstanding claims and $67.9m (2014: $68.9m) 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 established in previous periods are adjusted as new information becomes available and claims develop.

Solvency II

Solvency II was implemented on 1 January 2016. Throughout 2015 Talbot has ensured the necessary systems are in place to ensure Talbot is fully compliant and to meet the additional regulatory requirements. Solvency II has replaced the Individual Capital Assessment with the Solvency Capital Requirement (SCR) but still ensures that sufficient capital is held to reflect the risks the business is exposed to.

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 2016 year of account is £600m, a reduction of £25m reflecting anticipated market conditions. This is in keeping with Talbot's strategy of writing for profit rather than premium income.

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

Risk management

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 board 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.

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 are to ensure that all risks recorded on the risk register at both the company and syndicate level are managed effectively.

Further details can be found in note 4 to the accounts.

Report of the directors of the managing agent
continued

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, 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.

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, with input from external auditors, internal audit and external actuaries, to review and to report to the Board on the control infrastructure and financial reporting of the agency and its managed syndicate.

This is the first year in which the accounts 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 21 to the accounts.

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 period from 1 January 2015 to the date of this report were as follows:

CNR Atkin	(Chief Executive, to 29 February 2016; Chairman, non executive director 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 director)
BJ Hurst-Bannister	(Non-executive director)
AJ Keys	(Non-executive director)
EJ Noonan	(Non-executive director)
JP Ritz	(Non-executive director)
JG Ross	
JD Sangster	(Non-executive director)
M Scales	(Non-executive director)
JE Skinner	
ND Wachman	

Statutory Information

Disclosure of information to 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 2016.

Report of the directors of the managing agent
continued

Statement of managing agent's responsibilities

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Account Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" ("FRS 102").

The directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit of the syndicate for that period. In preparing these accounts, the directors 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, including FRS102, 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.

By order of the Board

Jane Clouting
Company Secretary
4 March 2016

Independent auditors' report to the members of Syndicate 1183

Report on the syndicate annual accounts

Our Opinion

In our opinion, syndicate 1183's annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 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 2015, included within the Annual Report, comprise:

- the Balance sheet as at 31 December 2015;
- the Profit and loss account and statement of comprehensive income for the year then ended;
- the statement of cash flows; and
- the notes to the syndicate annual accounts, 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 syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the United Kingdon and Republic of Ireland", and applicable law (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, it has 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 8, the Managing Agent is responsible for the preparation of the 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 part

Independent auditors' report to the members of Syndicate 1183
continued

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.

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 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

For the year ended 31 December 2015

	Notes	2015 $m	2014 $m
Gross premiums written	5	1,018.8	1,101.8
Outward reinsurance premiums		(198.9)	(192.2)
Net premiums written		819.9	909.6
Change in gross provision for unearned premiums		13.2	(13.5)
Reinsurers' share of change in the provision for unearned premium		(0.5)	(13.5)
Change in the net provision for unearned premiums		12.7	(27.0)
Earned premiums, net of reinsurance		832.6	882.6
Allocated investment return transferred from the non-technical account		12.3	21.4
Gross claims paid		(491.8)	(486.0)
Reinsurers' share of claims paid		96.1	106.3
Claims paid net of reinsurance		(395.7)	(379.7)
Change in the gross provision for claims		34.2	(6.9)
Change in the provision for claims, reinsurers' share		5.6	(45.3)
Change in the net provision for claims		39.8	(52.2)
Claims incurred, net of reinsurance		(355.9)	(431.9)
Net operating expenses	7	(358.9)	(359.4)
Balance on the technical account		130.1	112.7
Investment income		22.9	21.2
Realised gains and losses on investments		(3.4)	(4.3)
Unrealised gains and losses on investments		(6.2)	5.7
Investment expenses and charges		(1.0)	(1.2)
		12.3	21.4
Allocated investment return transferred to the technical account		(12.3)	(21.4)
Profit and total comprehensive income for the financial year	13	130.1	112.7

Balance sheet

As at 31 December 2015

	Notes	2015 $m	2014 $m
Assets			
Investments	9	1,183.5	1,299.8
Deposits with ceding undertakings		0.2	0.3
Reinsurers' share of technical provisions			
Provision for unearned premiums	14	67.9	68.9
Claims outstanding	14	292.3	289.0
		360.2	357.9
Debtors			
Debtors arising out of direct insurance operations	10	269.3	256.1
Debtors arising out of reinsurance operations	11	76.5	82.4
Other debtors	12	9.8	11.5
		355.6	350.0
Other assets			
Cash at bank and in hand		109.7	68.9
Deferred acquisition costs		103.3	106.4
Total assets		2,112.5	2,183.3
Liabilities			
Capital and reserves			
Member's balance	13	78.0	93.6
Technical provisions			
Provision for unearned premiums	14	529.2	548.2
Claims outstanding	14	1,302.6	1,352.0
		1,831.8	1,900.2
Creditors			
Creditors arising out of direct insurance operations	15	2.5	2.6
Creditors arising out of reinsurance operations	16	122.2	113.7
Other creditors including taxation and social security	17	65.5	60.7
		190.2	177.0
Accrued expenses		0.4	0.3
Reinsurers' share of deferred acquisition costs		12.1	12.2
		12.5	12.5
Total liabilities		2,112.5	2,183.3

The notes on pages 15 to 32 are an integral part of these accounts.

