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COMPANIES HOUSE

Talbot Underwriting Ltd
Report and financial statements
31 December 2016.

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Strategic report

The directors present the strategic report of Talbot Underwriting Ltd ("TUL" or "the company") for the year ended 31 December 2016.

Principal activity

The principal activity of the company is that of a Lloyd's managing agency. TUL manages the affairs of syndicate 1183 ("the syndicate"). The principal activity of the syndicate continues to be the underwriting of direct and reinsurance business in the Lloyd's market. Syndicate capacity for the 2016 year of account was £600m and capacity for the 2017 year of account is also £600m. Syndicate capacity is provided by a fellow group company, Talbot 2002 Underwriting Capital Ltd.

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

During the year, as part of a group reorganisation, the company sold 100% of the share capital of Talbot Underwriting Services (US) Ltd for consideration of £6 equal to the net assets of the company.

Review of business

The principal sources of revenue for TUL are the managing agency fee charged to the syndicate, currently 1% of syndicate capacity (2015: 1%) and profit commission on the underwriting results of the syndicate, currently 15% of the year of account result (2015: 15%), after personal expenses at 36 months. These are shown for the current and preceding year in the table below.

	2016 £'000	2015 £'000
Managed syndicate capacity	600,000	625,000
Managing agency fee	6,000	6,250
Profit commission	11,238	15,583
Total revenue	17,238	21,833

Expenses consist primarily of a management fee charged to TUL by the service company Talbot Underwriting Services Ltd ("TUSL"). Administrative expenses were £12.8m against £15.6m in 2015.

The profit and the total comprehensive income for the financial year was £6.1m (2015: profit £7.7m). A dividend of £15.0m (2015: nil) was paid during the year.

The net asset position of the company has decreased from £23.4m to £14.5m. The main asset on the balance sheet is a debtor of £10.1m (2015: £16.3m) due from the syndicate, mainly in respect of profit commission on the 2014 year of account (2015: 2013 year of account).

Strategic report (continued)

Principal risks and uncertainties

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

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

Credit risk

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

Regulatory and compliance risk

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

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



JS Clouting

Company Secretary

1 March 2017

Directors' report

The directors present their report and audited financial statements of the company for the year ended 31 December 2016. The results, key performance indicators and principal risks and uncertainties are discussed in the strategic report.

Future developments

The managed syndicate capacity for the 2017 year of account is £600m. The directors are confident of the future prospects of the company as the syndicate is expected to continue to operate profitably for the foreseeable future.

Dividend

The company paid a dividend of £15.0m during the year (2015: £nil). The directors do not propose a final dividend for the year (2015: £15.0m).

Corporate governance

TUL Board

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

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

TUL Audit Committee

The TUL Audit Committee is made up of 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 TUL and the syndicate.

Directors

The following directors have held office from 1 January 2016 to the date of this report.

CNR Atkin	(Chief Executive, to 29 February 2016; Chairman, non-executive from 1 March 2016)
PA Bilsby	(Chief Executive from 1 March 2016)
MEA Carpenter	(Chairman, non-executive to 29 February 2016, non-executive director from 1 March 2016)
JS Clouting	
JJ Hendrickson	resigned 11 July 2016
BJ Hurst-Bannister	(Non-executive)
AJ Keys	(Non-executive)
EJ Noonan	(Non-executive)
JP Ritz	resigned 11 July 2016
JG Ross	
JD Sangster	(Non-executive)
M Scales	(Non-executive)
JE Skinner	
ND Wachman	

Directors' report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

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

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

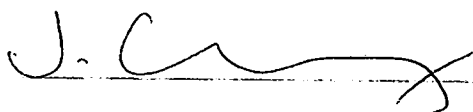
Disclosure of information to auditors

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

Independent auditors

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

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



JS Clouting

Company Secretary

1 March 2017

Independent auditors' report

Independent auditors' report to the member of Talbot Underwriting Ltd

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the balance sheet as at 31 December 2016;
- the profit and loss account and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Independent auditors' report (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

