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# TALBOT

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## Annual Report 2018

Talbot Underwriting Ltd Syndicate 1183

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# Chief executive's report

## Results for the year

The result for the year was a loss of \$63.7m (2017: loss of \$68.1m) due to a series of natural catastrophes impacting the US and Papua New Guinea, together with a higher than normal number of large losses in 2018. Gross premiums written increased by \$29.4m to \$950.5m and premiums earned after reinsurance increased by \$4.5m to \$746.6m. Claims after reinsurance recoveries were \$518.8m, an increase of \$13.1m on last year due mainly to the catastrophe losses arising from Hurricane Florence, Hurricane Michael, Typhoon Jebi and the Papua New Guinea Earthquake, together with large losses arising from the Lurssen shipyard fire, Bayernoil refinery fire and the Glasgow School of Art fire.

Operating expenses including acquisition costs decreased by \$6.6m to \$313.0m. The combined ratio for the year was 111.4%, slightly above the 111.2% in 2017.

On the 18<sup>th</sup> July 2018 American International Group, Inc. (AIG) completed the acquisition of Validus Holdings, Ltd to become the ultimate parent company of Talbot Underwriting Ltd.

During the year, Talbot ceased underwriting Construction business and Direct Aviation business.

## Future developments

The syndicate capacity for the 2019 year of account is £650m. During 2018, we witnessed a modest increase in gross written premiums, driven by improvements in pricing and growth in profitable lines. We expect to see a continuation of these trends throughout 2019 and will pursue a disciplined approach to underwriting, ensuring that pricing levels are commensurate with the risk.

Finally, I would like to thank all my colleagues at Talbot for their hard work and commitment during the year.

**David Morris**

Interim Chief Executive Officer  
Talbot Underwriting Ltd  
28 February 2019

# 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 2018. 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 loss of \$63.7m (2017: loss \$68.1m). Gross premiums written during the year were \$950.5m (2017: \$921.1m).

## Results for the financial year

	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Gross premiums written	950.5	921.1	970.7	1,018.8	1,101.8
Net premiums written	749.9	721.6	795.0	819.9	909.6
Net earned premiums	746.6	742.1	774.4	832.6	882.6
Net claims incurred	(518.8)	(505.7)	(430.9)	(355.9)	(431.9)
Net acquisition costs	(178.4)	(182.7)	(188.9)	(200.7)	(201.7)
Underwriting result before administrative expenses	49.4	53.7	154.6	276.0	249.0
Administrative expenses	(134.6)	(136.9)	(138.3)	(156.0)	(153.9)
Investment return	17.7	18.4	18.2	12.3	21.4
Foreign exchange gains/(losses)	3.8	(3.3)	14.6	(2.2)	(3.8)
Profit/(loss) for the financial year	(63.7)	(68.1)	49.1	130.1	112.7

## Key performance indicators

	2018	2017	2016	2015	2014
Claims ratio (%)	69.5	68.1	55.6	42.7	48.9
Expense ratio (%)	41.9	43.1	42.3	42.8	40.3
Combined ratio (%)	111.4	111.2	97.9	85.5	89.2

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, 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 2016 closed year of account at 31 December 2018 is shown below together with forecasts for the two open years of account.

Year of account	2018 open	2017 open	2016 closed	2015 closed	2014 closed
Capacity (£m)	650.0	600.0	600.0	625.0	625.0
Open year forecast/Closed year result (£m)	(15.0)	(100.1)	(15.6)	64.1	56.1
Return on capacity %	(2.3)	(16.7)	(2.6)	10.3	9.0

<sup>1</sup> 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

## Review of the business

### Underwriting

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

	2018 \$m	2017 \$m	2016 \$m	2015 \$m	2014 \$m
Marine	218.5	226.8	246.0	302.9	366.1
Political Risk	99.4	82.3	78.6	76.4	68.4
Political Violence and War	106.4	113.2	113.0	111.0	121.3
Property	295.6	256.2	276.9	281.4	282.0
Specialty	152.7	148.4	156.4	141.0	138.6
Treaty	77.9	94.2	99.8	106.1	125.4
Total gross premiums written	950.5	921.1	970.7	1,018.8	1,101.8

Premiums were primarily written in the London market. However, group coverholders underwriting on behalf of the syndicate in overseas markets contributed 23.1% (2017: 22.4%) of premiums written. These coverholder operations are located in Singapore, Labuan, Shanghai, Sydney, Dubai, New York, Miami and Santiago.

Gross premiums written increased by \$29.4m (3.2%) to \$950.5m in the calendar year. Translated at 2017 exchange rates gross premiums written would have been \$942.2m, an increase of \$21.1m (2.3%).

The majority of the syndicate's insurance and reinsurance business classes experienced increased pricing for 2018. Rates charged for renewal business increased by 6.2% in 2018 across the portfolio (2017: increased 5.7%). The largest premium movement was in Property where gross written premium increased by \$39.4m to \$295.6m, driven by an overall rate increase of 11.0%.

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 realigning 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 \$200.6m (2017:\$199.5m), an increase of \$1.1m (0.6%).

### Net claims ratio

The net claims ratio for the year was 69.5% compared to 68.1% for the previous year. Net claims incurred as a percentage of net earned premiums were as follows:-

	2018	2017
Current year notified claims - large losses over \$5m net (%)	13.0	20.4
Current year claims - other losses (%)	62.2	59.9
Release from prior years' net claims provision (%)	(5.7)	(12.2)
	69.5%	68.1%

The higher claims ratio was driven by a lower release from the prior years' net claims provision of \$42.8m in 2018 compared with \$90.9m in 2017, driven mainly by Property (\$21.6m reduction) and Marine (\$17.8m reduction).

This was offset by a \$54.1m improvement on current year notified claims for large losses over \$5m (net) i.e. \$97.1m in the current year compared with \$151.2m in the prior year, due to the severity of losses arising from hurricanes Harvey, Irma and Maria in 2017.

The board has applied reserving methodologies consistent with previous years.

# Report of the directors of the managing agent

## Net operating expenses

Net operating expenses for the year are set out below:-

	2018 \$m	2017 \$m	Movement \$m
Acquisition costs	189.1	186.8	2.3
Acquisition costs – change in deferred acquisition costs	(0.7)	6.1	(6.8)
Acquisition costs – underwriting expenses	14.2	12.8	1.4
Reinsurance commissions	(24.2)	(23.0)	(1.2)
Net acquisition costs	178.4	182.7	(4.3)
Administrative expenses			
– Management fees from service companies	106.5	94.2	12.3
– Direct syndicate expenses	12.5	13.5	(1.0)
– Managing agency fee	8.7	7.7	1.0
– Managing agency profit commission	-	14.6	(14.6)
– Lloyd's subscription and Central Fund charges	6.9	6.9	-
Administrative expenses	134.6	136.9	(2.3)
Net operating expenses	313.0	319.6	(6.6)

Net acquisition costs as a percentage of net earned premiums were in line with the previous year at 23.9% (2017: 24.6%).

