

TALBOT UNDERWRITING LTD

Report and financial statements

31st December 2007

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Report and financial statements 2007

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Officers and professional advisers

Directors

CNR Atkin	(Chief Executive)
GAM Bonvarlet	
MEA Carpenter	(Chairman)
JS Clouting	
JE Consolino	(Non-executive)
MS Johnson	
AJ Keys	(Non-executive)
GS Langford	
EJ Noonan	(Non-executive)
GP Reeth	(Non-executive)
JG Ross	
VG Southey	(Non-executive)
ND Wachman	

Secretary

JS Clouting

Registered office

Gracechurch House
55 Gracechurch Street
London
EC3V 0JP

Auditor

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hays Lane
SE1 2RD

Bankers

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

The directors present their annual report and the audited financial statements for the year ended 31st December 2007

Principal activity and review of business

The principal activity of Talbot Underwriting Ltd ("TUL") is that of a Lloyd's underwriting agency. TUL manages the affairs of syndicate 1183 ("the syndicate"). TUL is also 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 received approval from the Monetary Authority of Singapore in November 2007.

During the year the company's parent, Talbot Holdings Ltd ("THL") was purchased by Validus Holdings Ltd ("Validus"), the parent of a Bermudian reinsurer.

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 2007 year of account was £325m (2006 year of account £307m).

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:

	2007 £m	2006 £m	2005 £m
Marine and energy	132.0	132.9	121.9
War, political violence and political risks	64.5	70.6	62.9
Commercial property	52.2	66.0	64.8
Financial institutions	21.9	24.3	24.3
Specialty	27.3	9.7	8.9
Treaty reinsurance	46.0	49.0	42.6
Total gross written premium	343.9	352.5	325.4

Key performance indicators

The principal sources of revenue for TUL are the managing agency fee charged to the syndicate (currently 1.5% of syndicate capacity) and profit commission on the underwriting results of the syndicate (currently 15% of the syndicate result after personal expenses). These are shown for the current and two preceding years in the table below.

	2007 £'000	2006 £'000	2005 £'000
Managed capacity	325,000	307,000	282,000
Managing agency fee	4,875	4,605	4,230
Profit commission	8,907	6,755	9,464
Total revenue	13,782	11,360	13,694

Profit commission ("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.

Expenses consist primarily of a management fee charged to TUL by the service company Talbot Underwriting Services Ltd ("TUSL"). Operating expenses were £14.1m against £11.0m in 2006. The management fee has increased primarily because of retention and completion bonuses awarded to staff during the year arising from the sale of THL to Validus.

The main asset on the balance sheet is accrued profit commission on the 2006 year of account of £4.6m. There is also £4.3m due from the syndicate in respect of profit commission on the 2005 year of account.

Results and dividend

The loss for the year after taxation was £180,935 (2006 profit £209,179) The company paid a dividend of £3,000,000 during the year (2006 £4,000,000) No final dividend is proposed by the directors for the year ended 31st December 2007 (2006 nil)

Future developments

TUL continues to act as the managing agent of the syndicate The syndicate capacity for the 2008 year of account is £325m (2007 year of account £325m)

Principal risks and uncertainties

The principal risks faced by TUL are a reduction of managing agency fees as a result of the reduction of the syndicate's capacity and a reduction in profit commission as a result of the syndicate's profit being reduced TUL manages risk within the syndicate as set out below

Risk management framework

The Company has developed and maintains a comprehensive risk register and monitoring framework Identified risks are grouped into FSA risk categories The monitoring framework allows new risks to be identified and new controls to be put in place as necessary, either to prevent the occurrence of the event or to mitigate its impact once it has happened

The Talbot Board is ultimately responsible for the management of risk The Talbot Board conducts its duties via a new Board Committee structure which was put in place at the end of 2007 The Audit Committee is supplemented by an Underwriting Review Committee and a Risk Committee All management responsibilities are delegated to the Chief Executive

The Risk Committee meets on a quarterly basis The purpose of the Risk Committee is to determine the risk process, to review issues of policy and to drive the risk process at Talbot On behalf of the Talbot Board the Risk Committee monitors the conduct and co-ordination of risk management activities across the company including the identification of key business risks and material changes to the business environment

