Company registration no 2202362

TALBOT UNDERWRITING LTD

Report and financial statements

31 December 2011

Report and financial statements 2011

Contents

Officers and professional advisers

Directors

CNR Atkin	(Chief Executive)
PA Bilsby	
MEA Carpenter	(Chairman)
JS Clouting	
JE Consolino	(Non-executive)
BJ Hurst-Bannister	(Non-executive)
AJ Keys	(Non-executive)
EJ Noonan	(Non-executive)
JG Ross	
M Scales	(Non-executive)
JE Skinner	
VG Southey	(Non-executive)
ND Wachman	

Secretary

JS Clouting

Registered office

60 Threadneedle Street
London
EC2R 8HP

Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Bankers

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

The directors present their report and the audited financial statements of the company for the year ended 31 December 2011

Principal activity and business review

The principal activity of Talbot Underwriting Ltd ("TUL") is that of a Lloyd's managing agency TUL manages the affairs of syndicate 1183 ("the syndicate")

TUL is the immediate parent company of Talbot Risk Services Pte Ltd ("Talbot Asia"), a Singapore based service company that provides business to syndicate 1183 Talbot Asia is regulated by the Monetary Authority of Singapore

The company has a joint venture with the Abu Dhabi National Insurance Company ("ADNIC"), Underwriting Risk Services (Middle East) Ltd ("URSME") The company owns 50% of the share capital of URSME, a Dubai based company that provides business to syndicate 1183 and ADNIC

During the year, the company purchased 100% of the share capital of Validus Underwriting Risk Services Inc, a New York based managing general agent, which provides business to syndicate 1183

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 2011 year of account was £560m (2010 year of account £600m)

The principal activity of the syndicate continues to be the underwriting of direct and reinsurance business in the Lloyd's market Gross written premium income (gross of acquisition costs) by class of business for the calendar year was as follows

	2011	2010	2009
	£m	£m	£'m
Marine and offshore energy	194 2	181 8	181 1
War, political violence and political risks	109 0	94 3	93 8
Commercial property, including Construction	63 4	64 7	66 2
Onshore Energy	67 7	79 4	61 7
Financial institutions	23 4	25 6	26 5
Specialty	26 7	33 3	33 1
Airlines	41 3	45 0	35 3
Treaty reinsurance	106 7	108 9	88 2
Total gross written premium	632 4	633 0	585 9

Key performance indicators

The principal sources of revenue for TUL are the managing agency fee charged to the syndicate, currently 1% of syndicate capacity (2010 1 5%) and profit commission on the underwriting results of the syndicate, currently 15% of the year of account result, after personal expenses at 36 months (2010 15%) These are shown for the current and two preceding years in the table below

	2011 £'000	2010 £'000	2009 £'000
Managed capacity	560,000	600,000	410,000
Managing agency fee	5,600	9,000	6,150
Profit commission	11,769	10,453	7,608
Total revenue	17,369	19,453	13,758

Expenses consist primarily of a management fee charged to TUL by the service company Talbot Underwriting Services Ltd ("TUSL") Operating expenses were £6 1m against £14 6m in 2010 reflecting a decrease in performance related bonuses

The net asset position of the company has increased from £7 9m to £13 1 m The main asset on the balance sheet is a debtor of £14 1m due from the syndicate in respect of profit commission on the 2009 year of account

Results and dividend

The profit for the year after taxation was £8,268,850 (2010 £3,614,800) The company paid a dividend during the year of £3m (2010 £nil)

Future developments

TUL continues to act as the managing agent of the syndicate The syndicate capacity for the 2012 year of account is £600m (2011 year of account £560m) On 5 March 2012 the company entered into an agreement to purchase the remaining 50% of URSME from ADNIC

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 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

Credit risk

The key risk is the risk of default by one or more of the Talbot Group Companies To mitigate this risk, balances with group companies are reviewed on a regular basis

Regulatory and compliance risk

TUL is required to operate under the regulatory and compliance frameworks set by the Financial Services 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 syndicate to comply with UK or overseas regulatory requirements

Legal risk

Legal risk is defined as the impact from legal developments affecting the insurance business itself, or non-insurance commercial and employment related litigation The Company Secretary monitors legal developments and assesses the impact on the Company