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

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

What an audit of financial statements involves

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

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

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

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

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



Andrew G Hill (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

1 March 2017

Profit and loss account and statement of comprehensive income

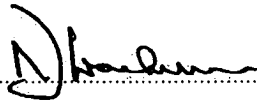
	Note	Year ended 31 December	
		2016	2015
		£	£
Turnover	4	17,237,805	21,833,015
Administrative expenses		(12,859,157)	(15,627,416)
Operating profit	7	4,378,648	6,205,599
Dividends received from group undertakings	9	2,675,125	2,789,095
Profit on ordinary activities before taxation		7,053,773	8,994,694
Tax on profit on ordinary activities	8	(922,358)	(1,281,277)
Profit and total comprehensive income for the year		6,131,415	7,713,417

Balance sheet

		As at 31 December	
	Note	2016 £	2015 £
Fixed assets			
Investments	9	1,102,023	1,102,029
Current assets			
Debtors	10	12,262,767	23,505,800
Creditors - amounts falling due within one year	11	(2,188,540)	(3,223,494)
Net current assets		10,074,227	20,282,306
Accrued income – due after more than one year	12	3,349,000	2,009,500
Net assets		14,525,250	23,393,835
Capital and reserves			
Called-up share capital	13	400,000	400,000
Retained earnings		14,125,250	22,993,835
Total equity		14,525,250	23,393,835

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

The financial statements on pages 7 to 14 were approved by the Board of Directors on 1 March 2017 and were signed on its behalf.


..... (Director)
ND Wachman

Statement of changes in equity

	Called-up share capital £	Retained earnings £	Total £
Balance at 1 January 2015	400,000	15,280,418	15,680,418
Profit and total comprehensive income	-	7,713,417	7,713,417
Balance at 31 December 2015	400,000	22,993,835	23,393,835
Profit and total comprehensive income	-	6,131,415	6,131,415
Dividends paid	-	(15,000,000)	(15,000,000)
Balance at 31 December 2016	400,000	14,125,250	14,525,250

Notes to the financial statements

Year ended 31 December 2016

1 General information

Talbot Underwriting Ltd, company registered number 2202362, is a private company limited by shares. The company is a Lloyd's managing agency and manages the affairs of Lloyd's syndicate 1183 ("the syndicate").

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

The company is incorporated and registered in England & Wales. The address of its registered office is 60 Threadneedle Street, London EC2R 8HP.

2 Statement of compliance

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

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated

(a) Basis of Preparation

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

(b) Exemptions for qualifying entities under the Act and FRS 102

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

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

(c) Foreign currency

(i) Functional and presentation currency

The company's functional and presentational currency is sterling.

(ii) Transactions and balances

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

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

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

(d) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity. In this case, tax is also recognised directly in equity.

Current or deferred tax assets and liabilities are not discounted.

i) Current taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted in the period.

Notes to the financial statements (continued)

3 Summary of significant accounting policies (continued)

(d) Taxation (continued)

ii) Deferred taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(e) Investments

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

(f) Revenue recognition

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

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

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

(g) Share capital

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

(h) Distributions to equity holders

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

4 Turnover

	2016	2015
	£	£
Managing agency fee	6,000,000	6,250,000
Profit commission	11,237,805	15,583,015
	<u>17,237,805</u>	<u>21,833,015</u>

All income arises in the United Kingdom.

Notes to the financial statements (continued)

5 Audit and non-audit fees

The audit fees for TUL are borne by Talbot Underwriting Services Ltd ("TUSL"), a fellow group company, and are recharged to the company as part of the management charge. During the year, TUSL incurred £24,045 (2015: £24,972) in respect of audit fees to TUL's auditors and associates. There are no non-audit fees in 2016 (2015: £nil).

6 Employees and directors

The company has no employees. All members of staff are employed by TUSL, which pays all their remuneration. No emoluments were paid to directors of the company in respect of their services as directors of the company.

7 Profit on ordinary activities before taxation

Profit before tax is stated after management charges of £12,859,157 (2015: £15,627,416).

