

VALIDUS HOLDINGS LTD

Form 10-K

March 01, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2009**

**Commission file number 001-33606**

**VALIDUS HOLDINGS, LTD.**

*(Exact name of registrant as specified in its charter)*

**BERMUDA**

*(State or other jurisdiction of  
incorporation or organization)*

**98-0501001**

*(I.R.S. Employer  
Identification No.)*

**29 Richmond Road, Pembroke, Bermuda HM 08**

*(Address of principal executive offices and zip code)*

**(441) 278-9000**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class:**

**Name of Each Exchange on Which Registered:**

Common Shares, \$0.175 par value per share

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2009 was \$844.3 million computed upon the basis of the closing sales price of the Common Shares on June 30, 2009. For the purposes of this computation, shares held by directors and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 26, 2010, there were 125,970,164 outstanding Common Shares, \$0.175 par value per share, of the registrant.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Part III incorporates information from certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2009.

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**Validus Holdings, Ltd.**

**2009 Form 10-K Annual Report**

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*This Annual Report on Form 10-K contains Forward-Looking Statements as defined in the Private Securities Litigation Reform Act of 1995. A non-exclusive list of the important factors that could cause actual results to differ materially from those in such Forward-Looking Statements is set forth herein under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements.*

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**PART I**

*All amounts presented in this part are in U.S. dollars except as otherwise noted.*

**Item 1. Business**

**Overview**

Validus Holdings, Ltd. (the Company) was incorporated under the laws of Bermuda on October 19, 2005. Our initial investor, which we refer to as our founding investor, is Aquiline Capital Partners LLC, a private equity firm dedicated to investing in financial services companies. Other sponsoring investors include private equity funds managed by Goldman Sachs Capital Partners, Vestar Capital Partners, New Mountain Capital and Merrill Lynch Global Private Equity. The Company conducts its operations worldwide through two wholly-owned subsidiaries, Validus Reinsurance, Ltd. (Validus Re) and Talbot Holdings Ltd. (Talbot). The Company, through its subsidiaries, provides reinsurance coverage in the Property, Marine and Specialty lines markets, effective January 1, 2006, and insurance coverage in the same markets effective July 2, 2007.

We seek to establish ourselves as a leader in the global insurance and reinsurance markets. Our principal operating objective is to use our capital efficiently by underwriting primarily short-tail insurance and reinsurance contracts with superior risk and return characteristics. Our primary underwriting objective is to construct a portfolio of short-tail insurance and reinsurance contracts which maximize our return on equity subject to prudent risk constraints on the amount of capital we expose to any single extreme event. We manage our risks through a variety of means, including contract terms, portfolio selection, diversification criteria, including geographic diversification criteria, and proprietary and commercially available third-party vendor models.

Since our formation in 2005, we have been able to achieve substantial success in the development of our business. Selected examples of our accomplishments are as follows:

Assembling an executive management team with an average of 23 years of industry experience and senior expertise spanning multiple aspects of the global insurance and reinsurance business;

Building a risk analytics staff comprised of over 26 experts, many of whom have PhDs and Masters degrees in related fields;

Developing Validus Capital Allocation and Pricing System (VCAPS), a proprietary computer-based system for modeling, pricing, allocating capital and analyzing catastrophe-exposed risks;

Raising approximately \$1.0 billion of initial equity capital in December 2005 and underwriting \$217.4 million in gross premiums written for the January 2006 renewal season;

Augmenting our equity through the placement of \$150.0 million of Junior Subordinated Deferrable Debentures in June 2006;

Underwriting \$362.0 million in gross premiums written for the January 2007 renewal season in the Validus Re segment, representing an increase of \$144.6 million or 66.5% over the comparable period for 2006;

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Issuing an additional \$200.0 million in aggregate principal amount of junior subordinated deferrable debentures due 2037 in June 2007;

Acquiring all of the outstanding shares of Talbot Holdings Ltd. on July 2, 2007;

Completing an initial public offering ( IPO ) on July 30, 2007;

Recording net income of \$402.9 million and increasing our shareholders equity to \$1.93 billion for the year ended December 31, 2007;

Underwriting \$291.0 million in gross premiums written for the January 2008 renewal season in the Validus Re segment;

Opening offices in Miami, Singapore City and New York City in 2008, and in Hamburg, Dubai and Santiago in 2009;

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Increasing our shareholders' equity to \$1.94 billion in 2008 despite losses attributable to Hurricane Ike and turbulent credit market conditions;

Underwriting \$366.7 million in gross premiums written for the January 2009 renewal season in the Validus Re segment, representing an increase of \$75.7 million or 26.0% over the January 2008 renewal season;

Acquiring all of the outstanding shares of IPC Holdings Ltd. ( IPC ) on September 4, 2009;

Increasing our shareholders' equity to \$4.03 billion in 2009 due primarily to the IPC acquisition and a relatively benign Atlantic basin hurricane season;

Underwriting \$574.3 million in gross premiums written for the January 2010 renewal season in the Validus Re segment, representing an increase of \$207.6 million or 56.6% over the January 2009 renewal season; and

Placing \$250.0 million of 8.875% senior notes due January 26, 2040 (the 30 Year Notes ) in a registered public offering in January 2010.

**Our Operating Subsidiaries**

The following chart shows how our Company and its principal operating subsidiaries are organized.

For a complete list of the Company's subsidiaries, see Exhibit 21.

**Our Segments**

*Validus Re:* Validus Re, the Company's principal reinsurance operating subsidiary, operates as a Bermuda-based provider of short-tail reinsurance products on a global basis. Validus Re concentrates on first-party risks, which are property risks and other reinsurance lines commonly referred to as short-tail in nature due to the relatively brief period between the occurrence and payment of a claim.

Validus Re was registered as a Class 4 insurer under The Insurance Act 1978 of Bermuda, amendments thereto and related regulations (the Insurance Act ) in November 2005. It commenced operations with approximately



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\$1.0 billion of equity capital and a balance sheet unencumbered by any historical losses relating to the 2005 hurricane season, the events of September 11, 2001, asbestos or other legacy exposures affecting our industry.