Operational risk

Operational risk is the risk of failure of a management control or process giving rise to operational and/or financial loss TUL seeks to manage this risk through operational procedures

Corporate governance

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

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

The TUL Audit Committee is made up of five non-executive directors and is attended by various executive directors and members of management The purpose of the Audit Committee is to review, with input from external auditors, internal audit and external actuaries, and to report to the TUL Board on the control infrastructure and financial reporting of TUL and its managed syndicate

Directors

The following directors have held office during the period from 1 January 2011 to the date of this report

CNR Atkin	(Chief Executive)
PA Bilsby	
MEA Carpenter	(Chairman)
JS Clouting	
JE Consolino	(Non-executive)
BJ Hurst-Bannister	(Non-executive, appointed 15 September 2011)
MS Johnson	(resigned 17 November 2011)
AJ Keys	(Non-executive)
GS Langford	(resigned 31 December 2011)
EJ Noonan	(Non-executive)
JG Ross	
M Scales	(Non-executive, appointed 15 September 2011)
JE Skinner	
VG Southey	(Non-executive)
ND Wachman	

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

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors to the company The company has an elective resolution in place under S485 of the Companies Act 2006 to dispense with the obligation to appoint an auditor annually

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

J. C

JS Clouting
Secretary
8 March 2012

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 of the company for that period 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 have been followed, subject to any material departures disclosed and explained in 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

Independent auditors' report to the member of Talbot Underwriting Ltd

We have audited the financial statements of Talbot Underwriting Ltd for the year ended 31 December 2011 which comprise the profit and loss account, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5 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) 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 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

Scope of the audit of the financial statements

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 In addition, we read all the financial and non-financial information in the Report & Financial Statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Paul Pannell (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
LONDON
8 March 2012

Year ended 31 December 2011

	Note	2011 £	2010 £
Turnover	3	17,368,516	19,452,908
Administrative expenses	5	(6,118,898)	(14,564,145)
Operating profit		11,249,618	4,888,763
Impairment of investment in joint venture	8	-	91,926
Profit on ordinary activities before taxation		11,249,618	4,980,689
Tax on profit on ordinary activities	7	(2,980,768)	(1,365,889)
Profit for the financial year	12	8,268,850	3,614,800

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

There are no material differences between the profit on ordinary activities before taxation for the year as stated above and their historical cost equivalents

As at 31st December 2011

	Note	2011 £	2010 £
Fixed assets			
Investments	8	577,949	577,943
Current assets			
Debtors	9	19,522,816	11,135,409
Creditors amounts falling due within one year	10	(6,972,211)	(3,853,648)
Net current assets		12,550,605	7,281,761
Total net assets		13,128,554	7,859,704
Capital and reserves			
Called up share capital	11	400,000	400,000
Profit and loss account	12	12,728,554	7,459,704
Total shareholder's funds	12	13,128,554	7,859,704

These financial statements were approved by the Board of Directors on 8 March 2012

Signed on behalf of the Board of Directors

ND Wachman (Director)

Year ended 31 December 2011

1 Basis of presentation

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 ("the Act") and applicable accounting standards The principal accounting policies are set out below

Under s401 of the Companies Act 2006 the company is exempt from preparing consolidated financial statements on the basis that the ultimate parent undertaking, as set out in note 14, prepares consolidated financial statements

2 Accounting policies

(a) Cash flow statement

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds that the company is a wholly owned subsidiary of Validus Holdings, Ltd, and is included in the consolidated accounts of Validus Holdings, Ltd which are publicly available

(b) Turnover

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

Managing agency fees, which are currently 1% of syndicate capacity, are recognised in the period over which they are earned

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'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

(c) Operating expenses

Expenses are recognised on an accruals basis The main item of expense is a management charge from Talbot Underwriting Services Ltd ("TUSL") for services provided to the company

(d) Deferred tax

Provision is made for deferred tax assets and liabilities on all material timing differences Deferred tax is calculated at the rates at which it is expected that the tax will arise Deferred tax is recognised in the profit and loss account for the period Deferred tax balances are not discounted