## Foreign exchange

During the year, the US dollar strengthened against sterling and the Canadian dollar, with the closing exchange rates moving from £0.74/\$1 to £0.78/\$1 and C\$1.26/\$1 to C\$1.36/\$1 respectively. The gain on foreign exchange, primarily reflecting the strengthening of the US dollar against sterling, was \$3.8m (2017: loss \$3.3m).

## Investment return

The return on syndicate funds by currency is shown below:-

	Sterling	US dollars	Canadian dollars	Combined US dollars
2018				
Average syndicate funds available for investment (millions)	185.8	909.6	44.9	1,191.9
Investment return for the year (millions)	0.9	16.0	0.7	17.7
Calendar year investment return (%)	0.5	1.8	1.6	1.5
2017				
Average syndicate funds available for investment (millions)	173.6	913.7	48.2	1,174.4
Investment return for the year (millions)	1.2	16.6	0.3	18.4
Calendar year investment return (%)	0.7	1.8	0.6	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 increased by 1.5% in the current year.

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# Report of the directors of the managing agent

## 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. All investments are traded within liquid markets except for private debt funds. The fair value of investments carried in the balance sheet is determined by market prices or by industry standard valuation models except for private debt funds. At 31 December 2018 the fair value of investments was \$1,203.5m (2017: \$1,086.0m) and the portfolio composition is shown in note 9 to the accounts.

## Cash flow

There was a decrease of \$11.7m (2017: decrease of \$26.7m) in cash and cash equivalents during the year. Before investment activities, cash and cash equivalents increased by \$126.8m driven by a net cash inflow from the corporate member of \$144.7m.

## Technical provisions

Technical provisions include a provision for outstanding claims of \$1,532.1m (2017: \$1,542.5m) and a provision for unearned premiums of \$537.1m (2017: \$533.9m). The reinsurers' share of technical provisions is \$399.9m (2017: \$455.7m) in respect of outstanding claims and \$84.5m (2017: \$79.4m) 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.

## AIG

American International Group, Inc. (AIG) completed the acquisition of Validus Holdings, Ltd on the 18<sup>th</sup> July 2018, and is the ultimate parent company of the Talbot group.

## Brexit

Lloyd's received regulatory approval from the National Bank of Belgium on 22<sup>nd</sup> May 2018 to establish an insurance company in Brussels, Lloyd's Brussels (Lloyd's Insurance Company S.A). This will ensure Lloyd's partners across Continental Europe can continue to access the market's underwriting expertise and financial security following the departure of the United Kingdom from the European Union. All European Economic Area (EEA) insurance risks and certain EEA reinsurance risks incepting on or after 1<sup>st</sup> January 2019 will be underwritten via Lloyd's Brussels under an outsourcing agreement, and will be 100% reinsured back to the syndicate.

## Future developments

We anticipate that prices will continue to firm during 2019 but the market will continue to be challenging due to the combined effects of competition and overcapacity within the market. We continue our strategy of writing for profit rather than premium income. However, where classes perform well we will seek to capitalise on these opportunities for growth.

The syndicate capacity for the 2019 year of account is £650m (2018: £650m). For further detail on "syndicate capacity", see footnote 1 on page 2 of the accounts.

Following the loss for the year, the syndicate balance sheet shows net liabilities of \$65.4m (2017: \$144.5m). To rectify this position a cash call will be made on the corporate member. For further details, refer to note 18 in the accounts.



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# Report of the directors of the managing agent

## 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 four main board committees:

- Risk and Compliance Committee;
- Audit Committee; and
- Underwriting Committee; and
- Remuneration Committee

The purpose of the Risk and Compliance Committee is to oversee the risk management process, to review issues of policy and to drive the risk culture at Talbot. The Risk and Compliance 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.

At syndicate level, all risks have been allocated to one of four management 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.

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# Report of the directors of the managing agent

## Corporate governance

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

The non-executive directors 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 six 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. 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 TUL Underwriting Committee is made up of six non-executive directors and is attended by various executive directors and members of management. The purpose of the Underwriting Committee is to review the underwriting activities of the syndicate, ensuring such activities are conducted in such a way as to meet the objectives of the business in accordance with the syndicate strategy and business plan.

The TUL Remuneration Committee is made up of six non-executive directors and is attended by the Chief Executive Officer and the Chief Corporate Services Officer. The purpose of the Remuneration Committee is to ensure that Talbot group remuneration policies which impact the syndicate are consistent with sound risk management and do not expose the syndicate to excessive risk.

## 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.

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# Report of the directors of the managing agent

## Directors

The directors of the managing agent during the period from 1 January 2018 to the date of this report were as follows:

CNR Atkin	(Chairman, non- executive)
DE Morris	(Interim Chief Executive, appointed 1 February 2019)
PA Bilsby	(Chief Executive, resigned 1 February 2019)
TA Bolt	(Non-executive, appointed 8 October 2018)
NMA Burch	(Non-executive)
MEA Carpenter	(Non-executive)
JS Clouting	(Resigned 30 September 2018)
BJ Hurst-Bannister	(Non-executive)
EJ Noonan	(Non-executive, resigned 18 August 2018)
JG Ross	
JD Sangster	(Non-executive, resigned 18 August 2018)
M Scales	(Non-executive)
JE Skinner	
CG Townsend	(Non-executive, appointed 25 September 2018)
ND Wachman	

## Active Underwriter

DE Morris is the active underwriter of the syndicate.

## Company Secretary

M-C Gallagher (appointed 30 September 2018)

## 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 2019.

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# Report of the directors of the managing agent

## 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 or loss 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 FRS 102, 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.