The annual accounts on pages 11 to 32 were approved by the Board of Talbot Underwriting Ltd on 4 March 2016 and signed on its behalf by

ND Wachman
Finance Director

Statement of changes in member's balance

For the year ended 31 December 2015

	Notes	2015 $m	2014 $m
Balance at 1 January	13	93.6	111.2
Profit for the financial year	13	130.1	112.7
Cash distributions	13	(145.7)	(130.3)
Balance at 31 December		78.0	93.6

The member participates on the syndicate by reference to underwriting year of account. Analysis of the member's balance by underwriting year of account is shown in note 13 to these accounts.

Statement of cash flows

For the year ended 31 December 2015

Cash Flow	Notes	2015 $m	2014 $m
Operating result	13	130.1	112.7
Increase/(decrease) in gross technical provisions		(47.4)	20.3
(Increase)/decrease reinsurers' share of gross technical provisions		(5.1)	58.9
(Increase)/decrease in debtors		(7.5)	0.6
Increase/(decrease) in creditors		19.6	(50.0)
Movement in other assets/liabilities		(0.2)	(7.3)
Investment return		(12.3)	(21.4)
Foreign exchange		1.2	1.5
Net cash flows from operating activities		78.4	115.3
Cash flows from investing activities			
Purchase of debt instruments		(627.2)	(939.9)
Sale of debt instruments		647.3	912.2
Investment income received		21.8	19.6
Other		7.3	13.4
Net cash flow from investing activities		49.2	5.3
Cash flows from financing activities			
Profit distribution	13	(145.7)	(130.3)
Net cash flow from financing activities		(145.7)	(130.3)
Net decrease in cash and cash equivalents		(18.1)	(9.7)
Foreign exchange on cash and cash equivalents		(2.7)	(3.0)
Cash and cash equivalents at beginning of year		149.3	162.0
Cash and cash equivalents at end of year		128.5	149.3
Cash at bank and in hand		109.7	68.9
Short term investments – cash equivalents		18.8	80.4
Cash and cash equivalents at end of year		128.5	149.3

Notes to the accounts

1 Statement of compliance

The accounts of Syndicate 1183 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"), Insurance Contracts standard ("FRS 103") and Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The syndicate has adopted FRS 102 and FRS 103 in these accounts. Details of the transition to FRS 102 and 103 are disclosed in note 21.

3 Accounting policies

Basis of preparation

These accounts are prepared on a going concern basis, under the historical cost convention, as modified by certain financial assets measured at fair value through profit and loss. The preparation of accounts in conformity with FRS 102 and 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the syndicate's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts are disclosed below in this note.

The results of the syndicate are determined on annual basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows.

a) Insurance contracts - classification

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder is classified as an insurance policy.

b) 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.

c) Outward reinsurance premiums

Outward reinsurance premiums written comprise premiums for contracts incepted during the financial year as well as adjustments made in the year to outwards reinsurance premiums written in prior accounting periods.

d) 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.

e) 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 ("IBNR"); (iii) related claims expenses; and (iv) any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

f) Claims provisions and related reinsurance recoveries

Provision is made at the year end for the estimated cost of unpaid claims incurred.

In calculating the claims provisions the syndicate uses 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 alter when compared with the cost of those previously settled. Large claims that impact specific classes of business are assessed and measured on a case by case basis or projected separately.

Notes to the accounts
continued

3 Accounting policies (continued)

f) Claims provisions and related reinsurance recoveries (continued)
The syndicate writes a mix of predominantly short tail business, 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.

For longer tail insurance business, predominantly financial lines, aviation products & airports and marine & energy liabilities, the time from the occurrence of a claim to it being reported and the subsequent time before settlement of the claim, can be many years. In this time additional facts regarding individual claims and trends often will become known and legislation and case law may change, affecting the ultimate value of the claim.

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 above adds considerable uncertainty to the process of estimating ultimate losses and claims provisions. 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.

The directors consider that the provisions for gross and net claims 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.

g) 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.

h) 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.

i) Foreign currency
The functional and presentation currency of the syndicate is the US dollar. Transactions in other currencies are translated into US dollars at the average rates of exchange for the period. Assets and liabilities denominated in other currencies are translated into US dollars at the closing rate of exchange for the period.

Foreign exchange gains and losses resulting from the translation of transactions at average exchange rates or the translation of assets and liabilities at period end exchange rates are recognised in the profit and loss account.