(e) Dividends on shares presented within shareholder's funds

Dividends on shares presented within shareholder's funds are dealt with as appropriations in the reconciliation of movements in shareholder's funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

(f) Investments

Investments in group companies are included at cost unless their value has been impaired, in which case they are valued at their realisable value

3 Turnover

	2011 £	2010 £
Managing agency fee	5,600,000	9,000,000
Profit commission	11,768,516	10,452,908
	17,368,516	19,452,908

All income arises in the United Kingdom

4 Staff costs and directors' remuneration

The company has no employees All members of staff are employed by Talbot Underwriting Services Ltd ("TUSL"), a fellow group company, which pays all their remuneration 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

	2011 £	2010 £
Profit on ordinary activities before taxation is after charging		
Management charge	6,118,899	14,564,145

6 Audit and non-audit fees

An analysis of the amounts paid to the company's auditors and associates is given below The audit and non-audit fees are borne by TUSL and are recharged to the company as part of the management charge

	2011 £	2010 £
Audit services		
- fees payable for the audit of the company	25,609	27,503

7 Taxation

The analysis of the tax charge during the period is as follows

	2011 £	2010 £
Current tax		
UK corporation tax on profits for the period	2,980,768	1,367,348
Adjustment in respect of prior periods	-	(1,459)
	2,980,768	1,365,889

The current tax charge for the year is lower (2010 lower) than the standard effective rate of corporation tax in the UK of 26 5% (2010 28%) The differences are explained below

	2011 £	2010 £
Profit on ordinary activities before taxation	11,249,618	4,980,689
Profit on ordinary activities multiplied by the standard rate in the UK 26 5% (2010 28%)	2,981,148	1,394,594
Tax effect of		
Expenses not deductible for tax purposes	-	(25,739)
Notional interest subject to tax	(380)	(1,507)
Current tax on income for the period	2,980,768	1,367,348

8 Investments

The company owns Talbot Risk Services Pte Ltd ("Talbot Asia"), a company based in Singapore Talbot Asia acts as a service company which provides business to syndicate 1183 which is managed by TUL TUL owns 100% of the share capital of Talbot Asia

On 15 November 2011, the company acquired, at a cost of $10, 100% of the share capital of Validus Underwriting Risk Services Inc, a managing general agent based in New York that underwrites risks on behalf of syndicate 1183 in the US market

The company has a joint venture with the Abu Dhabi National Insurance Company ("ADNIC), Underwriting Risk Services (Middle East) Ltd ("URSME") URSME underwrites business on behalf of syndicate 1183 and ADNIC The company owns 50% of the share capital of URSME On 5 March 2012 the company entered into an agreement to purchase the remaining 50% of URSME from ADNIC

	2011 £	2010 £
Talbot Risk Services Pte Ltd	200,000	200,000
Validus Underwriting Risk Services Inc	6	-
Underwriting Risk Services (Middle East) Ltd	377,943	377,943
	577,949	577,943

During 2010 the carrying value of URSME was increased by £91,926 following the reversal of an impairment adjustment in the prior period

9 Debtors

	2011 £	2010 £
Amounts due from managed syndicate	14,061,016	8,842,909
Accrued income	-	2,292,500
Amounts due from other group companies	5,461,800	-
	19,522,816	11,135,409

Accrued income of £nil (2010 £2,292,500) is receivable after more than one year

10 Creditors – amounts falling due within one year

	2011 £	2010 £
Amounts owed to other group companies	3,661,489	2,833,465
Corporation tax	3,310,722	1,020,183
	6,972,211	3,853,648

11 Share capital

	2011 £	2010 £
Authorised share capital of £1 each	400,000	400,000
Allotted and fully paid ordinary shares of £1 each	400,000	400,000

12 Reconciliation of movements in shareholder's funds

	Share Capital £	Profit and loss £	Total £
Opening shareholder's funds	400,000	7,459,704	7,859,704
Profit for the financial year	-	8,268,850	8,268,850
Dividend Paid		(3,000,000)	(3,000,000)
Closing shareholder's funds	400,000	12,728,554	13,128,554

13 Related parties

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

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

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

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