Validus Re entered the global reinsurance market in 2006 during a period of imbalance between the supply of underwriting capacity available for reinsurance on catastrophe-exposed property, marine and energy risks and demand for such reinsurance coverage.

On September 4, 2009, the Company acquired all of the outstanding shares of IPC. The primary lines in which IPC conducted business were property catastrophe reinsurance and, to a limited extent, property-per-risk excess, aviation (including satellite) and other short-tail reinsurance on a worldwide basis. For segmental reporting purposes, the results of IPC's operations since the acquisition date have been included within the Validus Re segment in the consolidated financial statements.

The following are the primary lines in which Validus Re conducts its business. Details of gross premiums written by line of business are provided below:

(Dollars in thousands)	Year Ended		Year Ended		Year Ended	
	December 31, 2009 (a)		December 31, 2008		December 31, 2007	
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)
Property	\$ 520,347	67.7%	\$ 492,967	71.7%	\$ 498,375	71.0%
Marine	152,853	19.9%	117,744	17.1%	136,710	19.5%
Specialty	94,884	12.4%	77,060	11.2%	67,013	9.5%
<b>Total</b>	<b>\$ 768,084</b>	<b>100.0%</b>	<b>\$ 687,771</b>	<b>100.0%</b>	<b>\$ 702,098</b>	<b>100.0%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition costs of operations for IPC are presented in the analysis above.

Property: Validus Re underwrites property catastrophe reinsurance, property per risk reinsurance and property pro rata reinsurance.

Property catastrophe: Property catastrophe provides reinsurance for insurance companies' exposures to an accumulation of property and related losses from separate policies, typically relating to natural disasters or other catastrophic events. Property catastrophe reinsurance is generally written on an excess of loss basis, which provides coverage to primary insurance companies when aggregate claims and claim expenses from a single occurrence from a covered peril exceed a certain amount specified in a particular contract. Under these contracts, the Company provides protection to an insurer for a portion of the total losses in excess of a specified loss amount, up to a maximum amount per loss specified in the contract. In the event of a loss, most contracts provide for coverage of a second occurrence following the payment of a premium to reinstate the coverage under the contract, which is referred to as a reinstatement premium. The coverage provided under excess of loss reinsurance contracts may be on a worldwide basis or limited in scope to specific regions or geographical areas. Coverage can also vary from all property perils, which is the most expansive form of coverage, to more limited coverage of specified perils such as windstorm-only coverage. Property catastrophe reinsurance contracts are typically all risk in nature, providing protection against losses

from earthquakes and hurricanes, as well as other natural and man-made catastrophes such as floods, tornadoes, fires and storms. The predominant exposures covered are losses stemming from property damage and business interruption coverage resulting from a covered peril. Certain risks, such as war or nuclear contamination may be excluded, partially or wholly, from certain contracts. Gross premiums written on property catastrophe business during the year ended December 31, 2009 were \$383.6 million.

*Property per risk:* Property per risk provides reinsurance for insurance companies excess retention on individual property and related risks, such as highly-valued buildings. Risk excess of loss reinsurance protects insurance companies on their primary insurance risks on a single risk basis. A risk in this context might mean the insurance coverage on one building or a group of buildings or the insurance coverage under a single policy which the reinsured treats as a single risk. Coverage is usually triggered by a large loss sustained by an

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individual risk rather than by smaller losses which fall below the specified retention of the reinsurance contract. Such property risk coverages are generally written on an excess of loss basis, which provides the reinsured protection beyond a specified amount up to the limit set within the reinsurance contract. Gross premiums written on property per risk business during the year ended December 31, 2009 were \$44.6 million.

*Property pro rata:* Property pro rata contracts require that the reinsurer share the premiums as well as the losses and expenses in an agreed proportion with the cedant. Gross premiums written on property pro rata business during the year ended December 31, 2009 were \$92.1 million.

*Marine:* Validus Re underwrites reinsurance on marine risks covering damage to or losses of marine vessels and cargo, third-party liability for marine accidents and physical loss and liability from principally offshore energy properties. Validus Re underwrites marine on an excess of loss basis, and to a lesser extent, on a pro rata basis. Gross premiums written on marine business during the year ended December 31, 2009 were \$152.9 million.

*Specialty:* Validus Re underwrites other lines of business depending on an evaluation of pricing and market conditions, which include aerospace, terrorism, life and accident & health, financial lines, nuclear and workers compensation catastrophe. The Company seeks to underwrite other specialty lines with very limited exposure correlation with its property, marine and energy portfolios. With the exception of the aerospace line of business, which has a meaningful portion of its gross premiums written volume on a proportional basis, the Company's other specialty lines are written on an excess of loss basis. Gross premiums written on specialty business during the year ended December 31, 2009 were \$94.9 million.

*Talbot:* On July 2, 2007, the Company acquired all of the outstanding shares of Talbot. Talbot is the Bermuda parent of a specialty insurance group primarily operating within the Lloyd's of London (Lloyd's) insurance market through Syndicate 1183. The acquisition of Talbot provides the Company with significant benefits in terms of product line and geographic diversification as well as offering the Company broader access to underwriting expertise. Similar to Validus Re, Talbot writes primarily short-tail lines of business but, as a complement to Validus Re, focuses mostly on insurance, as opposed to reinsurance, risks and on specialty lines where Validus Re currently has limited or no presence (e.g., war, financial institutions, contingency, bloodstock and livestock, accident and health). In addition, Talbot provides the Company with access to the Lloyd's marketplace where Validus Re does not operate. As a London-based insurer, Talbot also writes the majority of its premiums on risks outside the United States. Talbot's team of underwriters have, in many cases, spent most of their careers writing niche, short-tail business and bring their expertise to bear on expanding the Company's short-tail insurance and reinsurance franchise.