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

	2015		2014	
	Average	Closing	Average	Closing
Sterling	0.65	0.68	0.61	0.64
Canadian dollar	1.28	1.39	1.10	1.16

3 Accounting policies (continued)

j) Investment return

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 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 general business 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.

k) Financial assets and liabilities

Financial Assets

Basic financial assets including insurance debtors, other debtors and cash and bank balances, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost less any provision for impairments.

Investments are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are settled, or substantially all the risks and rewards of the ownership of the asset are transferred to another party, or control of the asset has been transferred to another party who has the practical ability to sell the asset to an unrelated third party.

Cash and cash equivalents comprise cash at bank and short-term highly liquid investments readily realisable as cash without significant financial penalty.

Financial liabilities

Basic financial liabilities include insurance creditors and other creditors, recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Insurance debtors and creditors

Insurance debtors and creditors include amounts due to and from agents, brokers, and insurance contract holders. These are classified as insurance debtors and creditors as they are non- derivative financial assets with fixed or determinable payment that are not quoted on an active market.

3 Accounting policies (continued)

l) 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 members 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.

m) 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.

n) Member's balance and Distribution
The member's balance represents the retained profit or loss relating to all underwriting years of account net of any profit distribution or cash calls received in respect of losses.

4 Risk management

The principal risks to the business of the syndicate are insurance, credit, liquidity, market and operational risks as set out below.

Insurance risk with regard to underwriting is monitored by the Insurance Management Committee and by the Risk Committee. Insurance risk with regard to reserving risk is monitored by the Executive Committee and by the Audit Committee.

Credit, liquidity and market risks are monitored by the Financial Risk Committee ("FRC").
Operational risks are monitored by the Operational Risk Committee.

a) Insurance risk
Insurance risk comprises both underwriting risk and reserving 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.

b) Credit risk
Credit risk is defined as the risk that counterparties are unable, or unwilling, to settle their debts to the syndicate as they fall due.

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 2015, 89.3% (2014: 87.0%) are with counterparties having a credit agency rating of A- or better.

Reinsurance counterparties – reinsurance is placed with reinsurers who generally have a rating of A- or above and who have a good record of claims payment. As at 31 December 2015, 98.5% (2014: 97.8%) 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").

4 Risk management (continued)

b) Credit risk (continued)

Balances with investment and reinsurance counterparties are rated as follows:-

As at 31 December 2015	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	154.3	604.6	218.2	108.1	4.2	-	1,089.4
Participation in investment pools	14.8	3.5	1.9	0.6	-	-	20.8
Shares and other variable yield securities	18.8	-	-	-	-	-	18.8
Lloyd's overseas deposits	22.5	13.4	4.8	13.2	0.6	-	54.5
Sub-total investments	210.4	621.5	224.9	121.9	4.8	-	1,183.5
Deposits with ceding undertakings	-	-	-	-	-	0.2	0.2
Reinsurer' share of claims outstanding	-	68.7	218.8	-	-	4.8	292.3
Insurance and reinsurance premium receivable	-	-	-	-	-	317.7	317.7
Reinsurance recoveries on paid claims	-	3.1	24.9	-	-	0.1	28.1
Cash at bank and in hand	-	-	109.7	-	-	-	109.7
Total credit risk	210.4	693.3	578.3	121.9	4.8	322.8	1,931.5

As at 31 December 2014	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	353.1	423.7	251.0	92.2	4.4	-	1,124.4
Participation in investment pools	21.1	3.1	4.2	-	-	-	28.4
Shares and other variable yield securities	80.4	-	-	-	-	-	80.4
Lloyd's overseas deposits	37.8	12.8	9.8	6.0	0.2	-	66.6
Sub-total investments	492.5	439.6	265.0	98.2	4.6	-	1,299.8
Deposits with ceding undertakings	-	-	-	-	-	0.3	0.3
Reinsurer' share of claims outstanding	-	57.4	225.2	-	-	6.2	289.0
Insurance and reinsurance premium receivable	-	-	-	-	-	304.0	304.0
Reinsurance recoveries on paid claims	-	2.9	30.6	-	-	1.0	34.5
Cash at bank and in hand	-	-	68.9	-	-	-	68.9
Total credit risk	492.5	499.9	589.7	98.2	4.6	311.5	1,996.5

The syndicate has premiums receivable and reinsurance recoverable that are past due at the reporting date as follows.

As at 31 December 2015	up to 3 months past due $m	3 to 6 months past due $m	6 months to 1 year past due $m	greater than 1 year past due $m	Total $m
Insurance and reinsurance premiums receivable	22.0	16.5	6.7	0.7	45.9
Reinsurance recoveries on paid claims	-	-	(0.1)	-	(0.1)
	22.0	16.5	6.6	0.7	45.8

As at 31 December 2014	up to 3 months past due $m	3 to 6 months past due $m	6 months to 1 year past due $m	greater than 1 year past due $m	Total $m
Insurance and reinsurance premiums receivable	19.5	11.3	5.5	-	36.3
Reinsurance recoveries on paid claims	-	-	-	-	-
	19.5	11.3	5.5	-	36.3

The syndicate believes that the amounts past due date are unimpaired and are collectable in full based on historic payment behaviour and analysis of credit risk.