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

M-C Gallagher  
Company Secretary  
28 February 2019

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# Independent auditors' report to the members of Syndicate 1183

## Report on the syndicate annual accounts

### Opinion

In our opinion, Talbot Underwriting Ltd's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the annual report (the "Annual Report"), which comprise: the balance sheet at 31 December 2018, the statement of comprehensive income for the year then ended, the statement of changes members' balances, 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.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

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

### Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

We have nothing to report in respect of the above matters. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29<sup>th</sup> March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

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# Independent auditors' report to the members of Syndicate 1183

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion. Our opinion on the Annual Return is made or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### *Managing Agent's Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31<sup>st</sup> December 2018 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

## Responsibilities for the syndicate annual accounts and the audit

### *Responsibilities of the managing agent for the syndicate annual accounts*

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the syndicate annual accounts*

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

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

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# Independent auditors' report to the members of Syndicate 1183

## **Responsibilities for the syndicate annual accounts and the audit (continued)**

### *Use of this report*

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Other required reporting**

### *Other matters on which we are required to report by exception*

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

### **Andrew G Hill (Senior statutory auditor)**

For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors London  
22 March 2019

# Statement of comprehensive income

For the year ended 31 December 2018

	Notes	2018 \$m	2017 \$m
Gross premiums written	5	950.5	921.1
Outward reinsurance premiums		(200.6)	(199.5)
<b>Net premiums written</b>		<b>749.9</b>	<b>721.6</b>
Change in gross provision for unearned premiums		(9.2)	14.5
Reinsurers' share of change in the provision for unearned premium		5.9	6.0
Change in the net provision for unearned premiums		(3.3)	20.5
<b>Earned premiums, net of reinsurance</b>		<b>746.6</b>	<b>742.1</b>
Allocated investment return transferred from the non-technical account		17.7	18.4
Gross claims paid		(620.3)	(529.3)
Reinsurers' share of claims paid		160.6	95.3
Claims paid net of reinsurance		(459.7)	(434.0)
Change in the gross provision for claims		(6.9)	(219.3)
Change in the provision for claims, reinsurers' share		(52.2)	147.6
Change in the net provision for claims		(59.1)	(71.7)
<b>Claims incurred, net of reinsurance</b>		<b>(518.8)</b>	<b>(505.7)</b>
Net operating expenses	7	(313.0)	(319.6)
<b>Balance on the technical account</b>		<b>(67.5)</b>	<b>(64.8)</b>
Investment income		29.0	24.2
Realised gains and losses on investments		(4.6)	(4.5)
Unrealised gains and losses on investments		(5.7)	(0.4)
Investment expenses and charges		(1.0)	(0.9)
		17.7	18.4
Allocated investment return transferred to the technical account		(17.7)	(18.4)
Profit/(loss) on exchange		3.8	(3.3)
<b>Profit/(loss) for the financial year</b>	13	<b>(63.7)</b>	<b>(68.1)</b>
Other comprehensive income			
Recognition of foreign currency hedge reserve		(1.9)	1.9
<b>Total comprehensive income/(loss) for the financial year</b>		<b>(65.6)</b>	<b>(66.2)</b>



# Balance sheet

As at 31 December 2018

	Notes	2018 \$m	2017 \$m
<b>Assets</b>			
Investments	9	<b>1,203.5</b>	1,086.0
Deposits with ceding undertakings		<b>0.2</b>	0.2
Reinsurers' share of technical provisions			
Provision for unearned premiums	14	<b>84.5</b>	79.4
Claims outstanding	14	<b>399.9</b>	455.7
		<b>484.4</b>	535.1
<b>Debtors</b>			
Debtors arising out of direct insurance operations	10	<b>281.4</b>	319.1
Debtors arising out of reinsurance operations	11	<b>103.4</b>	69.5
Other debtors	12	<b>14.6</b>	11.4
		<b>399.4</b>	400.0
<b>Other assets</b>			
Cash at bank and in hand		<b>57.3</b>	52.7
Deferred acquisition costs		<b>102.5</b>	102.1
		<b>159.8</b>	154.8
<b>Total assets</b>		<b>2,247.3</b>	2,176.1
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Member's balance	13	<b>(65.4)</b>	(144.5)
Technical provisions			
Provision for unearned premiums	14	<b>537.1</b>	533.9
Claims outstanding	14	<b>1,532.1</b>	1,542.5
		<b>2,069.2</b>	2,076.4
<b>Creditors</b>			
Creditors arising out of direct insurance operations	15	<b>3.4</b>	4.6
Creditors arising out of reinsurance operations	16	<b>130.2</b>	141.7
Other creditors including taxation and social security	17	<b>94.8</b>	83.0
		<b>228.4</b>	229.3
<b>Other Liabilities</b>			
Creditors arising out of direct insurance operations		<b>0.5</b>	1.3
Creditors arising out of reinsurance operations		<b>14.6</b>	13.6
		<b>15.1</b>	14.9
<b>Total liabilities</b>		<b>2,247.3</b>	2,176.1

The notes on pages 17 to 37 are an integral part of these accounts.

The annual accounts on pages 13 to 39 were approved by the Board of Talbot Underwriting Ltd on 28 February 2019 and signed on its behalf by

ND Wachman  
Finance Director

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## Statement of changes in member's balance

For the year ended 31 December 2018

	Notes	2018 \$m	2017 \$m
Balance at 1 January	13	<b>(144.5)</b>	(9.1)
Profit/(loss) for the financial year	13	<b>(63.7)</b>	(68.1)
Other comprehensive income/(loss)		<b>(1.9)</b>	1.9
Cash calls/(distributions)	13	<b>144.7</b>	(69.2)
<b>Balance at 31 December</b>		<b>(65.4)</b>	(144.5)

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 cashflows

### For the year ended 31 December 2018

	Notes	2018 \$m	2017 \$m
Balance on technical account	13	(63.7)	(68.1)
Increase in gross technical provisions		16.1	204.9
Decrease/(increase) in reinsurers' share of gross technical provisions		46.3	(153.7)
Increase in debtors		(0.1)	(1.7)
Increase in creditors		3.3	33.6
Movement in other assets/liabilities		(0.6)	6.1
Investment return		(17.7)	(18.4)
Foreign exchange		(1.5)	3.6
<b>Net cash flows from operating activities</b>		<b>(17.9)</b>	<b>6.3</b>
Cash flows from investing activities			
Purchase of debt instruments		(563.2)	(500.0)
Sale of debt instruments		424.2	529.0
Investment income received		26.6	23.9
Other		(24.4)	(19.9)
<b>Net cash flow from investing activities</b>		<b>(136.8)</b>	<b>33.0</b>
Cash flows from financing activities			
Profit distribution	13	(86.3)	(69.2)
Cash calls	13	231.0	-
<b>Net cash flow from financing activities</b>		<b>144.7</b>	<b>(69.2)</b>
Net decrease in cash and cash equivalents		(10.0)	(29.9)
Foreign exchange on cash and cash equivalents		(1.7)	3.2
Cash and cash equivalents at beginning of year		110.9	137.6
<b>Cash and cash equivalents at end of year</b>		<b>99.2</b>	<b>110.9</b>
Cash at bank and in hand		57.3	52.7
Short term investments - cash equivalents		41.9	58.2
<b>Cash and cash equivalents at end of year</b>		<b>99.2</b>	<b>110.9</b>

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# 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.

