

Company Registration No 2202362

TALBOT UNDERWRITING LTD
Report and Financial Statements
31st December 2003



Reports & Financial Statements 2003

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Officers and Professional Advisers

Directors

C N R Atkin	
M E A Carpenter	(Chief Executive)
J S Clouting	
H E Hutter	(Non-executive)
A J Keys	(Non-executive)
G S Langford	
D K Newbigging	(Chairman)
M S Johnson	
D P Redhead	
J G Ross	
V G Southey	(Non-executive)
R I Stansbury	(Non-executive)
N D Wachman	

Secretary

J S Clouting

Registered Office

Gracechurch House
55 Gracechurch Street
London EC3V 0JP

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Bankers

Lloyds TSB plc
PO Box 72
Bailey Drive
Gillingham Business Park
Kent ME8 0LS

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st December 2003.

Principal Activity and Review of the Business

The company's principal activity is that of a Lloyd's underwriting agency which manages the affairs of syndicates 1183 and 376.

Syndicate 1183 commenced underwriting for the 2002 year of account. The capacity is provided by a fellow group company, Talbot 2002 Underwriting Capital Ltd. Capacity for the 2003 year of account was £193,500,000 (2002: £183,000,000).

Syndicate 376 was put into run-off at the end of 2001 having suffered a significant loss as a result of the World Trade Centre terrorist attack. It is the intention of the company to novate the managing agency agreement of this syndicate to Omni Whittington during 2004. The group fixed overheads are spread across a smaller base but this will only have a marginal effect on the expenses of the company.

The directors have reviewed the company's development during the year and look forward to 2004, where the rating environment continues to look favourable.

Results and Dividend

A profit before dividends of £1,637,559 (2002: £2,029,258) was made during the year. No dividends were paid during the year (2002: £1,200,000).

Future Prospects

The directors are confident of the future prospects of the company.

Directors

The directors holding office during the year, except as otherwise stated, were:

C N R Atkin	
M E A Carpenter	
J S Clouting	
H E Hutter	
M S Johnson	
A J Keys	(appointed 21 st March 2003)
G S Langford	(appointed 31 st October 2003)
J A Loveless	(appointed 24 th March 2003, resigned 1 st November 2003)
D K Newbigging	(appointed 21 st January 2004)
D P Redhead	
J G Ross	
V G Southey	
R I Stansbury	
T M Taylor	(resigned 1 st December 2003)
N D Wachman	

No director had any direct interest in the share capital of the company at any time during the year. Directors' interests in the ultimate holding company, being Talbot Holdings Ltd in Bermuda, are not disclosed in accordance with SI 1985/802 - Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985.

Political and Charitable Contributions

The company did not make any political or charitable donations during the year (2002: £Nil).

Directors' Report

Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors to the company. The company has an elective resolution in place under Section 386 of the Companies Act 1985 to dispense with the obligation to appoint auditors annually.

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

A handwritten signature in black ink, appearing to be 'J S Clouting', with a long, flowing horizontal stroke extending to the right.

J S Clouting
Secretary

24th March 2004

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of Talbot Underwriting Ltd

We have audited the financial statements on pages 6 to 11.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

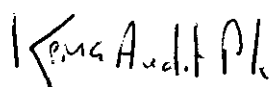
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON

24th March 2004

Profit & Loss Account

Year ended 31st December 2003

	Note	2003 £	2002 £
Turnover	3	5,019,675	3,176,236
Operating expenses	5	(3,382,116)	(1,134,839)
Operating profit		1,637,559	2,041,397
Interest receivable		-	7,844
Interest payable and similar charges		-	(19,983)
Profit on ordinary activities before taxation	5	1,637,559	2,029,258
Tax on profit on ordinary activities	6	-	-
Profit for the financial year		1,637,559	2,029,258
Dividends paid	7	-	(1,200,000)
Amount retained for the financial year		1,637,559	829,258

All activities derive from continuing operations. There are no recognised gains or losses in either the current or preceding years other than the profit for the financial year. Accordingly, no statement of recognised gains and losses is required.

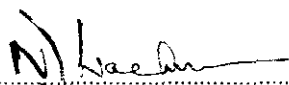
Balance Sheet

As at 31st December 2003

	Note	2003 £	2002 £
Current assets			
Debtors	8	3,286,112	1,648,553
Total current assets and total net assets		3,286,112	1,648,553
Capital and reserves			
Called up share capital	9	400,000	400,000
Profit and loss account	10	2,886,112	1,248,553
Total equity shareholders' funds	10	3,286,112	1,648,553

These financial statements were approved by the Board of Directors on 24th March 2004.

Signed on behalf of the Board of Directors


 (Director)
 N D Wachman

Year ended 31st December 2003

1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with Section 255A of, and Schedule 4 to, the Companies Act 1985 ("the Act") and in accordance with applicable Accounting Standards. The recommendations of the Statement of Recommended Practice on Accounting for Insurance Business, issued by the Association of British Insurers in December 1998 (The "ABI SORP") have been adopted.

2 Accounting policies

(a) **Accounting convention**

The financial statements are prepared under the historical cost convention.

(b) **Turnover**

Turnover consists of net underwriting agency fees and profit commission receivable from insurance underwriting activities at Lloyd's.

Agency fees

Agency fees are recognised in the period over which they are earned.

Profit commission

In accordance with technical guidance issued by the ICAEW ("Application Note G of FRS 5 – revenue recognition by insurance intermediaries"), the accounting policy to recognise profit commission has been changed from a receipts basis to an accruals basis.

This change in accounting policy in 2003 has resulted in recognition in the current year of an estimated profit commission of £2,117,175 in respect of the 2002 year of account of syndicate 1183.

