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TALBOT UNDERWRITING LTD

Report and financial statements

31 December 2010

Report and financial statements 2010

Contents

Officers and professional advisers

Directors

CNR Atkin	(Chief Executive)
PA Bilsby	
MEA Carpenter	(Chairman)
JS Clouting	
JE Consolino	(Non-executive)
MS Johnson	
AJ Keys	(Non-executive)
GS Langford	
EJ Noonan	(Non-executive)
JG Ross	
J E Skinner	
VG Southey	(Non-executive)
ND Wachman	

Secretary

JS Clouting

Registered office

60 Threadneedle Street
London
EC2R 8HP

Auditors

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

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 2010

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 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 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

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 2010 year of account was £600m (2009 year of account £410m)

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

	2010	2009	2008
	£m	£m	£m
Marine and energy	181 8	181 1	149 8
War, political violence and political risks	94 3	93 8	69 6
Commercial property, including Construction	64 7	66 2	54 7
Onshore Energy	79 4	61 7	-
Financial institutions	25 6	26 5	22 8
Specialty	33 3	33 1	31 4
Airlines	45 0	35 3	-
Treaty reinsurance	108 9	88 2	54 9
Total gross written premium	633 0	585 9	383 2

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 year of account result, after personal expenses at 36 months) These are shown for the current and two preceding years in the table below

	2010 £'000	2009 £'000	2008 £'000
Managed capacity	600,000	410,000	325,000
Managing agency fee	9,000	6,150	4,875
Profit commission	10,453	7,608	16,587
Total revenue	19,453	13,758	21,462

Expenses consist primarily of a management fee charged to TUL by the service company Talbot Underwriting Services Ltd ("TUSL") Operating expenses were £14 6m against £11 6m in 2009 reflecting an increase in performance related bonuses

The net asset position of the company has increased from £4 2m to £7 9m, which is satisfactory The main asset on the balance sheet is a debtor of £8 8m due from the syndicate in respect of profit commission on the 2008 year of account There is also accrued income of £2 3m in respect of profit commission for the 2009 year of account

Results and dividend

The profit for the year after taxation was £3,614,800 (2009 £1,496,210) The company paid dividends of nil during the year (2009 £9,000,000)

Future developments

TUL continues to act as the managing agent of the syndicate The syndicate capacity for the 2011 year of account is £560m (2010 year of account £600m)

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 size of the capacity of the syndicate A reduction in the size of 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 of 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 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 TUL and its managed syndicate

Directors

The following directors have held office during the period from 1 January 2010 to the date of this report

CNR Atkin	(Chief Executive)
PA Bilsby	(Appointed 14 April 2010)
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, resigned 15 November 2010)
JG Ross	
JE Skinner	(Appointed 1 January 2010)
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

JS Clouting
Secretary
16 March 2011

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 judgments 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 31st December 2010 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 Directors' Responsibilities Statement 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

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 2010 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

Philip T. Calnan.

Philip Calnan (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
LONDON
17 March 2011

Year ended 31 December 2010

	Note	2010 £	2009 £
Turnover	3	19,452,908	13,758,472
Operating expenses	5	(14,564,145)	(11,585,064)
Operating profit		4,888,763	2,173,408
Impairment of investment in joint venture	8	91,926	(91,926)
Profit on ordinary activities before taxation		4,980,689	2,081,482
Tax on profit on ordinary activities	7	(1,365,889)	(585,272)
Profit for the financial year	12	3,614,800	1,496,210

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 2010

	Note	2010 £	2009 £
Fixed assets			
Investments	8	577,943	290,105
Current assets			
Debtors	9	11,135,409	12,982,535
Creditors amounts falling due within one year	10	(3,853,648)	(9,027,736)
Net current assets		7,281,761	3,954,799
Total net assets		7,859,704	4,244,904
Capital and reserves			
Called up share capital	11	400,000	400,000
Profit and loss account	12	7,459,704	3,844,904
Total shareholder's funds	12	7,859,704	4,244,904

These financial statements were approved by the Board of Directors on 16 March 2011

Signed on behalf of the Board of Directors

ND Wachman (Director)

Year ended 31 December 2010

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 5% of syndicate capacity 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

	2010 £	2009 £
Managing agency fee	9,000,000	6,150,000
Profit commission	10,452,908	7,608,472
	19,452,908	13,758,472

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

	2010 £	2009 £
Profit on ordinary activities before taxation is after charging		
Management charge	14,564,145	11,585,064

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

	2010 £	2009 £
Audit services		
- fees payable for the audit of the company	27,503	27,000

7 Taxation

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

	2010 £	2009 £
Current tax		
UK corporation tax on profits for the period	1,367,348	596,548
Adjustment in respect of prior periods	(1,459)	(11,276)
	1,365,889	585,272

The current tax charge for the year is lower (2009 lower) than the standard effective rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	2010 £	2009 £
Profit on ordinary activities before taxation	4,980,689	2,081,482
Profit on ordinary activities multiplied by the standard rate in the UK 28% (2009 28%)	1,394,594	582,815
Tax effect of		
Expenses not deductible for tax purposes	(25,739)	25,739
Notional interest subject to tax	(1,507)	(12,006)
Current tax on income for the period	1,367,348	596,548

8 Investments

The company owns one subsidiary, Talbot Risk Services Pte Ltd ("Talbot Asia"), 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 Talbot Asia

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

	2010 £	2009 £
Talbot Risk Services Pte Ltd	200,000	200,000
Underwriting Risk Services (Middle East) Ltd	377,943	90,105
	577,943	290,105

The investment in URSME in 2009 was impaired by £91,926 in 2009 During 2010 this impairment has been reversed

9 Debtors

	2010 £	2009 £
Amounts due from managed syndicate	8,842,909	10,609,972
Accrued income	2,292,500	682,500
Amounts due from other group companies	-	1,678,091
Other debtors	-	11,972
	11,135,409	12,982,535

Accrued income of £2,292,500 (2009 £682,500) is receivable after more than one year

10 Creditors – amounts falling due within one year

	2010 £	2009 £
Amounts owed to other group companies	2,833,465	9,027,736
Corporation tax	1,020,183	-
	3,853,648	9,027,736

11 Share capital

	2010 £	2009 £
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	3,844,904	4,244,904
Profit for the financial year	-	3,614,800	3,614,800
Closing shareholder's funds	400,000	7,459,704	7,859,704

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	
	2010 £	2009 £	2010 £	2009 £
Syndicate 1183	9,000,000	6,150,000	10,452,908	7,608,472

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