## 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, commissions 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

Gross premiums written comprise premiums on contracts inception 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 inception 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

### 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, which will affect the ultimate value of the claim.

Provisions are initially calculated 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 program 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 risk provisions

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 or at the contracted forward rates of exchange. 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 or the translation of assets and liabilities are recognised in the non-technical profit and loss account except when deferred in other comprehensive income as qualifying cashflow hedges.

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

	2018		2017	
	Average	Closing	Average	Closing
Sterling	0.75	0.78	0.78	0.74
Canadian dollar	1.30	1.36	1.30	1.26

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## Notes to the accounts

### 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 initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on 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 but excluding investments, 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.

##### *Derivatives*

Derivatives, including forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in the non-technical profit and loss account except when deferred in other comprehensive income as qualifying cashflow hedges.

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# Notes to the accounts

## 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 and Compliance 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 2018, 85.0% (2017: 85.7%) 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 2018, 92.1% (2017: 94.0%) 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").

# Notes to the accounts

## 4 Risk management (continued)

### b. Credit risk (continued)

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

	AAA	AA	A	BBB	<BBB	Not rated	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>As at 31 December 2018</b>							
Debt securities and other fixed income securities	160.0	567.2	220.2	104.0	1.7	-	<b>1,053.1</b>
Shares and other variable yield securities	41.9	-	-	-	-	-	<b>41.9</b>
Debt funds	-	-	-	-	-	39.8	<b>39.8</b>
Lloyd's overseas deposits	31.3	16.5	6.9	10.4	2.4	1.2	<b>68.7</b>
Deposits with ceding undertakings	-	-	-	-	-	0.2	<b>0.2</b>
Reinsurers' share of claims outstanding	-	87.9	281.0	-	-	31.0	<b>399.9</b>
Insurance and reinsurance premium receivable	-	-	-	-	-	326.3	<b>326.3</b>
Reinsurance recoveries on paid claims	-	6.9	47.7	-	-	3.9	<b>58.5</b>
Cash at bank and in hand	-	-	4.0	53.3	-	-	<b>57.3</b>
<b>Total credit risk</b>	<b>233.2</b>	<b>678.5</b>	<b>559.8</b>	<b>167.7</b>	<b>4.1</b>	<b>402.4</b>	<b>2,045.7</b>
	AAA	AA	A	BBB	<BBB	Not rated	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>As at 31 December 2017</b>							
Debt securities and other fixed income securities	163.0	456.4	226.6	90.0	3.0	-	<b>939.0</b>
Shares and other variable yield securities	58.2	-	-	-	-	-	<b>58.2</b>
Debt funds	-	-	-	-	-	30.3	<b>30.3</b>
Lloyd's overseas deposits	20.9	5.0	4.2	2.6	23.9	-	<b>56.6</b>
Deposits with ceding undertakings	-	-	-	-	-	0.2	<b>0.2</b>
Reinsurers' share of claims outstanding	-	84.6	343.2	-	-	27.9	<b>455.7</b>
Insurance and reinsurance premium receivable	-	-	-	-	-	355.3	<b>355.3</b>
Reinsurance recoveries on paid claims	-	2.6	29.2	-	-	1.5	<b>33.3</b>
Cash at bank and in hand	-	-	0.9	51.8	-	-	<b>52.7</b>
<b>Total credit risk</b>	<b>242.1</b>	<b>548.6</b>	<b>604.1</b>	<b>144.4</b>	<b>26.9</b>	<b>415.2</b>	<b>1,981.3</b>



# Notes to the accounts

## 4 Risk management (continued)

### b. Credit risk (continued)

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

	up to 3 months past due	3 to 6 months past due	6 months to 1 year past due	greater than 1 year past due	<b>Total</b>
As at 31 December 2018	\$m	\$m	\$m	\$m	<b>\$m</b>
Insurance and reinsurance premiums	24.0	17.0	9.0	-	<b>50.0</b>
Reinsurance recoveries on paid claims	15.0	2.0	-	-	<b>17.0</b>
	39.0	19.0	9.0	-	<b>67.0</b>

	up to 3 months past due	3 to 6 months past due	6 months to 1 year past due	greater than 1 year past due	<b>Total</b>
As at 31 December 2017	\$m	\$m	\$m	\$m	<b>\$m</b>
Insurance and reinsurance premiums	19.0	19.0	8.0	6.0	<b>52.0</b>
Reinsurance recoveries on paid claims	-	-	-	-	<b>-</b>
	19.0	19.0	8.0	6.0	<b>52.0</b>

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.

# Notes to the accounts

## 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 2018, the average duration of syndicate funds to maturity was 2.0 years (2017: 2.2 years) compared to 1.9 years (2017: 1.5 years) for syndicate claims outstanding.

	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
<b>As at 31 December 2018</b>						
<b>Financial assets</b>						
Debt securities and other fixed income securities	-	181.8	518.3	82.5	270.5	<b>1,053.1</b>
Shares and other variable yield securities	41.9	-	-	-	-	<b>41.9</b>
Debt funds	39.8	-	-	-	-	<b>39.8</b>
Lloyd's overseas deposits	29.7	6.9	24.7	5.9	1.5	<b>68.7</b>
Derivative financial instruments	-	-	-	-	-	<b>-</b>
Deposits with ceding undertakings	-	0.2	-	-	-	<b>0.2</b>
Reinsurers' share of claims outstanding	-	209.9	134.9	34.8	20.3	<b>399.9</b>
Insurance and reinsurance premium receivable	-	325.7	0.6	-	-	<b>326.3</b>
Reinsurance recoveries on paid claims	-	58.5	-	-	-	<b>58.5</b>
Other debtors	-	14.6	-	-	-	<b>14.6</b>
Cash at bank and in hand	57.3	-	-	-	-	<b>57.3</b>
	<b>168.7</b>	<b>797.6</b>	<b>678.5</b>	<b>123.2</b>	<b>292.3</b>	<b>2,060.3</b>
<b>Financial liabilities</b>						
Technical provisions - claims outstanding	-	804.1	517.0	133.3	77.7	<b>1,532.1</b>
Creditors arising out of direct insurance operations	-	3.4	-	-	-	<b>3.4</b>
Creditors arising out of reinsurance operations	-	130.2	-	-	-	<b>130.2</b>
Other creditors including taxation and social security	-	94.8	-	-	-	<b>94.8</b>
Derivative financial instruments	-	1.5	-	-	-	<b>1.5</b>
	<b>-</b>	<b>1,034.0</b>	<b>517.0</b>	<b>133.3</b>	<b>77.7</b>	<b>1,762.0</b>