The Company continues to expand and diversify its business through Syndicate 1183's access to Lloyd's license agreements with regulators around the world. Underwriting Risk Services, Inc., Underwriting Risk Services (Middle East) Ltd., Validus Reaseguros, Inc., Validus Re Chile S.A. and Talbot Risk Services (Asia) Pte Ltd, act as approved Lloyd's coverholders for Syndicate 1183.

The following are the primary lines in which Talbot conducts its business. Details of gross premiums written by line of business are provided below:

	Year Ended December 31, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007(a)	
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)
(Dollars in thousands)						

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Property	\$ 269,583	29.3%	\$ 152,143	21.4%	\$ 151,245	22.0%
Marine	307,385	33.4%	287,696	40.6%	264,008	38.4%
Specialty	342,938	37.3%	269,157	38.0%	272,472	39.6%
<b>Total</b>	<b>\$ 919,906</b>	<b>100.0%</b>	<b>\$ 708,996</b>	<b>100.0%</b>	<b>\$ 687,725</b>	<b>100.0%</b>

- (a) Talbot was acquired on July 2, 2007. Talbot's gross premiums written for the full year ended December 31, 2007 has been presented above for informational purposes only and is not included within the consolidated results for the period.

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**Property:** The main sub-classes within property are international and North American direct and facultative contracts, onshore energy, lineslips and binding authorities together with a book of business written on a treaty reinsurance basis. The business written is mostly commercial and industrial insurance though there is a modest personal lines component. The business is short-tail with premiums for reinsurance and, direct and facultative business, substantially earned within 12 months and premiums for lineslips and binding authorities substantially earned within 12 months of the expiry of the contract. The new onshore energy team generated \$96.8 million of gross premiums written for the year ended December 31, 2009. Gross premiums written on property business, including onshore energy during the year ended December 31, 2009 were \$269.6 million, including \$68.8 million of treaty reinsurance.

**Marine:** The main types of business within marine are hull, cargo, energy, marine and energy liabilities, yachts and marinas and other treaty. Hull consists primarily of ocean going vessels and cargo and covers worldwide risks. Energy covers a variety of oil and gas industry risks. The marine and energy liability account provides cover for protection and indemnity clubs and a wide range of companies operating in the marine and energy sector. Yacht and marina policies are primarily written through Underwriting Risk Services Ltd., an underwriting agency that is a subsidiary of Talbot. Each of the sub-classes within marine has a different profile of contracts written some, such as energy, derive up to 50% of their business through writing facultative contracts while others, such as cargo, only derive 15% of their business from this method. Each of the sub-classes also has a different geographical risk allocation. Most business written is short-tail which helps to establish confidence over profitability levels quickly; the marine and energy liability account, which makes up \$43.5 million of the \$307.4 million of gross premiums written during the year ended December 31, 2009, is the primary long-tail class in this line. The business written is mainly on a direct and facultative basis with a small element written on a reinsurance basis either as excess of loss reinsurance or proportional reinsurance.

**Specialty:** This class consists of war (which comprises marine & aviation war, political risks and political violence), financial institutions, contingency, bloodstock and livestock, accident and health, airlines and aviation treaty. With the exception of aviation treaty, most of the business written under the specialty accounts is written on a direct or facultative basis or under a binding authority through a coverholder. Gross premiums written on specialty business during the year ended December 31, 2009 were \$342.9 million.

**War.** The marine & aviation war account covers physical damage to aircraft and marine vessels caused by acts of war and terrorism. The political risk account deals primarily with expropriation, contract frustration/trade credit, kidnap and ransom, and malicious and accidental product tamper. The political violence account mainly insures physical loss to property or goods anywhere in the world, caused by war, terrorism or civil unrest. This class is often written in conjunction with cargo, specie, property, energy, contingency and political risk. The period of the risks can extend up to 36 months and beyond, particularly with construction risks. The attritional losses on the account are traditionally low but the account can be affected by large individual losses. Talbot is a leader in the war and political violence classes. Gross premiums written for war business during the year ended December 31, 2009 were \$147.2 million.

**Financial Institutions.** Talbot's financial institutions team predominantly underwrites bankers blanket bond, professional indemnity and directors and officers coverage for various types of financial institutions and similar companies. Bankers blanket bond insurance products are specifically designed to protect against direct financial loss caused by fraud/criminal actions and mitigate the damage such activities may have on the asset base of these institutions. Professional indemnity insurance protects businesses in the event that legal action is taken against them by third parties claiming to have suffered a loss as a result of advice received. Directors and officers insurance protects directors and officers against personal liability for losses incurred

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by a third party due to negligent performance by the director or officer. Gross premiums written in financial institutions for the year ended December 31, 2009 were \$41.7 million, comprised of:

(Dollars in thousands)	Year Ended December 31, 2009	
	Gross Premiums Written	Gross Premiums Written (%)
Bankers blanket bond	\$ 26,415	63.4%
Professional indemnity	14,051	33.7%
Directors and Officers	1,238	3.0%
Other	(35)	(0.1)%
<b>Total</b>	<b>\$ 41,669</b>	<b>100.0%</b>

The risks covered in financial institutions are primarily fraud related and are principally written on an excess of loss basis. Talbot's financial institutions account is concentrated on non-U.S. based clients, with 33.8% of gross premiums written in 2009 generated in Europe, 7.1% from the U.S. and 59.1% from other geographical regions. In addition, Talbot seeks to write regional accounts rather than global financial institutions with exposure in multiple jurisdictions and has only limited participation in exposures to publicly listed U.S. companies. The underwriters actively avoid writing U.S. directors and officers risks. The Company has identified no liability exposure to any U.S. domiciled financial institution that has announced a write down related to the recent credit crisis. As of December 31, 2009, the Company had gross reserves related to the financial institutions business of \$143.4 million, comprised of \$80.8 million, or 56.3% of incurred but not reported (IBNR) and \$62.6 million, or 43.7% of case reserves. As of December 31, 2008, the Company had gross reserves related to the financial institutions business of \$111.1 million, comprised of \$71.2 million, or 64.1% IBNR and \$39.9 million, or 35.9% of case reserves.