8 Income tax

(a) Tax expense included in profit and loss

	2016	2015
	£	£
Current tax		
UK corporation tax on profit for the year	880,427	1,264,924
Adjustment in respect of prior periods	16,354	16,353
Withholding tax payable on foreign dividend receipt	25,577	-
Tax on profit on ordinary activities	922,358	1,281,277

(b) Reconciliation of tax charge

The current tax charge for the year is lower (2015: lower) than the standard effective rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016	2015
	£	£
Profit on ordinary activities before taxation	7,053,773	8,994,694
Profit on ordinary activities multiplied by 20% (2015: 20.25%)	1,410,755	1,821,117
Tax effect of:		
Dividend income not subject to UK tax	(535,025)	(564,697)
Notional interest on intercompany balances subject to tax	4,697	8,504
Adjustments to tax in respect of previous years	16,354	16,353
Withholding tax payable on dividend receipt	25,577	-
Total tax charge for the year	922,358	1,281,277

(c) Tax rate changes

The tax rate for the current period is lower than the prior period due to changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2015. Further reductions to the UK corporation tax rates have been substantively enacted; these reduce the main rate to 19% from 1 April 2017 and to 17% from 1 April 2020.

Notes to the financial statements (continued)

9 Investments in subsidiaries and related undertakings

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

Subsidiary	Country of incorporation	Registered office	Interest (all direct)
Talbot Risk Services Pte Ltd ("Talbot Asia")	Singapore	138 Market Street, #04-01 Capital Green, Singapore 048946	100% ordinary shares
Talbot Underwriting (MENA) Ltd ("Talbot MENA")	UAE	The Gate Precinct Building 2, Level 3, Dubai International Financial Centre, PO Box 506809, Dubai, UAE	100% ordinary shares
Talbot Risk Services (Labuan) Pte. Ltd ("Talbot Labuan")	Malaysia	Brighton Place, Ground Floor, U0215 Jalan Bahasa, PO Box 80431, 87014 Labuan FT, Malaysia	100% ordinary shares
Talbot Underwriting (LATAM) S.A. ("Talbot Chile")	Chile	Avenida Apoquindo No. 3650, 8 th Floor, Suite 803, Las Condes, Santiago, Chile	99% ordinary shares
Talbot Underwriting Risk Services Ltd ("TURSL")	England & Wales	60 Threadneedle Street, London EC2R 8HP, UK	100% ordinary shares

During the year the company sold 100% of its shares in Talbot Underwriting Services (US) Ltd ("Talbot NY") for proceeds of £6. The table below shows the value of investments at the end of each year.

	Talbot Asia	Talbot MENA	Talbot NY	Talbot Labuan	Talbot Chile	TURSL	Total
	£	£	£	£	£	£	£
31 December 2016	200,000	766,288	-	109,600	1,135	25,000	1,102,023
31 December 2015	200,000	766,288	6	109,600	1,135	25,000	1,102,029

Dividends received during the year

	Talbot Asia	Talbot MENA	Talbot NY	Talbot Labuan	Talbot Chile	TURSL	Total
	£	£	£	£	£	£	£
2016	879,900	652,000	893,225	-	-	250,000	2,675,125
2015	470,310	-	2,318,785	-	-	-	2,789,095

10 Debtors

	2016	2015
	£	£
Amounts owed by managed syndicate	10,065,233	16,269,451
Amounts owed by group companies	2,197,534	7,236,349
	12,262,767	23,505,800

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

Notes to the financial statements (continued)

11 Creditors - amounts falling due within one year

	2016	2015
	£	£
Amounts owed to group companies	26,835	1,263
Corporation tax	2,161,705	3,222,231
	<u>2,188,540</u>	<u>3,223,494</u>

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

12 Accrued income – due after more than one year

	2016	2015
	£	£
Profit commission accrued	3,349,000	2,009,500

13 Share capital

Ordinary shares of £1 each

	2016	2016
	No	£
Authorised, allotted and fully paid		
At 1 January and 31 December	400,000	400,000

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

14 Controlling parties

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

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

15 Related party transactions

Under FRS 102 the company is exempt from disclosing related party transactions as they are with other companies that are wholly owned within the group.