The Underwriting Review Committee meets quarterly This Committee's role is to monitor the risks, and the effectiveness of the controls mitigating those risks, identified by the Company relating principally to insurance risk

The key risks, on a gross basis before controls, faced by the syndicate are set out in the table below

TUL Risk Category	Overview of key risks
Insurance	Risks arising from reserves set materially too high or too low
Insurance	Ineffective RI programme
Insurance	Planned returns not met as a result of catastrophe claims in excess of plan
Insurance	Planned return not met as a result of large loss claims in excess of plan
Insurance	Planned return not met as a result of attritional loss claims in excess of plan
Insurance	Planned returns over the cycle not met
Market	Failure to achieve an acceptable range around the targeted investment return
Operational	Failure to recruit the right individual for the role
Operational	Individuals not suitable for the role
Operational	Wrong strategy
Operational	Loss of ability to trade
Operational	Financial crime
Operational	Failure to retain staff
Operational	Poor relationship with third party capital and Validus
Operational	Territorial and regulatory breach

Principal risks and uncertainties (continued)

At management level, within a structure established by the Chief Executive, all risks have been allocated to four management committees

The Executive Committee is responsible for establishing the Risk Register and key controls and for formulating the risk appetite from its knowledge of the sentiment of the TUL Board and the owner of the Talbot Group. It also manages some of the key business risks.

As well as Executive Committee, the "senior" management committee, there are the following management committees

Insurance Management Committee

Operational Risk Committee

Financial Risk Committee

The responsibilities of the management committees are to ensure that all TUL risks recorded on the risk register are managed appropriately and the terms of reference reflect their risk monitoring duties.

Insurance risk

Insurance risks are allocated to the Insurance Management Committee. The TUL board agrees its risk appetite as part of the syndicate business plan process which sets out targets for premium volume, pricing, line sizes/aggregate exposures and retention by class of business. Performance against these targets is measured regularly throughout the year.

Risks written are subject to peer review, and, on a selective basis, review by independent experts. Pricing is controlled by the monitoring of rate movements and the comparison of technical prices to actual prices for certain classes of business. Controls over the aggregation of claims exposures vary by class of business. They include limiting US coastal risks, monitoring aggregation by country/region/blast zones and applying line size limits in all classes.

Catastrophe modelling software and techniques are used to model expected loss outcomes for Lloyd's Realistic Disaster Scenario returns and in-house catastrophe event scenarios. Reserves are reviewed for adequacy on a quarterly basis.

The syndicate also purchases reinsurance, with an appropriate number of reinstatements, to arrive at an acceptable net risk.

Credit risk

Credit risks are allocated to the Financial Risk Committee (FRC) which meets monthly and on an ad hoc basis as necessary. The FRC monitors all types of credit risk.

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.

Underwriters may only write business through an approved counterparty. New counterparties are approved by the FRC, for brokers, or the Coverholder Management Group (CMG), for coverholders, prior to any business being underwritten. The FRC and the CMG reviews approved counterparties periodically. Each counterparty is assigned a credit limit based on its financial net worth and the business written through that counterparty. The credit limit utilisation is monitored on a weekly basis. Annual coverholder audits are required for all binding authority business led by the syndicate.

The FRC ensures that reinsurance is placed with reinsurers who generally have a rating of A- or above and who have a good record of claims payment. The FRC also ensures there is no inappropriate concentration of exposure.

Market risk

Market risks are allocated to the FRC. The investment of syndicate funds has been controlled by management with the objective of achieving an investment return commensurate with the risk appetite of the TUL Board.

To manage the exposure to exchange rate fluctuations, syndicate funds by currency are rebalanced with liabilities on a quarterly basis.

Principal risks and uncertainties (continued)

Liquidity risk

Liquidity risk is also allocated to the FRC. Cash flow forecasts are prepared on a quarterly basis by currency and reviewed by management on a regular basis. Liquidity is also considered by the FRC when reviewing the investment of syndicate funds.

Operational risk

Operational Risk is largely categorised by People, Processes, Systems, and External Events. This is a large risk group and the risks within it are managed by those with specific management responsibility, however, business continuity and disaster recovery are considered by the Continuity Steering Group which reports to the Operational Risk Committee. Risks allocated to this Risk Group are reported on at either the Operational Risk Committee or the Executive Committee. However, TUL recognises that operational risk is also present in other risk categories and has not tried to separate them out. This is largely relevant to Insurance Risk.