# Notes to the accounts

## 4 Risk management (continued)

### c. Liquidity risk (continued)

	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
<b>As at 31 December 2017</b>						
<b>Financial assets</b>						
Debt securities and other fixed income securities	-	92.3	526.3	73.7	246.7	<b>939.0</b>
Shares and other variable yield securities	58.2	-	-	-	-	<b>58.2</b>
Debt funds	30.3	-	-	-	-	<b>30.3</b>
Lloyd's overseas deposits	21.9	13.0	17.7	3.4	0.6	<b>56.6</b>
Derivative financial instruments	-	1.1	0.8	-	-	<b>1.9</b>
Deposits with ceding undertakings	-	0.2	-	-	-	<b>0.2</b>
Reinsurers' share of claims outstanding	-	231.3	160.7	40.3	23.4	<b>455.7</b>
Insurance and reinsurance premium receivable	-	354.7	0.6	-	-	<b>355.3</b>
Reinsurance recoveries on paid claims	-	33.3	-	-	-	<b>33.3</b>
Other debtors	-	11.4	-	-	-	<b>11.4</b>
Cash at bank and in hand	52.7	-	-	-	-	<b>52.7</b>
	<b>163.1</b>	<b>737.3</b>	<b>706.1</b>	<b>117.4</b>	<b>270.7</b>	<b>1,994.6</b>
<b>Financial liabilities</b>						
Technical provisions - claims outstanding	-	782.9	543.8	136.5	79.3	<b>1,542.5</b>
Creditors arising out of direct insurance operations	-	4.6	-	-	-	<b>4.6</b>
Creditors arising out of reinsurance operations	-	141.7	-	-	-	<b>141.7</b>
Other creditors including taxation and social security	-	83.0	-	-	-	<b>83.0</b>
Derivative financial	-	-	-	-	-	<b>-</b>
	<b>-</b>	<b>1,012.2</b>	<b>543.8</b>	<b>136.5</b>	<b>79.3</b>	<b>1,771.8</b>

# Notes to the accounts

## 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 this exposure, the syndicate enters into forward contracts and funds by currency are reviewed against liabilities on a quarterly basis. Where practical, the syndicate matches assets and liabilities by currency after consideration has been given to the overall Talbot group position. The syndicate aims to hold surplus funds in its functional currency of US dollars. If the US dollar had weakened/strengthened against sterling by a further 5% the profit for year would have been higher/lower by \$2.2m (2017 \$3.6m).

#### *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 0.5%, profit for the year would have been lower/ higher by \$12.4m (2017: \$12.0m).

### 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

	Gross premiums written \$m	Gross premiums earned \$m	Gross claims incurred \$m	Gross operating expenses \$m	Reinsurance balance \$m	Total \$m
Year ended 31 December 2018						
<b>Direct business</b>						
Accident and health	8.1	9.8	(4.3)	(5.0)	-	<b>0.5</b>
Motor (third party liability)	-	0.1	(0.1)	-	-	<b>-</b>
Motor (other classes)	10.2	10.4	(6.4)	(5.0)	(1.4)	<b>(2.4)</b>
Marine	47.2	49.9	(51.6)	(22.2)	8.6	<b>(15.3)</b>
Aviation	43.1	41.8	(35.7)	(13.6)	(4.5)	<b>(12.0)</b>
Transport	26.4	27.9	(17.1)	(12.7)	(7.4)	<b>(9.3)</b>
Energy – marine	36.5	35.5	5.6	(11.6)	(18.5)	<b>11.0</b>
Energy – non marine	36.9	38.3	(66.3)	(5.1)	9.7	<b>(23.4)</b>
Fire and other damage to property	181.3	168.2	(133.7)	(70.9)	(4.4)	<b>(40.8)</b>
Third party liability	69.3	59.0	(34.4)	(21.7)	(3.3)	<b>(0.4)</b>
Pecuniary loss	94.5	81.0	(38.0)	(33.0)	0.1	<b>10.1</b>
<b>Total direct</b>	<b>553.5</b>	<b>521.9</b>	<b>(382.0)</b>	<b>(200.8)</b>	<b>(21.1)</b>	<b>(82.0)</b>
<b>Reinsurance business</b>	<b>397.0</b>	<b>419.4</b>	<b>(245.2)</b>	<b>(136.4)</b>	<b>(41.0)</b>	<b>(3.2)</b>
<b>Total</b>	<b>950.5</b>	<b>941.3</b>	<b>(627.2)</b>	<b>(337.2)</b>	<b>(62.1)</b>	<b>(85.2)</b>

# Notes to the accounts

## 5 Segmental analysis (continued)

Year ended 31 December 2017	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	14.0	16.7	(10.8)	(9.5)	0.1	<b>(3.5)</b>
Motor (third party liability)	0.4	0.4	(0.2)	(0.2)	-	-
Motor (other classes)	5.4	4.4	(3.4)	(2.3)	(0.4)	<b>(1.7)</b>
Marine	52.7	56.7	(36.3)	(26.4)	(0.2)	<b>(6.2)</b>
Aviation	40.7	40.2	(28.0)	(13.8)	(1.5)	<b>(3.1)</b>
Transport	28.9	31.7	(27.4)	(14.5)	1.0	<b>(9.2)</b>
Energy – marine	34.7	41.0	1.6	(12.8)	(6.4)	<b>23.4</b>
Energy – non marine	37.2	35.7	(42.4)	(6.0)	3.5	<b>(9.2)</b>
Fire and other damage to property	162.5	177.3	(189.4)	(69.9)	29.7	<b>(52.3)</b>
Third party liability	52.9	45.0	(27.9)	(17.2)	6.3	<b>6.2</b>
Pecuniary loss	81.1	75.5	(43.9)	(29.9)	9.8	<b>11.5</b>
<b>Total direct</b>	<b>510.5</b>	<b>524.6</b>	<b>(408.1)</b>	<b>(202.5)</b>	<b>41.9</b>	<b>(44.1)</b>
<b>Reinsurance business</b>	<b>410.6</b>	<b>411.0</b>	<b>(340.5)</b>	<b>(140.1)</b>	<b>30.5</b>	<b>(39.1)</b>
<b>Total</b>	<b>921.1</b>	<b>935.6</b>	<b>(748.6)</b>	<b>(342.6)</b>	<b>72.4</b>	<b>(83.2)</b>

