Company registration no 2202362

Talbot Underwriting Ltd

Report and financial statements

31 December 2012

Contents

Directors' report

The directors present their report and audited financial statements of the company for the year ended 31 December 2012

Principal activity, review of the business and future developments

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") which commenced underwriting for the 2002 year of account The principal activity of the syndicate continues to be the underwriting of direct and reinsurance business in the Lloyd's market The capacity for the 2013 year of account is £620m

The company also acts as holding company for one UK-based and four overseas service companies which procure business for the syndicate These companies are disclosed in note 8

Key performance indicators

The principal sources of revenue for TUL are the managing agency fee charged to the syndicate, currently 1% of syndicate capacity (2011 1%) and profit commission on the underwriting results of the syndicate, currently 15% of the year of account result, after personal expenses at 36 months (2011 15%) These are shown for the current and preceding year in the table below

	2012 £'000	2011 £'000
Managed syndicate capacity	600,000	560,000
Managing agency fee	6,000	5,600
Profit commission	13,398	11,769
Total revenue	19,398	17,369

Syndicate capacity is provided by a fellow group company, Talbot 2002 Underwriting Capital Ltd

Expenses consist primarily of a management fee charged to TUL by the service company Talbot Underwriting Services Ltd ("TUSL") Administrative expenses were £22 4m against £6 1m in 2011 reflecting an increase in performance related bonuses

The net asset position of the company has decreased from £13 1m to £10 8m The main asset on the balance sheet is a debtor of £11 7m (2011 £14 1m) due from the syndicate in respect of profit commission on the 2010 year of account (2011 2009 year of account)

Results and dividend

The loss for the year after taxation was £2 3m (2011 profit £8 3m) The company did not pay a dividend during the year (2011 £3m)

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 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

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 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 company to comply with UK regulatory requirements TUL's net assets are monitored regularly to ensure that solvency requirements are met

Principal risks and uncertainties (continued)

The UK Government has set out proposals to replace the current system of financial regulation, which it believes has weaknesses, with a new regulatory framework The key weakness it identified was that no single institution has the responsibility, authority and tools to monitor the financial system as a whole, and respond accordingly That power will be given to the Bank of England The Government intends to create a new Financial Policy Committee ("FPC") within the Bank, which will look at the wider economic and financial risks to the stability of the system

In addition, the FSA will cease to exist in its current form, and the Government will create two new focused financial regulators

- a new Prudential Regulation Authority ("PRA") will be responsible for the day-to-day supervision of financial institutions that are subject to significant prudential regulation, it will adopt a more judgment-focused approach to regulation so that business models can be challenged, risks identified and action taken to preserve financial stability, and
- a new Financial Conduct Authority ("FCA") will have a strong mandate for promoting confidence and transparency in financial services and to give greater protection for consumers of financial services

The Financial Services Bill was introduced to Parliament on 26 January 2012 and received Royal Assent in December 2012 "Legal cut over", when the new system is expected to be operational, is in April 2013

Corporate governance

TUL Board

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

The non-executive directors are expected (i) to challenge the executive directors on their recommendations and running of the business, (ii) to review the performance of management in meeting agreed objectives and targets, and (iii) to satisfy themselves on the integrity of financial information and 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 to review, with input from external auditors, internal audit and external actuaries, the control infrastructure and financial reporting of TUL and the syndicate and to report to the TUL Board on these matters

Directors

The following directors have held office from 1 January 2012 to the date of this report, except where indicated

CNR Atkin	(Chief Executive)
PA Bilsby	
MEA Carpenter	(Non-executive Chairman)
JS Clouting	
JE Consolino	(Non-Executive, resigned 14 December 2012)
BJ Hurst-Bannister	(Non-executive)
AJ Keys	(Non-executive)
EJ Noonan	(Non-executive)
J Ritz	(Non-executive, appointed 14 December 2012)
JG Ross	
JD Sangster	(Non-executive, appointed 21 January 2013)
M Scales	(Non-executive)
JE Skinner	
VG Southey	(Non-executive)
ND Wachman	

Directors' report (continued)

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

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

Registered office

The company's registered office is
60 Threadneedle Street
London
EC2R 8HP

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

JS Clouting
Secretary
7 March 2013

Statement of directors' responsibilities

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 prepared financial statements for each financial year, 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 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,
- 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

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 2012 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 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 member 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 and 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 2012 and of its loss 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 matter 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

Steve Jules (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
8 March 2013

Profit and loss account

Year ended 31 December 2012

	Note	2012 £	2011 £
Turnover	3	19,397,547	17,368,516
Administrative expenses	5	(22,432,281)	(6,118,898)
(Loss) profit on ordinary activities before taxation		(3,034,734)	11,249,618
Tax on (loss) profit on ordinary activities	7	735,731	(2,980,768)
(Loss) profit for the financial year	12	(2,299,003)	8,268,850