4 Risk management (continued)

c) 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.

Syndicate cash flow forecasts are prepared 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 2015, the average duration of syndicate funds to maturity was 1.9 years (2014: 1.9 years) compared to 1.7 years (2014: 1.7 years) for syndicate claims outstanding.

As at 31 December 2015	No contractual maturity date $m	< 1 year on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	>5 years $m	Total $m
Financial assets						
Debt securities and other fixed income securities	-	139.2	700.0	110.9	139.3	1,089.4
Participation in investment pools	-	12.8	7.2	0.2	0.6	20.8
Shares and other variable securities	18.8	-	-	-	-	18.8
Lloyd's overseas deposits	-	35.0	16.3	2.6	0.6	54.5
Deposits with ceding undertakings	-	0.2	-	-	-	0.2
Reinsurers' share of technical provisions – claims outstanding	-	148.1	104.9	26.2	13.1	292.3
Insurance and reinsurance premium receivable	-	317.7	-	-	-	317.7
Reinsurance recoveries on paid claims	-	28.1	-	-	-	28.1
Other debtors	-	9.8	-	-	-	9.8
Cash at bank and in hand	109.7	-	-	-	-	109.7
	128.6	690.9	828.4	139.9	153.5	1,941.3
Financial liabilities						
Technical provisions – claims outstanding	-	625.9	467.9	134.9	73.9	1,302.6
Creditors arising out of direct insurance operations	-	2.5	-	-	-	2.5
Creditors arising out of reinsurance operations	-	122.2	-	-	-	122.2
Other creditors including taxation and social security	-	65.5	-	-	-	65.5
	-	816.1	467.9	134.9	73.9	1,492.8

As at 31 December 2014	No contractual maturity date $m	< 1 year on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	>5 years $m	Total $m
Financial assets						
Debt securities and other fixed income securities	-	166.4	584.9	256.3	116.8	1,124.4
Participation in investment pools	-	18.0	8.3	0.9	1.2	28.4
Shares and other variable yield securities	80.4	-	-	-	-	80.4
Lloyd's overseas deposits	-	48.7	13.6	3.0	1.3	66.6
Deposits with ceding undertakings	-	0.3	-	-	-	0.3
Reinsurers' share of technical provisions – claims outstanding	-	154.3	98.7	23.2	12.7	289.0
Insurance and reinsurance premium receivable	-	304.0	-	-	-	304.0
Reinsurance recoveries on paid claims	-	34.5	-	-	-	34.5
Other debtors	-	11.5	-	-	-	11.5
Cash at bank and in hand	68.9	-	-	-	-	68.9
	149.2	737.7	705.5	283.5	132.1	2,008.0
Financial liabilities						
Technical provisions – claims outstanding	-	666.6	477.4	133.6	74.5	1,352.1
Creditors arising out of direct insurance operations	-	2.6	-	-	-	2.6
Creditors arising out of reinsurance operations	-	113.7	-	-	-	113.7
Other creditors including taxation and social security	-	57.7	3.0	-	-	60.7
	-	840.6	480.4	133.6	74.5	1,529.1

Notes to the accounts
continued

4 Risk management (continued)

d) 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.

Foreign exchange risk
This is the risk that foreign exchange rate movements could impact the valuation of assets and liabilities in the syndicate's reporting currency. While the syndicate's results are reported in US dollars funds are also held in other non US dollar currencies, primarily sterling. 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. The syndicate aims to hold surplus funds in its functional currency of US dollars. If the US dollar had weakened/strengthened against sterling by 5% the profit for year would have been higher/lower by $3.3m (2014 $1.4m).

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 0.50%, profit for the year would have been lower/higher by $12.2m (2014: $13.0m).

e) 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. When risks are reported, controls are put in place to mitigate the likelihood of the risk impacting the business.

5. Segmental analysis

Year ended 31 December 2015	Gross premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Re-insurance balance $m	Total $m
Direct business						
Accident and health	18.7	19.4	(12.5)	(11.1)	-	(4.2)
Motor (third party liability)	0.4	0.3	(0.2)	(0.2)	-	(0.1)
Motor (other classes)	1.6	1.6	(0.6)	(0.7)	(0.1)	0.2
Marine	70.3	76.2	(45.2)	(37.9)	2.1	(4.8)
Aviation	36.8	37.4	(19.9)	(12.2)	(6.0)	(0.7)
Transport	41.1	45.2	(34.4)	(21.6)	(0.9)	(11.7)
Energy – marine	68.9	72.8	0.9	(30.1)	(12.4)	31.2
Energy – non marine	36.0	38.2	(21.0)	(5.6)	(8.9)	2.7
Fire and other damage to property	181.4	181.6	(58.4)	(71.2)	(22.0)	30.0
Third party liability	34.5	30.8	(11.3)	(10.7)	3.1	11.9
Pecuniary loss	70.4	62.9	(54.9)	(25.0)	3.7	(13.3)
Total direct	560.1	566.4	(257.5)	(226.3)	(41.4)	41.2
Reinsurance business	458.7	465.6	(200.1)	(156.8)	(32.1)	76.6
Total	1,018.8	1,032.0	(457.6)	(383.1)	(73.5)	117.8