Internal audit

All risk categories are subject to periodic review by the internal audit department.

Corporate governance

The TUL board comprises executive directors, non-executive directors including shareholder representatives and independent directors.

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 three 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 the TUL and its managed syndicate.

Directors

The following directors have held office during the period from 1st January 2007 to the date of this report.

CNR Atkin	(Chief Executive)	
GAM Bonvarlet		
MEA Carpenter	(Chairman)	
JS Clouting		
JE Consolino	(Non-executive)	Appointed 2 nd July 2007
HE Hutter	(Non-executive)	Resigned 2 nd July 2007
MS Johnson		
AJ Keys	(Non-executive)	
GS Langford		
DK Newbigging		Resigned 2 nd July 2007
EJ Noonan	(Non-executive)	Appointed 2 nd July 2007
JJ Quinn	(Non-executive)	Resigned 2 nd July 2007
DP Redhead		Resigned 16 th May 2007
GP Reeth	(Non-executive)	Appointed 2 nd July 2007
JG Ross		
VG Southey	(Non-executive)	
ND Wachman		

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

Political and charitable donations

The company did not make any political or charitable donations during the year (2006: £nil).

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

Auditor

KPMG Audit Plc resigned as the company's auditor on 29th August 2007. The company appointed PricewaterhouseCoopers LLP as its auditor on 29th August 2007. The company has an elective resolution in place under S386 of the Companies Act 1985 to dispense with the obligation to appoint an auditor annually.

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

JS Clouting
Secretary
12th March 2008



Statement of directors' responsibilities

The following statement applies to the directors' report and 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 that 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 period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable 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 confirm that they have complied with the above requirements in preparing the financial statements. The directors are responsible for keeping proper accounting records that 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 1985. They have general responsibility 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 31st December 2007 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
LONDON

14th March 2008

Profit and loss account

Year ended 31st December 2007

	Note	2007 £	2006 £
Turnover	3	13,782,064	11,359,713
Operating expenses		(14,050,112)	(11,005,007)
Operating (Loss) Profit		(268,048)	354,706
Interest receivable		23,820	-
(Loss) profit on ordinary activities before taxation	5	(244,228)	354,706
Tax on (loss) profit on ordinary activities	7	63,293	(145,527)
(Loss) profit for the financial year	12	(180,935)	209,179

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 (loss) profit on ordinary activities before taxation for the year as stated above and their historical cost equivalents.

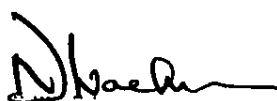
Balance sheet

As at 31st December 2007

	Note	2007 £	2006 £
Fixed assets			
Investment	8	200,000	-
Current assets			
Debtors	9	9,055,050	10,050,446
Creditors amounts falling due within one year	10	(7,566,952)	(5,181,413)
Net current assets		1,488,098	4,869,033
Total net assets		1,688,098	4,869,033
Capital and reserves			
Called up share capital	11	400,000	400,000
Profit and loss account	12	1,288,098	4,469,033
Total shareholder's funds	12	1,688,098	4,869,033

These financial statements were approved by the Board of Directors on 12th March 2008

Signed on behalf of the Board of Directors


ND Wachman

(Director)

Year ended 31st December 2007

1 Basis of preparation of financial statements

The financial statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 ("the Act") and applicable Accounting Standards. The principal accounting policies are set out below.

Under s228A of the Companies Act 1985, for accounting periods beginning on or after 1st January 2005, 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) Accounting convention

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 are recognised in the period over which they are earned.

Profit commissions ("PC") expected to arise on closure of a Lloyd's year of account are 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, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

(e) Dividends on shares presented within shareholders' funds

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

	2007 £	2006 £
Managing agency fee	4,875,000	4,605,000
Profit commission	8,907,064	6,754,713
	13,782,064	11,359,713

All income arises in the United Kingdom

4 Staff costs and directors' remuneration

The remuneration of all employees of the group is borne by TUSL, a fellow group company. Emoluments of the company directors based in the UK are also borne by TUSL, with the exception of certain bonus payments to non-executive directors which are borne by the company. Details of the directors' remuneration borne by the company are as follows:

	2007 £	2006 £
Aggregate emoluments	137,457	254,847

The gross emoluments of the highest paid director were:

Aggregate emoluments	68,729	127,423
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No pension contributions were paid by the group in respect of the directors whose remuneration was borne by the company.