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:-

	2018 \$m	2017 \$m
UK	<b>147.8</b>	140.3
Other EU countries	<b>110.3</b>	101.5
US	<b>303.1</b>	302.0
Other	<b>389.3</b>	377.3
	<b>950.5</b>	921.1

## Notes to the accounts

### 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 2018 amounted to \$42.8m (2017: \$90.9m), attributable to the following classes of business:-

	2018 \$m	2017 \$m
Marine	28.5	46.3
Political Risk	15.9	16.1
Political Violence and War	7.9	8.1
Property	(0.8)	20.8
Specialty	(1.0)	0.9
Treaty	(7.7)	(1.3)
	42.8	90.9

### 7 Net operating expenses

	2018 \$m	2017 \$m
Brokerage and commissions	189.1	186.8
Other acquisition costs	14.2	12.8
Acquisition costs	203.3	199.6
Acquisition costs – change in deferred acquisition costs	(0.7)	6.1
Administrative expenses	134.6	136.9
Gross operating expenses	337.2	342.6
Reinsurance commissions and profit participation	(24.2)	(23.0)
	313.0	319.6

Brokerage and commissions for direct insurance business for the year amounted to \$115.1m (2017: \$110.2m).

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.

	2018 \$m	2017 \$m
Fees payable to the syndicate's auditor and its associates in respect of:		
Audit related assurance services	0.6	0.6
Other services pursuant to legislation	-	-
	0.6	0.6

# Notes to the accounts

## 8 Directors and employees

The syndicate has no direct employees. The staff and directors who 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. Therefore staff cost or numbers are not separately identified.

The estimated aggregate emoluments of the active underwriter allowed for within the management fees charged by group companies to the syndicate were as follows:-

	2018 \$m	2017 \$m
Aggregate emoluments	0.6	0.4
Defined contribution scheme	-	-
	0.6	0.4

The estimated directors' emoluments allowed for within the management fees charged by group companies to the syndicate were as follows:

	2018 \$m	2017 \$m
Aggregate emoluments	2.4	1.8
Defined contribution scheme	0.1	0.1
	2.5	1.9

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

	2018 \$m	2017 \$m
Aggregate emoluments	0.7	0.5
Defined contribution scheme	-	-
	0.7	0.5

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

	2018	2017
Defined contribution scheme	7	7

# Notes to the accounts

## 9 Investments

	Cost 2018 \$m	Cost 2017 \$m	Market Value 2018 \$m	Market Value 2017 \$m
<b>Investments at fair value</b>				
Debt securities and other fixed income securities	1,055.2	954.0	1,053.1	939.0
Shares and other variable yield securities	52.0	49.1	41.9	58.2
Debt funds	38.9	29.6	39.8	30.3
Lloyd's overseas deposits	68.7	56.6	68.7	56.6
Derivative financial instruments	-	-	-	1.9
<b>Total</b>	<b>1,214.8</b>	<b>1,089.3</b>	<b>1,203.5</b>	<b>1,086.0</b>
<b>Investments at fair value analysis</b>				
Government debt	181.7	115.8	181.8	115.3
Quasi Government debt	41.7	49.9	41.6	49.7
Agency debt	123.9	105.7	123.3	105.0
Corporate debt	429.6	418.5	423.0	415.9
Supranational debt	5.7	6.0	5.5	5.9
Asset backed securities	52.0	49.1	51.9	49.4
Mortgage backed securities	230.7	199.9	226.0	197.8
Short term investment - cash equivalents	41.9	58.2	41.9	58.2
Debt funds	38.9	29.6	39.8	30.3
Lloyd's overseas deposits	68.7	56.6	68.7	56.6
Derivative financial instruments	-	-	-	1.9
<b>Total</b>	<b>1,214.8</b>	<b>1,089.3</b>	<b>1,203.5</b>	<b>1,086.0</b>

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.

Debt funds represent capital Talbot has provided to a fund company in return for either a limited partner interest or shares in the fund company. The fund company will in turn utilise this capital by purchasing a portfolio of private debt and mezzanine securities.

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.

Derivative financial instruments are forward foreign currency contracts entered into by the syndicate to mitigate exchange rate risk.



# Notes to the accounts

## 9 Investments (continued)

### 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 1 – the unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date,

Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly, and

Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The debt funds have been classified as level 3 assets. The valuation techniques adopted by the fund company establishes the fair transaction price of the company's assets based upon modelling techniques and analysis which incorporates unobservable inputs for which market data is unavailable. Syndicate's interest in the fund is a proportionate share of the underlying.

At 31 December, the syndicate's investments were allocated between the Levels 1, 2 and 3 as follows:-

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
<b>2018</b>				
<b>Investments at fair value</b>				
Debt securities and other fixed income securities	181.7	871.4	-	<b>1,053.1</b>
Shares and other variable yield securities	41.9	-	-	<b>41.9</b>
Debt funds	-	-	39.8	<b>39.8</b>
Lloyd's overseas deposits	33.4	35.3	-	<b>68.7</b>
Derivative financial instruments	-	-	-	-
<b>Total</b>	<b>257.0</b>	<b>906.7</b>	<b>39.8</b>	<b>1,203.5</b>
<b>2017</b>				
<b>Investments at fair value</b>				
Debt securities and other fixed income securities	115.3	823.7	-	<b>939.0</b>
Shares and other variable yield securities	58.2	-	-	<b>58.2</b>
Debt funds	-	-	30.3	<b>30.3</b>
Lloyd's overseas deposits	26.2	30.4	-	<b>56.6</b>
Derivative financial instruments	-	-	1.9	<b>1.9</b>
<b>Total</b>	<b>199.7</b>	<b>854.1</b>	<b>32.2</b>	<b>1,086.0</b>

At 31<sup>st</sup> December 2018 the syndicate had capital commitments to a number of debt fund companies up to a value of \$36.1m (2017: \$44.7m).