Year ended 31 December 2014	Gross premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Re-insurance balance $m	Total $m
Direct business						
Accident and health	20.6	18.9	(10.4)	(10.4)	-	(1.9)
Motor (third party liability)	0.7	0.5	(0.3)	(0.2)	-	-
Motor (other classes)	1.5	1.2	(0.3)	(0.5)	-	0.4
Marine	87.4	83.0	(34.2)	(38.6)	(6.4)	3.8
Aviation	32.9	33.7	(20.7)	(10.0)	(6.7)	(3.7)
Transport	49.6	47.4	(28.5)	(23.0)	(2.0)	(6.1)
Energy – marine	85.9	89.4	(39.5)	(34.9)	0.8	15.8
Energy – non marine	43.0	41.8	(20.4)	(5.7)	(10.0)	5.7
Fire and other damage to property	188.8	171.2	(69.3)	(65.5)	(21.0)	15.4
Third party liability	27.2	25.5	(9.7)	(8.1)	(5.9)	1.8
Pecuniary loss	75.1	67.7	(34.7)	(27.1)	(0.8)	5.1
Total direct	612.7	580.3	(268.0)	(224.0)	(52.0)	36.3
Reinsurance business	489.1	508.0	(224.9)	(160.3)	(67.8)	55.0
	1,101.8	1,088.3	(492.9)	(384.3)	(119.8)	91.3

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:

	2015 $m	2014 $m
UK	151.2	187.8
Other EU countries	136.7	134.2
US	328.6	318.2
Other	402.3	461.6
	1,018.8	1,101.8

6. 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 2015 amounted to $146.4m (2014: $141.2m), attributable to the following classes of business:

	2015 $m	2014 $m
Marine	59.9	24.5
Political Lines	15.0	24.5
Property	47.3	43.3
Specialty	8.6	28.5
Treaty	15.6	20.4
	146.4	141.2

7. Net operating expenses

	2015 $m	2014 $m
Brokerage and commissions	209.3	219.4
Other acquisition costs	13.6	13.3
Acquisition costs	222.9	232.7
Acquisition costs – change in deferred acquisition costs	2.0	(6.1)
Administrative expenses	156.0	153.9
Foreign exchange (gains)/losses	2.2	3.8
Gross operating expenses	383.1	384.3
Reinsurance commissions and profit participation	(24.2)	(24.9)
	358.9	359.4

Commissions for direct insurance business for the year amounted to $121.0m (2014: $131.2m).

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 19.

	2015 $m	2014 $m
Fees payable to the syndicate's auditor and its associates in respect of :		
Audit related assurance services	0.7	0.7
Other services pursuant to legislation	-	0.2
	0.7	0.9

8. 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 19, these group companies charge management fees to the syndicate for providing services to the syndicate. Estimated staff costs allowed for within the management fees were as follows:

	2015 $m	2014 $m
Salaries, pensions and related costs	81.6	76.2
Cost of share based payments	10.5	10.2
	92.1	86.4

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

	2015 Number	2014 Number
Underwriting	147	138
Claims administration	23	24
Other administration	187	164
	357	326

Notes to the accounts
continued

8. 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:

	2015 $m	2014 $m
Aggregate emoluments	1.2	1.2
Defined contribution scheme	-	-
	1.2	1.2

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

	2015 $m	2014 $m
Aggregate emoluments	5.3	5.4
Defined contribution scheme	0.2	0.2
	5.5	5.6

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

	2015 $m	2014 $m
Aggregate emoluments	1.2	1.3
Defined contribution scheme	-	-
	1.2	1.3

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

	2015	2014
Defined contribution scheme	7	7

9. Investments

	Cost 2015 $m	Cost 2014 $m	Market Value 2015 $m	Market Value 2014 $m
Investments at fair value				
Debt securities and other fixed income securities	1,095.4	1,124.1	1,089.4	1,124.4
Participations in investment pools	20.4	28.0	20.8	28.4
Shares and other variable yield securities	18.8	80.4	18.8	80.4
Lloyd's overseas deposits	54.5	66.7	54.5	66.6
	1,189.1	1,299.2	1,183.5	1,299.8

	Cost 2015 $m	Cost 2014 $m	Market Value 2015 $m	Market Value 2014 $m
Investments at fair value analysis				
Government debt	309.2	142.3	308.3	201.2
Quasi Government debt	18.1	22.5	17.9	22.0
Agency debt	139.1	107.4	138.7	107.3
Corporate debt	494.0	514.2	489.9	514.2
Supranational debt	5.8	5.7	5.6	5.6
Asset backed securities	33.0	161.4	33.1	162.2
Mortgage backed securities	116.6	139.7	116.7	140.2
Short term investments – cash equivalents	18.8	139.3	18.8	80.4
Lloyd's overseas deposits	54.5	66.7	54.5	66.7
	1,189.1	1,299.2	1,183.5	1,299.8

Shares and other variable yield securities represent short-term highly liquid investments readily convertible to known amounts of cash with an insignificant risk of change in value, i.e. cash equivalents.