Contingency. The main types of covers written under the contingency account are event cancellation and non-appearance business. Gross premiums written for contingency business during the year ended December 31, 2009 were \$19.1 million.

Bloodstock and Livestock. The bloodstock and livestock account mainly insures bloodstock, livestock, agricultural, zoological, private and commercial risks. Gross premiums written for bloodstock and livestock business during the year ended December 31, 2009 were \$14.4 million.

Accident and Health. The accident and health account provides insurance in respect of individuals in both their personal and business activity together with corporations where they have an insurable interest relating to death or disability of employees or those under contract. Gross premiums written for accident and health business during the year ended December 31, 2009 were \$18.5 million.

Aviation. The aviation account insures major airlines, general aviation, aviation hull war and satellites. The coverage includes excess of loss treaty with medium to high attachment points. The \$62.0 million increase in aviation line gross premiums written for the year ended December 31, 2009 as compared to year ended December 31, 2008 was due primarily to the addition of a new aviation team which contributed \$55.0 million. Gross premiums written for the aviation business during the year ended December 31, 2009 were \$102.0 million.

## **Underwriting and Risk Management**

We underwrite and manage risk by paying close attention to risk selection and analysis. Through a detailed examination of contract terms, diversification criteria, contract experience and exposure, we aim to outperform our peers. We strive to provide our experienced underwriters with technically sound and objective information. We believe a strong working relationship between the underwriting, catastrophe modeling and actuarial disciplines is critical to long-term success and solid decision-making.

A principal focus of the Company is to develop and apply sophisticated computer models and other analytical tools to assess the risks and aggregation of the risks that we underwrite and to optimize our portfolio of contracts. In particular, we devote a substantial amount of our efforts to the optimization of our catastrophe risk profile. In

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addition to using Probable Maximum Loss ( PML ) and other risk metrics, that measures the maximum amount of loss expected from our portfolio measured over various return periods or measured probabilistically, our approach to risk control imposes a limit on our net maximum potential loss for any single event in any one risk zone, which reduces the risks inherent in probabilistic modeling. Further, we recognize that the reliability and credibility of the models is contingent upon the accuracy, reliability and quality of the data that is used in modeling efforts.

The Company has chartered a Group Risk Management Committee (the GRMC ) chaired by its Chief Risk Officer and composed of senior management of the Company. The GRMC was established as part of the Company s implementation of enterprise risk management. The GRMC is responsible for monitoring and managing risks in close coordination with risk management committees and personnel within our operating subsidiaries. The GRMC meets monthly to review and discuss key risks, make decisions to manage those risks and oversee implementation of those decisions. The GRMC also has oversight over the risk management organization, ensuring the availability of appropriate risk management resources.

## **Underwriting**

All of the Company s underwriters are subject to a set of underwriting guidelines that are established by the Chief Executive Officer at Validus Re and the Chief Executive Officer at Talbot and are subject to review and approval by the Risk Committee of our Board of Directors. They are also issued letters of authority that more specifically address the limits of their underwriting authority and their referral criteria. The Company s current underwriting guidelines and letters of authority include:

lines of business that a particular underwriter is authorized to write;

exposure limits by line of business;

contractual exposures and limits requiring mandatory referrals to the Chief Executive Officer at Validus Re and the Chief Executive Officer at Talbot; and

level of analysis to be performed by lines of business.

In general, our underwriting approach is to:

seek high quality clients who have demonstrated superior performance over an extended period;

evaluate our clients exposures and make adjustments where their exposure is not adequately reflected;

apply the comprehensive knowledge and experience of our entire underwriting team to make progressive and cohesive decisions about the business they underwrite;

employ our well-founded and carefully maintained market contacts within the group to enhance our robust distribution capabilities; and

refer submissions to the Chief Underwriting Officer at Validus Re, the Chief Executive Officer at Talbot, Chief Executive Officer at Validus Re and the Risk Committee of our Board of Directors according to our underwriting guidelines.

The underwriting guidelines are subject to waiver or change by the Chief Executive Officer at Validus Re or the Chief Executive Officer at Talbot subject to their authority as overseen by their respective Risk Committees.



Our underwriters have the responsibility to analyze all submissions and determine if the related potential exposures meet with both the Company's risk profile line size and aggregate limitations. In order to ensure compliance, we run underwriting reports and conduct periodic audits. Further, our treaty reinsurance operation has the authority limits of individual underwriters built into VCAPS while Talbot maintains separate compliance procedures to ensure that the appropriate policies and guidelines are followed.

*Validus Re:* We have established a referral process whereby business exceeding set exposure or premium limits is referred to the Chief Executive Officer for review. As the reviewer of such potential business, the Chief Executive Officer has the ability to determine if the business meets the Company's overall desired risk profile. The Chief Executive Officer has defined underwriting authority for each underwriter, and risks outside of this authority must

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be referred to the Chief Executive Officer. The Risk Committee of our Board of Directors reviews business that is outside the authority of the Chief Executive Officer.

*Talbot:* Our risk review and control processes have been designed to ensure that all written risks comply with underwriting and risk control strategies. The various types of review are sequential in timing and emphasize the application of an appropriate level of scrutiny. A workflow system automates the referral of risks to relevant reviewers. These reviews are monitored and reports prepared on a regular basis.

Collectively, the various peer review procedures serve numerous objectives, including:

Validating that underwriting decisions are in accordance with risk appetite, authorities, agreed business plans and standards for type, quality and profitability of risk;

Providing an experienced and suitably qualified second review of individual risks;

Ensuring that risks identified as higher risks undergo the highest level of technical underwriting review;

Elevating technical underwriting queries and/or need for remedial actions on a timely basis; and

Improving database accuracy and coding for subsequent management reporting.

The principal elements of the underwriting review process are as follows:

*Underwriter Review:* The underwriter must evidence data entry review by confirming review and agreement on the workflow system within a specified number of working days of entry being completed by the contracted third party.