# Notes to the accounts

## 10 Debtors arising out of direct insurance operations

	2018 \$m	2017 \$m
Premiums due from intermediaries within one year	281.0	318.5
Premiums due from intermediaries after one year	0.4	0.6
	281.4	319.1

## 11 Debtors arising out of reinsurance operations

	2018 \$m	2017 \$m
Reinsurance premiums due from ceding insurers and intermediaries within one year	44.7	36.2
Reinsurance premiums due from ceding insurers and intermediaries after one year	0.2	-
Reinsurance recoveries on paid claims due from reinsurers and intermediaries within one year	58.5	33.3
	103.4	69.5

## 12 Other debtors

	2018 \$m	2017 \$m
Amounts due from group companies	7.7	6.1
Overseas taxes	0.1	0.3
Other debtors	0.9	0.4
Accrued interest	5.9	4.6
	14.6	11.4

## 13 Statement of changes in member's balance

	2015 yoa Closed \$m	2016 yoa Closed \$m	2017 yoa Open \$m	2018 yoa Open \$m	Total 2018 \$m
<b>Year ended 31 December 2018</b>					
<b>Retained profit/(loss)</b>					
At 1 January	86.3	(75.5)	(157.2)	-	(146.4)
Profit/(loss) for the year	-	55.6	(16.3)	(103.0)	(63.7)
At 31 December	86.3	(19.9)	(173.5)	(103.0)	(210.1)
<b>Other comprehensive income</b>					
At 1 January	-	0.8	1.1	-	1.9
For the year	-	(0.8)	(1.1)	-	(1.9)
At 31 December	-	-	-	-	-
<b>Cash distributions</b>					
At 1 January	-	-	-	-	-
For the year	(86.3)	75.0	156.0	-	144.7
At 31 December	(86.3)	75.0	156.0	-	144.7
Net balance at 31 December	-	55.1	(17.5)	(103.0)	(65.4)

# Notes to the accounts

## 13 Statement of changes in member's balance (continued)

	2014 yoa Closed \$m	2015 yoa Closed \$m	2016 yoa Open \$m	2017 yoa Open \$m	Total 2017 \$m
<b>Year ended 31 December 2017</b>					
<b>Retained profit/(loss)</b>					
At 1 January	69.2	(1.8)	(76.5)	-	(9.1)
Profit/(loss) for the year	-	88.1	1.0	(157.2)	(68.1)
At 31 December	69.2	86.3	(75.5)	(157.2)	(77.2)
<b>Other comprehensive income</b>					
At 1 January	-	-	-	-	-
For the year	-	-	0.8	1.1	1.9
At 31 December	-	-	0.8	1.1	1.9
<b>Cash calls/(distributions)</b>					
At 1 January	-	-	-	-	-
For the year	(69.2)	-	-	-	(69.2)
At 31 December	(69.2)	-	-	-	(69.2)
Net balance at 31 December	-	86.3	(74.7)	(156.1)	(144.5)

# Notes to the accounts

## 14 Technical provisions

	Provision for unearned premium \$m	Claims outstanding \$m
<b>Year ended 31 December 2018</b>		
<b>Gross technical provisions</b>		
As at 1 January	533.9	1,542.5
Movement in the provision	9.2	6.9
Exchange adjustment	(6.0)	(17.3)
As at 31 December	537.1	1,532.1
<b>Reinsurers' share of technical provisions</b>		
As at 1 January	79.4	455.7
Movement in the provision	5.9	(52.2)
Exchange adjustment	(0.8)	(3.6)
As at 31 December	84.5	399.9
<b>Net technical provision</b>		
As at 1 January 2018	454.5	1,086.8
As at 31 December 2018	452.6	1,132.2
<b>Year ended 31 December 2017</b>		
<b>Gross technical provisions</b>		
As at 1 January	541.7	1,301.5
Movement in the provision	(14.5)	219.3
Exchange adjustment	6.7	21.7
As at 31 December	533.9	1,542.5
<b>Reinsurers' share of technical provisions</b>		
As at 1 January	72.6	304.6
Movement in the provision	6.0	147.6
Exchange adjustment	0.8	3.5
As at 31 December	79.4	455.7
<b>Net technical provision</b>		
As at 1 January 2017	469.1	996.9
As at 31 December 2017	454.5	1,086.8

# Notes to the accounts

## 14 Technical provisions (continued)

### Claims development triangles

Whole account, underwriting year	2011	2012	2013	2014	2015	2016	2017	2018	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Gross earned ultimate claims</b>									
12 months	325.8	309.9	307.8	312.4	268.9	266.4	475.3	319.5	
24 months	623.8	535.0	558.5	574.8	504.5	572.0	770.1	-	
36 months	594.7	525.7	536.6	612.3	516.3	599.8	-	-	
48 months	574.3	502.6	533.4	590.0	527.2	-	-	-	
60 months	558.1	514.2	532.3	601.7	-	-	-	-	
72 months	544.9	504.7	524.5	-	-	-	-	-	
84 months	541.9	497.9	-	-	-	-	-	-	
96 months	539.9	-	-	-	-	-	-	-	
<b>Total gross earned ultimate losses</b>	539.9	497.9	524.5	601.7	527.2	599.8	770.1	319.5	4,380.6
less paid claims	(509.3)	(446.4)	(432.8)	(445.4)	(385.0)	(365.2)	(300.7)	(36.4)	(2,921.2)
<b>Gross claims liabilities</b>	30.6	51.5	91.7	156.3	142.2	234.6	469.4	283.1	1,459.4
Provision in respect of prior years									72.7
<b>Total provision in the balance sheet</b>									1,532.1

Whole account, underwriting year	2011	2012	2013	2014	2015	2016	2017	2018	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Net earned ultimate claims</b>									
12 months	245.6	250.8	250.5	265.8	230.3	229.3	291.2	240.2	
24 months	468.2	423.6	455.6	454.8	431.9	471.2	545.1	-	
36 months	444.0	427.3	440.5	474.0	438.5	502.5	-	-	
48 months	425.3	409.7	436.4	459.0	450.3	-	-	-	
60 months	408.1	413.1	434.3	461.7	-	-	-	-	
72 months	396.2	406.0	429.6	-	-	-	-	-	
84 months	394.4	400.3	-	-	-	-	-	-	
96 months	393.5	-	-	-	-	-	-	-	
<b>Total gross earned ultimate losses</b>	393.5	400.3	429.6	461.7	450.3	502.5	545.1	240.2	3,423.2
less paid claims	(372.5)	(359.8)	(358.8)	(360.4)	(337.8)	(315.2)	(211.7)	(31.8)	(2,348.0)
<b>Net claims liabilities</b>	21.0	40.5	70.8	101.3	112.5	187.3	333.4	208.4	1,075.2
Provision in respect of prior years									57.0
<b>Total provision in the balance sheet</b>									1,132.2

## Notes to the accounts

### 15 Creditors arising out of direct insurance operations

	2018	2017
	\$m	\$m
Due within one year	3.4	4.6

### 16 Creditors arising out of reinsurance operations

	2018	2017
	\$m	\$m
Due within one year	130.2	141.5
Due after one year	-	0.2
	130.2	141.7

### 17 Other creditors

	2018	2017
	\$m	\$m
Derivative financial instruments	1.5	-
Profit commission	-	15.3
Amounts due to group companies	93.3	65.8
Payable for investment purchase	-	1.9
	94.8	83.0

Derivative financial instruments are forward foreign currency contracts entered into by the syndicate to mitigate exchange rate risk.