Lloyd's overseas deposits are lodged as a condition of conducting underwriting business in certain countries or states within countries. These funds are managed by Lloyd's Treasury Services.

Fair value estimation

The syndicate recognises investments at their fair value in the balance sheet. The syndicate's investments valuations are provided principally by BlackRock Financial Management Inc. who in turn use 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. Lloyd's Treasury Services provides details of the sourcing of fair value classification together with details by security for the Lloyd's overseas deposits.

Under FRS 102, the syndicate must determine the appropriate level in a fair value hierarchy for each fair value measurement. The fair value hierarchy under FRS 102 has three levels which should be used to estimate fair value:

Level a - the quoted price for an identical investment in an active market, a price readily available to the public;

Level b - where a quoted price is not available, the price of a recent transaction for an identical investment. If necessary, the price is adjusted to reflect updated economic conditions or if evidence suggests that the recent transaction was not at fair value; and

Level c – if there is no active market and no suitable recent transactions then a valuation technique is used determine the arms- length price for the investment. If a reliable, commonly used valuation method exists in that market, then that technique is used.

Notes to the accounts
continued

9. Investments (continued)

Fair value estimation (continued)

At 31 December, the syndicate's investments were allocated between the Levels a, b and c as follows:

2015	Level a $m	Level b $m	Level c $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	293.2	796.2	-	1,089.4
Participation in investment pools	15.0	5.8	-	20.8
Shares and other variable yield securities	18.8	-	-	18.8
Lloyd's overseas deposits	24.8	29.7	-	54.5
	351.8	831.7	-	1,183.5

2014	Level a $m	Level b $m	Level c $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	123.8	1,000.6	-	1,124.4
Participation in investment pools	18.6	9.8	-	28.4
Shares and other variable yield securities	80.4	-	-	80.4
Lloyd's overseas deposits	60.1	6.5	-	66.6
	282.9	1,016.9	-	1,299.8

During the year the syndicate entered into capital commitments with a number of private debt investments up to a value of $50.0m. At 31 December the syndicate's remaining commitments were $50.0m.

10. Debtors arising out of direct insurance operations

	2015 $m	2014 $m
Premiums due from intermediaries within one year	268.7	255.6
Premiums due from intermediaries after one year	0.6	0.5
	269.3	256.1

11. Debtors arising out of reinsurance operations

	2015 $m	2014 $m
Reinsurance premiums due from ceding insurers and intermediaries within one year	48.0	47.4
Reinsurance premiums due from ceding insurers and intermediaries after one year	0.4	0.5
Reinsurance recoveries on paid claims due from reinsurers and intermediaries within one year	28.1	34.5
	76.5	82.4

12. Other debtors

	2015 $m	2014 $m
Amounts due from group companies	0.5	2.2
Overseas taxes	0.9	2.5
Other debtors	3.3	0.1
Accrued interest	5.1	5.3
Other prepayments and accrued income	-	1.4
	9.8	11.5

13. Statement of changes in member's balance

Year ended 31 December 2015	2012 yoa Closed $m	2013 yoa Closed $m	2014 yoa Open $m	2015 yoa Open $m	Total 2015 $m
Retained profit (loss)					
At 1 January	145.7	16.6	(68.7)	-	93.6
Profit/(loss) for the year	-	119.6	73.9	(63.4)	130.1
At 31 December	145.7	136.2	5.2	(63.4)	223.7
Cash distributions					
At 1 January	-	-	-	-	-
For the year	(145.7)	-	-	-	(145.7)
At 31 December	(145.7)	-	-	-	(145.7)
Net balance at 31 December	-	136.2	5.2	(63.4)	78.0

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	130.3	28.3	(47.4)	-	111.2
Profit/(loss) for the year	-	117.4	64.0	(68.7)	112.7
At 31 December	130.3	145.7	16.6	(68.7)	223.9
Cash distributions					
At 1 January	-	-	-	-	-
For the year	(130.3)	-	-	-	(130.3)
At 31 December	(130.3)	-	-	-	(130.3)
Net balance at 31 December	-	145.7	16.6	(68.7)	93.6