*Peer Review:* The majority of risks are peer reviewed by a peer review underwriter within a specified number of working days of data entry being completed. There is an agreed matrix of peer review underwriters who are authorized to peer review. Endorsements that increase exposure are scanned into the workflow system and are subject to the current peer review procedures.

*Class of business review:* Risks written into a class by an underwriter other than the nominated class underwriter generally are forwarded to and reviewed by the nominated class underwriter.

*Exceptions review:* Risks that exceed a set of pre-determined criteria will also be referred to the Active Underwriter or the Underwriting Risk Officer for review. Such risks are discussed by the underwriters at regular underwriting meetings in the presence of at least one of the above. In certain circumstances, some risks may be referred to the Insurance Management Committee or the Talbot Underwriting Ltd ( TUL ) Board for final approval. These reviews also commonly include reports of risks renewed where there has been a large loss ratio in the recent past.

*Insurance Management Committee:* At its regular meetings, the Committee reviews a range of key performance indicators including: premium income written versus plan; movements in syndicate cash and investments; and aggregate exposures in a number of accounts. The Committee also reviews claim movements over a financial threshold.

*Expert Review Sub-committee ( ERC ):* The ERC is a committee that meets regularly to review the underwriting activities of Syndicate 1183 and other related activities to provide assurance that the underwriting risks assumed are within the parameters of the business plan. This is achieved with the help of eight expert reviewers who report their findings to the ERC.

The expert reviewers obtain and review a sample of risks underwritten in each class and report their findings to the quarterly meetings of the ERC. Findings range from general comments on approach and processes to specific points in respect of individual risks.

**Risk Management**

A pivotal factor in determining whether to found and fund the Company was the opportunity for differentiation based upon superior risk management expertise; specifically, managing catastrophe risk and optimizing our portfolio to generate attractive returns on capital while controlling our exposure to risk, and assembling a

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management team with the experience and expertise to do so. The Company's proprietary models are current with emerging scientific trends. This has enabled the Company to gain a competitive advantage over those reinsurers who rely exclusively on commercial models for pricing and portfolio management. The Company has made a significant investment in expertise in the risk modeling area to capitalize on this opportunity. The Company has assembled an experienced group of professional experts who operate in an environment designed to allow them to use their expertise as a competitive advantage. While the Company uses both proprietary and commercial probabilistic models, risk is ultimately subject to absolute aggregate limitations based on risk levels determined by the Risk Committee of our Board of Directors.

*Vendor Models:* The Company has global licenses for all three major vendor models (RMS, AIR and EQECAT) to assess the adequacy of risk pricing and to monitor our overall exposure to risk in correlated geographic zones. The Company models property exposures that could potentially lead to an over-aggregation of property risks (i.e., catastrophe-exposed business) using the vendor models. The vendor models enable us to aggregate exposures by correlated event loss scenarios, which are probability-weighted. This enables the generation of exceedance probability curves for the portfolio and major geographic areas. Once exposures are modeled using one of the vendor models, the two other models are used as a reasonability check and validation of the loss scenarios developed and reported by the first. The three commercial models each have unique strengths and weaknesses. It is necessary to impose changes to frequency and severity ahead of changes made by the model vendors.

The Company's review of market practice revealed a number of areas where quantitative expertise can be used to improve the reliability of the vendor model outputs:

Ceding companies may often report insufficient data and many reinsurers may not be sufficiently critical in their analysis of this data. The Company generally scrutinizes data for anomalies that may indicate insufficient data quality. These circumstances are addressed by either declining the program or, if the variances are manageable, by modifying the model output and pricing to reflect insufficient data quality;

Prior to making overall adjustments for changes in climate variables, other variables are carefully examined (for example, demand surge, storm surge, and secondary uncertainty); and

Pricing individual contracts frequently requires further adjustments to the three vendor models. Examples include bias in damage curves for commercial structures and occupancies and frequency of specific perils.

In addition, many risks, such as second-event covers, aggregate excess of loss, or attritional loss components cannot be fully evaluated using the vendor models. In order to better evaluate and price these risks, the Company has developed proprietary analytical tools, such as VCAPS and other models and data sets.

*Proprietary Models:* In addition to making frequency and severity adjustments to the vendor model outputs, the Company has implemented a proprietary pricing and risk management tool, VCAPS, to assist in pricing submissions and monitoring risk aggregation.

To supplement the analysis performed using vendor models, VCAPS uses the gross loss output of catastrophe models to generate a 100,000-year simulation set, which is used for both pricing and risk management. This approach allows more precise measurement and pricing of exposures. The two primary benefits of this approach are:

VCAPS takes into account annual limits, event/franchise/annual aggregate deductibles, and reinstatement premiums. This allows for more accurate evaluation of treaties with a broad range of features, including both common (reinstatement premium and annual limits) and complex features (second or third event coverage, aggregate excess of loss, attritional loss components covers with varying attachment across different

geographical zones or lines of businesses and covers with complicated structures); and

VCAPS use of 100,000-year simulations enables robust pricing of catastrophe-exposed business. This is possible in real-time operation because the Company has designed a computing hardware platform and software environment to accommodate the significant computing needs.

In addition to VCAPS, the Company uses other proprietary models and other data in evaluating exposures. The Company cannot assure that the models and assumptions used by the software will accurately predict losses.

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Further, the Company cannot assure that the software is free of defects in the modeling logic or in the software code. In addition, the Company has not sought copyright or other legal protection for VCAPS.

*Program Limits:* Overall exposure to risk is controlled by limiting the amount of reinsurance underwritten in a particular program or contract. This helps to diversify within and across risk zones. The Risk Committee sets these limits, which may be exceeded only with its approval.