No profit commission has been recognised in respect of the 2003 year of account of syndicate 1183 as the directors consider there is too much uncertainty over this amount at the date of preparation of the accounts.

Prior year numbers have not been restated because the 2000 and 2001 years of account are loss making (and the 2001 year of account has not closed).

(c) **Taxation**

The charge for taxation based on the profit/loss for the year takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The provisions of FRS 19 "Deferred Tax" have been adopted in these financial statements. As a consequence, full provision has been made for the deferred tax on tax assets and liabilities arising on timing differences.

3 Turnover

	2003 £	2002 £
Managing agency fee	2,902,500	2,745,000
Profit commission	2,117,175	431,236
	5,019,675	3,176,236

The profit commission received in 2002 relates to a previous syndicate, also numbered 1183 which reinsured to close the 1999 year of account at the end of 2001. The syndicate had previously forecast a loss for this year and therefore the profit commission would not have been recognised any earlier under the new policy.

Notes to the Accounts

4 Staff costs and directors' remuneration

All staff are employed by Talbot Underwriting Services Ltd ("TUSL"), a fellow group company which pays all their remuneration. Amounts included in the management charge are not separately identified. No emoluments were paid to directors of the company in respect of their services as directors of the company.

5 Profit on ordinary activities before taxation

	2003 £	2002 £
Profit on ordinary activities before taxation is after charging:		
Management charge	3,376,643	1,134,839

All expenses of the UK group of companies are administered by TUSL and a management charge is made for reimbursement. The audit fee is borne by another group company.

6 Tax on profit on ordinary activities

The current tax charge for the period is lower (2002: lower) than the standard rate of corporation tax in the UK (30%: 2002 30%). The differences are explained below:

	2003 £	2002 £
Profit on ordinary activities before taxation	1,637,559	2,029,258
United Kingdom corporation tax at 30% (2002: 30%) based on the profit for the year	491,268	608,777
Tax effect of:		
Group loss relief not paid for	(491,268)	(608,777)
Current tax on income for the period	-	-
Tax on profit on ordinary activities	-	-

There are no timing differences between the treatment of any items for taxation and accounting purposes which give rise to any deferred taxation assets or liability.

7 Dividends

	2003 £	2002 £
Dividend paid to ordinary shareholders	-	1,200,000

8 Debtors

	2003 £	2002 £
Amounts owed by other group companies	1,168,937	1,648,553
Accrued income	2,117,175	-
	3,286,112	1,648,553

9 Share capital

	2003 £	2002 £
Authorised ordinary shares of £1 each	400,000	400,000
Allotted and fully paid ordinary shares of £1 each	400,000	400,000

10 Reconciliation of movement in shareholders' funds

	Share Capital £	Profit and Loss £	Total £
Opening shareholders' funds	400,000	1,248,553	1,648,553
Profit for the financial year	-	1,637,559	1,637,559
Closing shareholders' funds	400,000	2,886,112	3,286,112

11 Cashflow statement

A cash flow statement has not been prepared on the grounds that the company is a subsidiary with more than 90% of the voting rights kept within the group.

12 Related parties

The company managed the capacity on syndicates 1183 and 376. The amounts receivable were:

	Agency Fees		Profit Commission	
	2003	2002	2003	2002
	£	£	£	£
Syndicate 1183	2,902,500	2,745,000	2,117,175	-
Syndicate 1183 (1999 & prior years of account)	-	-	-	431,236
	2,902,500	2,745,000	2,117,175	431,236

The profit commission received from syndicate 1183 in 2002 was from a previous syndicate also numbered 1183 which reinsured to close the 1999 underwriting year of account at the end of 2001 into syndicate 376. It did not underwrite for the 2000 or 2001 years of account.

HE Hutter is a director of Black Diamond Group ("BDG"), a merchant bank and advisory company. Talbot Holdings Ltd ("THL") entered into a contract for advisory services with BDG on an arm's length basis in the fourth quarter of 2001 and this has been extended up to December 2004. The annual fee for 2003 was \$1,000,000 and the amount recharged to the syndicates during the year was \$500,000. The fee for 2004 will be \$350,000.

CNR Atkin and MEA Carpenter are trustees of a Contingency Trust (the "Trust") set up at the date of the purchase by THL of the Lloyd's interests of Alleghany Corporation. The other trustees, appointed in November 2003, are Codan Trust Company Ltd and another individual. The balance held by the Trust at 1st January 2003 was \$4.7m.

During the year the Trust made distributions totalling \$1.0m to three ex-directors of \$0.3m. The Trust made loans to two directors of the Company, both of whom are trustees, of \$251,900 each.

In November the Trust acquired 3,172 Series "A" convertible preference shares in the company's ultimate parent company, Talbot Holdings Ltd ("THL") for \$1.5m. At 31st December, the balance held by the Trust was \$1.7m.

CNR Atkin, MEA Carpenter, JS Clouting and ND Wachman are also directors of 1384 Capital Ltd. This company provides Funds at Lloyd's to Talbot 2002 Underwriting Capital Ltd, a fellow group company, for the 2002 and 2003 years of account of syndicate 1183.

The company has taken advantage of the exemption for greater than 90% owned subsidiaries available in FRS8 and has not disclosed related party transactions between itself and other group companies.

13 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Talbot Underwriting Holdings Ltd, incorporated and registered in the UK. The only UK group in which the results of the company are consolidated is that headed by Talbot Underwriting Holdings Ltd, incorporated in England and Wales. The consolidated accounts for this group are available to the public and may be obtained from Companies House, Crown Way, Maindy, CF14 3UZ, Wales.

The ultimate parent undertaking is Talbot Holdings Ltd, a company based in Bermuda, the Registered Office of which is Clarendon House, 2 Church Street, Hamilton, HM11, Bermuda.