At 31<sup>st</sup> December 2018, the outstanding contracts all mature within 18 months. The syndicate is committed to sell \$32.2m and receive fixed sterling amounts. The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilize observable inputs. The key assumptions used in valuing the derivatives are the forward exchange rates for USD: GBP.

### 18 Post balance sheet events

The following amounts were approved to be distributed to/ (called from) the corporate member of Lloyd's underwriting on the Syndicate by the board on 28<sup>th</sup> February 2019 (1<sup>st</sup> March 2018):-

	2018	2017
	\$m	\$m
2016 (2015) underwriting year of account	55.1	86.3
2017 (2016) underwriting year of account	(18.0)	(75.0)
2018 (2017) underwriting year of account	(103.0)	(156.0)
	(65.9)	(144.7)

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# Notes to the accounts

## 19 Related parties

### Parent Companies

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 American International Group, Inc ("AIG"). The registered office of which is 175 Water Street, New York, NY 10038, United States of America. AIG is listed on the New York Stock Exchange.

Prior to 18 July 2018, the ultimate parent company and controlling party was Validus Holdings, Ltd, a company registered in Bermuda.

### 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 Pte Ltd

Talbot Risk Services Pte Ltd - Australian Branch

Talbot Underwriting (MENA) Ltd

Talbot Underwriting (LATAM) S.A.

Talbot Risk Services (Labuan) Pte Ltd

Validus Specialty Underwriting Services, Inc.

Validus Reaseguros, Inc.

The syndicate is charged arm's length management fees 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.

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## Notes to the accounts

### 20 Capital

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II legislation.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, license and ratings objectives. Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at an overall member level.

Under Solvency II requirements, each syndicate is required to produce a Solvency Capital Requirement (SCR) which sets out the amount of capital that is required to reflect the risks contained within the business. Lloyd's reviews the syndicates' SCRs to ensure that SCRs are consistent across the market, and must be approved by the Lloyd's Capital and Planning Group. Once the SCR is approved, the capital requirement is then uplifted (in 2018, this was by 35%) to ensure this meets Lloyd's own internal capital requirements. This requirement is satisfied by the deposit of cash, investments and letters of credit 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 used when the syndicate holds insufficient premium trust funds to cover claims on underwriting. Various group companies have provided FAL in the amount of \$605.5m during the fourth quarter of 2018 (2017: \$661.6m).

An additional level of security is the Central Fund which all syndicates contribute, 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.



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

	2010	2011	2012	2013	2014	2015	2016
Syndicate allocated capacity £m	600.0	560.0	600.0	620.0	625.0	625.0	<b>600.0</b>
Syndicate allocated capacity \$m	972.0	929.6	936.0	917.6	765.0	843.8	<b>765.3</b>
Gross premiums <sup>1</sup>	807.5	834.6	839.0	861.5	811.2	798.1	<b>750.3</b>
Net premiums	607.2	636.2	657.1	665.7	641.3	644.2	<b>596.4</b>
Reinsurance to close received	484.4	566.9	552.2	532.4	513.7	566.4	<b>591.4</b>
Net claims	(347.5)	(395.9)	(387.3)	(390.7)	(407.4)	(382.0)	<b>(459.1)</b>
Reinsurance to close paid	(561.9)	(563.2)	(540.1)	(534.2)	(555.1)	(599.6)	<b>(629.1)</b>
Underwriting result	182.2	244.0	281.9	273.2	192.5	229.0	<b>99.6</b>
Profit (loss) on exchange	1.0	3.6	(5.4)	(9.9)	(11.3)	(8.3)	<b>(3.2)</b>
Syndicate expenses	(58.5)	(87.8)	(105.4)	(99.8)	(102.2)	(123.5)	<b>(120.1)</b>
Balance on technical account	124.7	159.8	171.1	163.5	79.0	97.2	<b>(23.7)</b>
Investment return net of investment	24.3	11.1	15.7	14.0	16.4	20.0	<b>18.5</b>
Profit before personal expenses	149.0	170.9	186.8	177.5	95.4	117.2	<b>(5.2)</b>
Personal expenses							
Managing agent's fee	(14.6)	(9.3)	(9.4)	(9.2)	(7.8)	(8.4)	<b>(7.7)</b>
Profit commission	(19.0)	(23.1)	(25.7)	(24.1)	(12.2)	(15.3)	-
Contribution to Lloyd's Central Fund	(3.8)	(4.1)	(2.0)	(4.0)	(3.1)	(3.5)	<b>(3.1)</b>
Lloyd's subscription	(3.9)	(4.1)	(4.0)	(4.0)	(3.1)	(3.5)	<b>(3.9)</b>
	(41.3)	(40.6)	(41.1)	(41.3)	(26.2)	(30.7)	<b>(14.7)</b>
Profit on ordinary activities after personal	107.7	130.3	145.7	136.2	69.2	86.5	<b>(19.9)</b>
Exchange rates (GBP:USD)	0.6	0.6	0.6	0.7	0.8	0.7	<b>0.8</b>
Exchange rates (CAD:USD)	1.0	1.1	1.2	1.4	1.3	1.3	<b>1.4</b>
Gross premiums as a % of allocated	83.1	89.8	89.6	93.9	106.0	94.6	<b>98.0</b>
Net premiums as a % of allocated capacity	62.5	68.4	70.2	72.5	83.8	76.3	<b>77.9</b>
Underwriting result as a % of gross	22.6	29.2	33.6	31.7	23.7	28.7	<b>13.3</b>
Return on allocated capacity (%)	11.1	14.0	15.6	14.8	9.0	10.3	<b>(2.6)</b>

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

<sup>1</sup>Gross premiums are stated net of external acquisition costs.

**Managing agent**

Talbot Underwriting Ltd  
60 Threadneedle Street  
London  
EC2R 8HP

**Managing agent's  
registered number**

2202362

**Directors**

CNR Atkin	(Chairman, non-executive)
DE Morris	(Interim Chief Executive)
TA Bolt	(Non-executive)
NMA Burch	(Non-executive)
MEA Carpenter	(Non-executive)
BJ Hurst-Bannister	(Non-executive)
JG Ross	
M Scales	(Non-executive)
JE Skinner	
CG Townsend	(Non-executive)
ND Wachman	

**Company secretary**

M-C Gallagher

**Syndicate**

TAL Syndicate 1183

**Active underwriter**

DE Morris

**Bankers**

Lloyds TSB Bank plc  
Citibank NA  
Royal Bank of Canada  
Barclays plc

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