*Geographic Diversification:* The Company actively manages its aggregate exposures by geographic or risk zone ( zones ) to maintain a balanced and diverse portfolio of underlying risks. The coverage the Company is willing to provide for any risk located in a particular zone is limited to a predetermined level, thus limiting the net aggregate loss exposure from all contracts covering risks believed to be located in any zone. Contracts that have worldwide territorial limits have exposures in several geographic zones. Generally, if a proposed reinsurance program would cause the limit to be exceeded, the program would be declined, regardless of its desirability, unless the Company buys retrocessional coverage, thereby reducing the net aggregate exposure to the maximum limit permitted or less. The following table summarizes our Gross Written Premiums by geographic zone:

(Dollars in thousands)	Year Ended December 31, 2009				
	Gross Premiums Written				
	Validus Re	Talbot	Eliminations	Total	%
United States	\$ 335,331	\$ 77,528	\$ (7,031)	\$ 405,828	25.0%
Worldwide excluding United States(1)	47,258	264,057	(13,385)	297,930	18.4%
Europe	59,197	65,013	(3,287)	120,923	7.4%
Latin America and Caribbean	41,828	83,909	(36,592)	89,145	5.5%
Japan	22,095	4,986	(470)	26,611	1.6%
Canada	470	9,303	(470)	9,303	0.6%
Sub-total, non United States	170,848	427,268	(54,204)	543,912	33.5%
Worldwide including United States(1)	78,872	50,118	(3,053)	125,937	7.8%
Marine and Aerospace(2)	183,033	364,992	(2,461)	545,564	33.7%
<b>Total</b>	<b>\$ 768,084</b>	<b>\$ 919,906</b>	<b>\$ (66,749)</b>	<b>\$ 1,621,241</b>	<b>100.0%</b>

(1) Represents risks in two or more geographic zones.

(2) Not classified by geographic area as marine and aerospace risks can span multiple geographic areas and are not fixed locations in some instances.

The effectiveness of geographic zone limits in managing risk exposure depends on the degree to which an actual event is confined to the zone in question and on the Company's ability to determine the actual location of the risks believed to be covered under a particular reinsurance program. Accordingly, there can be no assurance that risk exposure in any particular zone will not exceed that zone's limits. Further diversification is achieved through guidelines covering the types and amount of business written in product classes and lines within a class.

Within Talbot, the TUL Board is responsible for creating the environment and structures for risk management to operate effectively. The Talbot Chief Executive is responsible for ensuring the risk management process is implemented.

The TUL Board has several committees responsible for monitoring risk. The TUL Board approves the risk appetite as part of the syndicate business plan process which sets targets for premium volume, pricing, line sizes, aggregate exposures and retention by class of business.

The TUL Executive Committee is responsible for establishing and maintaining a comprehensive risk register and key controls for TUL. It is responsible for formulating a risk appetite consistent with the Company's risk appetite, for approval by the TUL Board.

The key focuses of each committee are as follows:

The TUL Executive Committee manages key risks with regard to strategy and reserves;

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The Talbot Insurance Management Committee manages insurance risks;

Operational Risk Committee manages risk related to people, processes, systems and external events; and

Financial Risk Committee manages credit risk associated with investments and reinsurance counterparties, capital markets risk and liquidity risk.

Performance against underwriting targets is measured regularly throughout the year. Risks written are subject to peer review, an internal quality control process. 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 aggregation of claims exposures vary by class of business. They include limiting coastal risks, monitoring aggregation by county/region/blast zones and applying line size limits in all cases. Catastrophe modeling 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.

*Validus Re Retrocession:* Validus Re monitors the opportunity to purchase retrocessional coverage on a continual basis and employs the VCAPS modeling system to evaluate the effectiveness of risk mitigation and exposure management relative to the cost. This coverage may be purchased on an indemnity basis as well as on an index basis (e.g., industry loss warranties ( ILWs )). Validus Re also considers alternative retrocessional structures, including collateralized quota share ( sidecar ) and capital markets products.

When Validus Re buys retrocessional coverage on an indemnity basis, payment is for an agreed upon portion of the losses actually suffered. In contrast, when Validus Re buys an ILW cover, which is a reinsurance contract in which the payout is dependent on both the insured loss of the policy purchaser and the measure of the industry-wide loss, payment is made only if both Validus Re and the industry suffer a loss, as reported by one of a number of independent agencies, in excess of specified threshold amounts. With an ILW, Validus Re bears the risk of suffering a loss while receiving no payment under the ILW if the industry loss was less than the specified threshold amount.

Validus Re may use capital markets instruments for risk management in the future (e.g., catastrophe bonds, further sidecar facilities and other forms of risk securitization) where the pricing and terms are attractive.

*Talbot Ceded Reinsurance:* Talbot enters into reinsurance agreements in order to mitigate its accumulation of loss, reduce its liability on individual risks and enable it to underwrite policies with higher limits. The ceding of the insurance does not legally discharge Talbot from its primary liability for the full amount of the policies, and Talbot is required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance agreement.

The following describes the Talbot Group's process in the purchase and authorization of treaty reinsurance policies only. It does not cover the purchase of facultative business because these premiums are not significant.

The reinsurance program is reviewed by the reinsurance purchasing team on an on-going basis in line with the main business planning process. This process incorporates advice and analytical work from our brokers, actuarial and capital modeling teams.

The review and modification is based upon the following:

budgeted underwriting for the coming year;



loss experience from prior years;

loss information from the coming year's individual capital assessment calculations;

changes to risk limits and aggregation limits expected and any other changes to Talbot's risk tolerance;

scenario planning;

changes to capital requirements; and

Realistic Disaster Scenarios ( RDSs ) prescribed by Lloyd's.

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The main type of reinsurance purchased is losses occurring; however, for a few lines of business, where the timing of the loss event is less easily verified or where such cover is available, risk attaching policies are purchased.

The type, quantity and cost of cover of the proposed reinsurance program is discussed and reviewed by the Chief Executive Officer of the Talbot group, and ultimately authorized by the TUL Board.

Once this has occurred, the reinsurance program is purchased in the months prior to the beginning of the covered period. All reinsurance contracts arranged are authorized for purchase by the Talbot Chief Executive Officer. Slips are developed prior to inception to ensure the best possible cover is achieved. After purchase, cover notes are reviewed by the relevant class underwriters and presentations made to all underwriting staff to ensure they are aware of the boundaries of the cover.