Notes to the accounts
continued

14. Technical provisions

Year ended 31 December 2015	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	548.2	1,352.0
Movement in the provision	(13.2)	(32.1)
Exchange adjustment	(5.8)	(17.3)
As at 31 December	529.2	1,302.6
Reinsurers' share of technical provisions		
As at 1 January	68.9	289.0
Movement in the provision	(0.5)	5.5
Exchange adjustment	(0.5)	(2.2)
As at 31 December	67.9	292.3
Net technical provision		
As at 1 January 2015	479.3	1,063.0
As at 31 December	461.3	1,010.3

Year ended 31 December 2014	Provision for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	541.3	1,362.6
Movement in the provision	13.5	11.8
Exchange adjustment	(6.6)	(22.4)
As at 31 December	548.2	1,352.0
Reinsurers' share of technical provisions		
As at 1 January	83.0	336.9
Movement in the provision	(13.5)	(45.4)
Exchange adjustment	(0.6)	(2.7)
As at 31 December	68.9	289.0
Net technical provision		
As at 1 January	458.3	1,025.7
As at 31 December	479.3	1,063.0

14. Technical provisions (continued)

Claims development triangles

Whole account, underwriting year Gross earned ultimate claims	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	Total $m
12 months	331.9	319.9	316.5	318.9	274.8	
24 months	641.1	547.4	570.2	585.6		
36 months	610.0	538.2	548.5			
48 months	588.8	515.0				
60 months	572.2					
72 months						
Total earned ultimate losses	572.2	515.0	548.5	585.6	274.8	2,496.1
less paid claims	(466.1)	(376.8)	(333.0)	(191.4)	(29.3)	(1,396.6)
Gross Claims liabilities	106.1	138.2	215.5	394.2	245.5	1,099.5
Provision in respect of prior years						203.1
Total provision in the balance sheet						1,302.6

Whole account, underwriting year Net earned ultimate claims	2011 $m	2012 $m	2013 $m	2014 $m	2015 $m	Total $m
12 months	250.8	258.8	258.0	271.4	235.4	
24 months	479.7	433.6	466.0	464.7		
36 months	455.4	437.4	451.4			
48 months	436.2	419.9				
60 months	418.8					
72 months						
Total Net Earned Ultimate losses	418.8	419.9	451.4	464.7	235.4	1,990.2
less net paid claims	(338.5)	(311.6)	(280.3)	(172.8)	(27.4)	(1,130.6)
Net Claims liabilities	80.3	108.3	171.1	291.9	208.0	859.6
Provision in respect of prior years						150.7
Total provision in the balance sheet						1,010.3

Notes to the accounts
continued

15. Creditors arising out of direct insurance operations	2015 $m	2014 $m
Due within one year	2.4	2.6
Due after one year	0.1	0.0
	2.5	2.6

16. Creditors arising out of reinsurance operations	2015 $m	2014 $m
Due within one year	122.2	113.7
Due after one year	0.0	0.0
	122.2	113.7

17. Other creditors	2015 $m	2014 $m
Amounts due within one year		
Profit commission	25.0	25.7
Amounts due to group companies	39.6	32.0
	64.6	57.7
Amounts due after one year		
Profit commission	0.9	3.0
	65.5	60.7

18. Post balance sheet events

The following amounts were approved to be transferred to the personal reserve fund of Talbot 2002 Underwriting Capital Ltd by the board on the 4 March 2016 (6 March 2015).

	2015 $m	2014 $m
2013 (2012) underwriting year of account	136.2	145.7

Notes to the accounts
continued

19. 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 member
Talbot 2002 Underwriting Capital Ltd is the sole corporate member underwriting on the syndicate.

Coverholders
The following group companies provide services to the syndicate as coverholders:

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

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 Ltd
Validus Research Inc.
Validus Services (Bermuda) Ltd

The syndicate is charged arm's length management fees for services provided.

20. Capital

On 1 January 2016 Solvency II was implemented. Every syndicate at Lloyd's must calculate its Solvency Capital Requirement (SCR) for every underwriting year. This is to ensure each syndicate and Lloyd's overall complies with Solvency II regulations and holds enough capital for the risks they are exposed to.

Every syndicate's SCR is reviewed by Lloyd's to ensure they are consistent. They must be approved by the Lloyd's Capital and Planning Group. Once the SCR is approved the capital requirement is then uplifted (in 2016 this was by 35%) to ensure this meets Lloyd's own internal capital requirements. This requirement is satisfied by the deposit of cash and investments at Lloyd's, known as Funds at Lloyd's ("FAL"), which is held in trust by Lloyd's, together with pipeline profit retained in the syndicate. This is the second level of security and is used when the syndicate holds insufficient premium trust funds to cover claims on underwriting.

An additional level of security is the Central fund which all syndicates contribute to based on their premium income for every year of account. Claims may be paid out of the central fund once approved by the Council of Lloyd's if a syndicate's FAL cannot cover all claims.

Notes to the accounts
continued

21. Transition to FRS 102 and FRS 103

This is the first year the syndicate has presented its accounts under FRS102 and FRS103. The date of transition to the new standards was 1 January 2014 and the last date at which the accounts were prepared under previous UK GAAP was 31 December 2014.