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

Balance sheet

As at 31 December 2012

	Note	2012 £	2011 £
Fixed assets			
Investments	8	1,100,894	577,949
Current assets			
Debtors	9	20,795,590	19,522,816
Creditors - amounts falling due within one year	10	(12,737,433)	(6,972,211)
Net current assets		8,058,157	12,550,605
Accrued income – due after one year		1,670,500	-
Total net assets		10,829,551	13,128,554
Capital and reserves			
Called up share capital	11	400,000	400,000
Profit and loss account	12	10,429,551	12,728,554
Total shareholder's funds	12	10,829,551	13,128,554

These financial statements on pages 6 to 10 were approved by the Board of Directors on 7 March 2013

Signed on behalf of the Board of Directors

(Director)

ND Wachman

Notes to the financial statements

Year ended 31 December 2012

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 2006 ("the Act") and applicable accounting standards in the United Kingdom 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, Validus Holdings, Ltd, prepares consolidated financial statements

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

The company has taken advantage of the exemption for wholly owned subsidiaries available in FRS 8 and has not disclosed related party transactions between itself and other group companies

2 Accounting policies

(a) Turnover

Turnover consists of managing agency fees and profit commission receivable from insurance underwriting activities of Syndicate 1183 at Lloyd's which is managed by the company Managing agency fees 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 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

(b) Taxation

Current tax is provided at the amount expected to be paid (or recovered) using the tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date

(c) Investments

Investments in group 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

(d) 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

3 Turnover

	2012	2011
	£	£
Managing agency fee	6,000,000	5,600,000
Profit commission	13,397,547	11,768,516
	19,397,547	17,368,516

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 (Loss) profit on ordinary activities before taxation

(Loss) profit on ordinary activities before tax is stated after management charges of £22,294,669 (2011 £6,118,898)

6 Audit and non-audit fees

The audit fees for TUL are borne by TUSL and are recharged to the company as part of the management charge During the year, TUSL incurred £28,641 (2011 £25,609) in respect of audit fees to TUL's auditors and associates There are no non-audit fees

7 Tax on (loss) profit on ordinary activities

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

	2012 £	2011 £
Current tax		
UK corporation tax on (loss) profit for the year	(736,737)	2,980,768
Adjustment in respect of previous years	1,006	-
	(735,731)	2,980,768

The current tax charge for the year is lower (2011 lower) than the standard effective rate of corporation tax in the UK of 24 5% (2011 26 5%) The differences are explained below

	2012 £	2011 £
(Loss) profit on ordinary activities before taxation	(3,034,734)	11,249,618
(Loss) profit on ordinary activities multiplied by the standard rate of corporate tax in the UK for the year	(743,427)	2,981,148
Tax effect of		
Notional interest on intercompany balances subject to tax	6,690	(380)
	(736,737)	2,980,768

8 Investments

The company has wholly owned subsidiary companies which underwrite as coverholders on behalf of the syndicate as follows

Subsidiary	Location
Talbot Risk Services Pte Ltd ("Talbot Asia")	Singapore
Talbot Underwriting (MENA) Ltd ("Talbot MENA")	Dubai, UAE
Talbot Underwriting Services (US) Ltd ("Talbot NY")	New York, USA
Talbot Risk Services (Labuan) Ltd ("Talbot Labuan")	Labuan, Malaysia
Talbot Underwriting Risk Services Ltd ("TURSL")	London

The table below shows the movement in the cost of investments during the year

	Talbot Asia £	Talbot MENA £	Talbot NY £	Talbot Labuan £	TURSL £	Total £
Cost brought forward	200,000	377,943	6			577,949
Additions		472,486		109,600	25,000	607,086
Difference between net asset value and cost written off		(84,141)				(84,141)
Cost carried forward	200,000	766,288	6	109,600	25,000	1,100,894

Talbot MENA, which was previously 50% owned, became a full subsidiary on 5 March 2012 when the company purchased the remaining 50% from Abu Dhabi National Insurance Company Talbot MENA changed its name from Underwriting Risk Services (Middle East) Ltd on 5 March 2012

8 Investments (continued)

Talbot Labuan was acquired by TUL on 13 April 2012

TURSL was previously owned by TUL's parent company, Talbot Underwriting Holdings Ltd ("TUHL") It was transferred to TUL's ownership on 18 December 2012

Talbot NY changed its name from Validus Underwriting Risk Services Inc on 28 June 2012

9 Debtors

	2012	2011
	£	£
Amounts due from managed syndicate	11,727,048	14,061,016
Amounts due from group companies	7,655,994	5,461,800
Corporation Tax	1,412,548	-
	20,795,590	19,522,816

Amounts due from group companies and the managed syndicate are unsecured, interest free, have no fixed date of payment and are payable on demand

10 Creditors - amounts falling due within one year

	2012	2011
	£	£
Amounts owed to group companies	12,737,433	3,661,489
Corporation tax	-	3,310,722
	12,737,433	6,972,211

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

11 Called up share capital

	2012	2011
	£	£
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 movement in shareholder's funds

	Called up share capital	Profit and loss account	Total
	£	£	£
Opening shareholder's funds	400,000	12,728,554	13,128,554
(Loss) profit for the financial year	-	(2,299,003)	(2,299,003)
Closing shareholder's funds	400,000	10,429,551	10,829,551

13 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