**Distribution**

Although we conduct some business on a direct basis with our treaty and facultative reinsurance clients, most of our business is derived through insurance and reinsurance intermediaries (brokers), who access business from clients and coverholders. We are able to attract business through our recognized lead capability in most classes we underwrite, particularly in classes where such lead ability is rare.

Currently, our largest broker relationships, as measured by gross premiums written, are with Aon Benfield Group Ltd., Marsh & McLennan Companies, Inc./Guy Carpenter & Co., and Willis Group Holdings Ltd. The following table sets forth the Company's gross premiums written by broker:

(Dollars in thousands)	Year Ended December 31, 2009				
	Gross Premiums Written				
	Validus Re	Talbot	Eliminations	Total	%
<u>Name of broker</u>					
Aon Benfield Group Ltd.	\$ 300,441	\$ 124,157	\$ (7,343)	\$ 417,255	25.7%
Marsh Inc./Guy Carpenter & Co.	256,037	124,423	(3,085)	377,375	23.3%
Willis Group Holdings Ltd.	126,130	111,496	(10,918)	226,708	14.0%
<b>Sub-total</b>	682,608	360,076	(21,346)	1,021,338	63.0%
All Others	85,476	559,830	(45,403)	599,903	37.0%
<b>Total</b>	\$ 768,084	\$ 919,906	\$ (66,749)	\$ 1,621,241	100.0%

**Reserve for losses and loss expenses**

For insurance and reinsurance companies, a significant judgment made by management is the estimation of the reserve for losses and loss expenses. The Company establishes its reserve for losses and loss expenses to cover the estimated incurred liability for both reported and unreported claims.

The following tables show certain information with respect to the Company's reserves:

	<b>As at December 31, 2009</b>		
			<b>Total Gross Reserve for</b>
<b>(Dollars in thousands)</b>	<b>Gross Case Reserves</b>	<b>Gross IBNR</b>	<b>Losses and Loss Expenses</b>
Property	\$ 365,858	\$ 338,795	\$ 704,653
Marine	321,844	254,056	575,900
Specialty	143,623	197,958	341,581
<b>Total</b>	<b>\$ 831,325</b>	<b>\$ 790,809</b>	<b>\$ 1,622,134</b>

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(Dollars in thousands)	As at December 31, 2009		
	Net Case Reserves	Net IBNR	Total Net Reserve for Losses and Loss Expenses
Property	\$ 359,657	\$ 306,745	\$ 666,402
Marine	259,617	232,105	491,722
Specialty	127,502	154,743	282,245
<b>Total</b>	<b>\$ 746,776</b>	<b>\$ 693,593</b>	<b>\$ 1,440,369</b>

Loss reserves are established due to the significant periods of time that may lapse between the occurrence, reporting and payment of a loss. To recognize liabilities for unpaid losses and loss expenses, the Company estimates future amounts needed to pay claims and related expenses with respect to insured events. The Company's reserving practices and the establishment of any particular reserve reflects management's judgment concerning sound financial practice and does not represent any admission of liability with respect to any claim. Unpaid losses and loss expense reserves are established for reported claims ( case reserves ) and IBNR claims.

The nature of the Company's high excess of loss liability and catastrophe business can result in loss payments that are both irregular and significant. Such loss payments are part of the normal course of business for the Company. Adjustments to reserves for individual years can also be irregular and significant. Conditions and trends that have affected development of liabilities in the past may not necessarily occur in the future. Accordingly, it is inappropriate to extrapolate future redundancies or deficiencies based upon historical experience. See Part I, Item 1A, Risk Factors and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements.

The tables below present the development of the Company's unpaid losses and loss expense reserves on both a net and gross basis. The cumulative redundancy (deficiency) calculated on a net basis differs from that calculated on a gross basis. As different reinsurance programs cover different underwriting years, net and gross loss experience will not develop proportionately. The top line of the tables shows the estimated liability, net and gross of reinsurance recoveries, as at the year end balance sheet date for each of the indicated years. This represents the estimated amounts of losses and loss expenses, including IBNR, arising in the current and all prior years that are unpaid at the year end balance sheet date of the indicated year. The tables also show the re-estimated amount of the previously recorded reserve liability based on experience as of the year end balance sheet date of each succeeding year. The estimate changes as more information becomes known about the frequency and severity of claims for individual years. The cumulative redundancy (deficiency) represents the aggregate change with respect to that liability originally estimated. The lower portion of each table also reflects the cumulative paid losses relating to these reserves. Conditions and trends that have affected development of liabilities in the past may not necessarily occur in the future. Accordingly, it is not appropriate to extrapolate redundancies or deficiencies into the future, based on the tables below. See Part I, Item 1A, Risk Factors and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements.

**Table of Contents****Analysis of Losses and Loss Expense Reserve Development Net of Recoveries**

(Dollars in thousands)	Year Ended December 31,			
	2006	2007	2008	2009
Estimated liability for unpaid losses and loss expenses, net of reinsurance recoverable	\$ 77,363	\$ 791,713	\$ 1,096,507	\$ 1,440,369
Liability estimated as of:				
One year later	60,106	722,010	1,018,930	
Two years later	54,302	670,069		
Three years later	50,149			
Cumulative redundancy (deficiency)	27,214	121,644	77,577	
Cumulative paid losses, net of reinsurance recoveries, as of:				
One year later	\$ 27,180	\$ 216,469	\$ 353,476	
Two years later	34,935	320,803		
Three years later	39,520			