5 Profit on ordinary activities before taxation

	2007 £	2006 £
Profit on ordinary activities before taxation is after charging		
Management fees	13,870,848	10,686,434

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.

	2007 £	2006 £
Audit services		
- fees payable for the audit of the company	17,500	4,300
Non-audit services		
- other services pursuant to legislation	-	1,600
- taxation services	-	2,000

7 Taxation

The analysis of the tax (credit) / charge during the period is as follows

	2007 £	2006 £
Current tax		
UK corporation tax on profits for the period	-	145,527
Adjustment in respect of prior periods	(1,689)	-
	(1,689)	145,527
Deferred tax		
Origination and reversal of timing differences	(61,604)	-
	(63,293)	145,527

The current tax (credit) charge for the year is lower (2006 higher) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	2007 £	2006 £
(Loss) profit on ordinary activities before taxation	(244,228)	354,706
(Loss) profit on ordinary activities multiplied by the standard rate in the UK 30% (2006 30%)	(73,268)	106,412
Tax effect of		
Expenses not deductible for tax purposes	7,264	39,115
Loss relivable against profits in future periods	61,604	-
Effect of change in corporation tax rate from 30% to 28% on losses relivable against profits in future periods	4,400	-
Current tax on income for the period	-	145,527
Adjustment in respect of prior periods	(1,689)	-
Tax on profit on ordinary activities	(1,689)	145,527

8 Investments

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

9 Debtors

	2007 £	2006 £
Amounts due from managed syndicate	4,346,064	9,839,713
Accrued income	4,561,000	-
Amounts due from group companies	86,040	-
Deferred taxation in respect of losses carried forward	61,604	-
Other debtors	342	210,733
	9,055,050	10,050,446

Accrued income of £4,561,000 (2006 £nil) is receivable after more than one year

10 Creditors – amounts falling due within one year

	2007 £	2006 £
Amounts owed to other group companies	7,566,952	4,893,946
Accruals and deferred income	-	287,467
	7,566,952	5,181,413

11 Share capital

	2007 £	2006 £
Authorised share capital	400,000	400,000
Allotted and fully paid ordinary shares of £1 each	400,000	400,000

12 Reconciliation of movements in shareholders' funds

	Share Capital £	Profit and loss £	Total £
Opening shareholders' funds	400,000	4,469,033	4,869,033
Loss for the financial year	-	(180,935)	(180,935)
Dividends paid	-	(3,000,000)	(3,000,000)
Closing shareholders' funds	400,000	1,288,098	1,688,098

13 Related parties

The company manages the affairs of syndicate 1183. Amounts receivable from the syndicate during the year were as follows

	Agency Fees		Profit Commission	
	2007 £	2006 £	2007 £	2006 £
Syndicate 1183	4,875,000	4,605,000	8,907,064	6,754,713

JJ Quinn, a director of the company for part of the year, is also a director of Olympus Partners ("Olympus"). Olympus manages funds that held Class A convertible preferences shares in the company's parent company, Talbot Holdings Ltd ("THL") until 2nd July 2007. During the year an annual management fee was paid to Olympus by THL. This was not recharged to the company (2006 £31,060).

HE Hutter, a director of the company for part of the year, is the CEO of The Black Diamond Group LLC ("BDG"). THL entered into a contract for advisory services with BDG on an arm's length basis. The fees paid during 2007 amounted to \$50,543 (2006 \$150,000) and expenses of \$35,450 (2006 \$90,800) were reimbursed. An amount of \$12,458 (2006 \$23,800) related to the company and was reflected in the management fee from TUSL.

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.

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 Gracechurch House, 55 Gracechurch Street, London, EC3V 0JP.

The ultimate parent company is Validus Holdings Ltd, a company registered in Bermuda. The registered office is Third Floor, 19 Par-La-Ville Road, Hamilton HM11, Bermuda.