There is no impact on the member's balance at 1 January 2014 as reported under FRS 102 and FRS 103 compared with previous UK GAAP.

Set out below are the changes in accounting policy under FRS 102 and FRS 103 and a reconciliation between previous UK GAAP and the new standards.

Foreign currency
Under FRS102 the functional currency of the syndicate has been determined as the US dollar and all foreign exchange gains or losses are reported in the profit and loss account.

Under previous UK GAAP the syndicate had multi-functional currency ledgers and a sterling presentational currency. Foreign exchange gains or losses arising from the retranslation of the opening balance of the member's funds and the result for the year, in the respective currency ledgers, were recorded as a movement in reserves within the Statement of Total Recognised Gains and Losses now known as Other Comprehensive Income.

	As previously reported 2014 $m	FRS102 transition adjustment $m	As reported under 2014 $m
Balance on technical account before operating expenses	472.1	-	472.1
Net operating expenses	(365.1)	5.7	(359.4)
Profit for the financial year	107.0	5.7	112.7
Currency translation differences	5.7	(5.7)	-
Other comprehensive income for the year	5.7	(5.7)	-
Total comprehensive income for the year	112.7	-	112.7

Additional disclosures
Under FRS102 and FRS103 the syndicate has reported additional disclosures as follows;-

Risk management (Note 4)
Investment fair value hierarchy (Note 9)
Technical provisions movements (Note 14)
Claims development triangles (Note 14)

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

$m	2007	2008	2009	2010	2011	2012	**2013**
Syndicate allocated capacity £m	325.0	325.0	410.0	600.0	560.0	600.0	**620.0**
Syndicate allocated capacity $m	516.8	503.8	635.5	972.0	929.6	936.0	**917.6**
Gross premiums [1]	548.6	549.2	754.2	807.5	834.6	839.0	**861.5**
Net premiums	465.0	457.6	571.6	607.2	636.2	657.1	**665.7**
Reinsurance to close received	260.7	330.2	409.0	484.4	566.9	552.2	**532.4**
Net claims	(257.3)	(265.1)	(309.4)	(347.5)	(395.9)	(387.3)	**(390.7)**
Reinsurance to close paid	(331.3)	(410.2)	(477.6)	(561.9)	(563.2)	(540.1)	**(534.2)**
Underwriting result	137.1	112.5	193.6	182.2	244.0	281.9	**273.2**
Profit (loss) on exchange	(3.1)	6.4	(1.6)	1.0	3.6	(5.4)	**(9.9)**
Syndicate expenses	(36.7)	(43.2)	(57.8)	(58.5)	(87.8)	(105.4)	**(99.8)**
Balance on technical account	97.3	75.7	134.2	124.7	159.8	171.1	**163.5**
Investment return net of investment expenses	31.9	28.8	27.5	24.3	11.1	15.7	**14.0**
Profit before personal expenses	129.2	104.5	161.7	149.0	170.9	186.8	**177.5**
Personal expenses							
Managing agent's fee	(7.8)	(7.6)	(9.5)	(14.6)	(9.3)	(9.4)	**(9.2)**
Profit commission	(16.9)	(13.7)	(21.8)	(19.0)	(23.1)	(25.7)	**(24.1)**
Contribution to Lloyd's Central fund	(6.3)	(3.0)	(3.4)	(3.8)	(4.1)	(2.0)	**(4.0)**
Lloyd's subscription	(2.6)	(2.5)	(3.5)	(3.9)	(4.1)	(4.0)	**(4.0)**
	(33.6)	(26.8)	(38.2)	(41.3)	(40.6)	(41.1)	**(41.3)**
Profit on ordinary activities after personal expenses	95.6	77.7	123.5	107.7	130.3	145.7	**136.2**
Exchange rates (USD:GBP)	0.63	0.65	0.65	0.62	0.60	0.64	**0.68**
Exchange rates (USD:CAD)	1.05	1.01	1.03	1.00	1.06	1.16	**1.39**
Gross premiums as a % of allocated capacity	106.2	109.0	118.7	83.1	89.8	89.6	**93.9**
Net premiums as a % of allocated capacity	90.0	90.8	89.9	62.5	68.4	70.2	**72.5**
Underwriting result as a % of gross premiums	25.0	20.5	25.7	22.6	29.2	33.6	**31.7**
Return on allocated capacity (%)	18.5	15.4	19.4	11.1	14.1	15.6	**14.9**

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

[1] Gross premiums are stated net of external acquisition costs.

Officers and professional advisors

Managing agent

Talbot Underwriting Ltd
60 Threadneedle Street
London
EC2R 8HP

Managing agent's registered number

2202362

Directors

CNR Atkin	(Chairman)
PA Bilsby	(Chief Executive)
MEA Carpenter	(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

Lloyds TSB Bank plc
Citibank NA
Royal Bank of Canada

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