**Analysis of Losses and Loss Expense Reserve Development Gross of Recoveries**

(Dollars in thousands)	Year Ended December 31,			
	2006	2007	2008	2009
Estimated gross liability for unpaid losses and loss expenses	\$ 77,363	\$ 926,117	\$ 1,305,303	\$ 1,622,134
Liability estimated as of:				
One year later	60,106	846,863	1,223,018	
Two years later	54,302	791,438		
Three years later	50,149			
Cumulative redundancy (deficiency)	27,214	134,679	82,285	
Cumulative paid losses, gross of reinsurance recoveries, as of:				
One year later	\$ 27,180	\$ 245,240	\$ 437,210	
Two years later	34,935	394,685		
Three years later	39,520			

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The following table presents an analysis of the Company's paid, unpaid and incurred losses and loss expenses and a reconciliation of beginning and ending unpaid losses and loss expenses for the years indicated:

(Dollars in thousands)	Year Ended December 31,		
	2009	2008	2007
Gross reserves at beginning of year	\$ 1,305,303	\$ 926,117	\$ 77,363
Losses recoverable at beginning of year	(208,796)	(134,404)	
Net reserves at beginning of year	1,096,507	791,713	77,363
Net loss reserves acquired in purchase of IPC	304,957		
Net loss reserves acquired in purchase of Talbot			588,068
Incurred losses - current year	625,810	841,856	351,850
Incurred losses - change in prior accident years	(102,053)	(69,702)	(67,857)
Incurred losses	523,757	772,154	283,993
Paid losses	(507,435)	(406,469)	(156,872)
Foreign exchange	22,583	(60,891)	(839)
Net reserves at year end	1,440,369	1,096,507	791,713
Losses recoverable at year end	181,765	208,796	134,404
Gross reserves at year end	\$ 1,622,134	\$ 1,305,303	\$ 926,117

*Validus Re:* Validus Re's loss reserves are established based upon an estimate of the total cost of claims that have been incurred, including estimates of unpaid liability on known individual claims, the costs of additional case reserves on claims reported but not considered to be adequately reserved in such reporting (ACRs) and amounts that have been incurred but not yet reported. ACRs are used in certain cases and may be calculated based on management's estimate of the required case reserve on an individual claim less the case reserves reported by the client. The Event Committee follows material catastrophe event ultimate loss reserve estimation procedures for the investigation, analysis, estimation and approval of ultimate loss reserving resulting from any material catastrophe event. U.S. GAAP does not permit the establishment of loss reserves until an event occurs that gives rise to a loss.

For reported losses, Validus Re establishes case reserves within the parameters of the coverage provided in the reinsurance contracts. Where there is a reported claim for which the reported case reserve is determined to be insufficient, Validus Re may book an ACR or individual claim IBNR estimate that is adjusted as claims notifications are received. Information may be obtained from various sources including brokers, proprietary and third party vendor models and internal data regarding reinsured exposures related to the geographic location of the event, as well as other sources. Validus Re uses generally accepted actuarial techniques in its IBNR estimation process. Validus Re also uses historical insurance industry loss emergence patterns, as well as estimates of future trends in claims severity, frequency and other factors, to aid it in establishing loss reserves.

Loss reserves represent estimates, including actuarial and statistical projections at a given point in time, of the expectations of the ultimate settlement and administration costs of claims incurred. Such estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends in loss severity and frequency and other variable factors such as inflation, litigation and tort reform. This uncertainty is

heightened by the short time in which Validus Re has operated, thereby providing limited claims loss emergence patterns that directly pertain to Validus Re's operations. This has necessitated the use of industry loss emergence patterns in deriving IBNR, which despite management's and our actuaries' care in selecting them, will differ from actual experience. Further, expected losses and loss ratios are typically developed using vendor and proprietary computer models and these expected loss ratios are a significant component in the calculation deriving IBNR. Finally, the uncertainty surrounding estimated costs is greater in cases where large, unique events have been reported and the associated claims are in early stages of resolution. As a result of these uncertainties, it is likely that the ultimate liability will differ from such estimates, perhaps significantly.

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Loss reserves are reviewed regularly and adjustments to reserves, if any, will be recorded in earnings in the period in which they are determined. Even after such adjustments, the ultimate liability may exceed or be less than the revised estimates.

*Talbot:* Talbot's loss reserves are established based upon an estimate of the total cost of claims that have been incurred, including case reserves and IBNR. Talbot uses generally accepted actuarial techniques in its IBNR estimation process. ACRs are not generally used.

Talbot performs internal assessments of liabilities on a quarterly basis. Talbot's loss reserving process involves the assessment of actuarial estimates of gross ultimate losses on both an ultimate basis (i.e., ignoring the period during which premium earns) and an earned basis, split by underwriting year and class of business, and generally also between attritional, large and catastrophe losses. These estimates are made using a variety of generally accepted actuarial projection methodologies, as well as additional qualitative consideration of future trends in frequency, severity and other factors. The gross estimates are used to estimate ceded reinsurance recoveries, which are in turn used to calculate net ultimate losses and ultimate losses as the difference between gross and ceded. These figures are subsequently used by Talbot's management to help it assess its best estimate of gross and net ultimate losses.

As with Validus Re, Talbot's loss reserves represent estimates, including actuarial and statistical projections at a given point in time, of the expectations of the ultimate settlement and administration costs of claims incurred. Such estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends in loss severity and frequency and other variable factors such as inflation, litigation and tort reform. The uncertainty surrounding estimated costs is also greater in cases where large, unique events have been reported and the associated claims are in the early stages of resolution. As a result of these uncertainties, it is likely that the ultimate liability will differ from such estimates, perhaps significantly.

Talbot's loss reserves are reviewed regularly and adjustments to reserves, if any, will be recorded in earnings in the period in which they are determined. Even after such adjustments, the ultimate liability may exceed or be less than the revised estimates. See Part I, Item 1A, Risk Factors and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements.

## **Claims Management**

Claims management includes the receipt of initial loss notifications, generation of appropriate responses to claim reports, identification and handling of coverage issues, determination of whether further investigation is required and, where appropriate retention of legal representation, establishment of case reserves, approval of loss payments and notification to reinsurers.

*Validus Re:* The role of our claims department is to investigate, evaluate and pay claims efficiently. Our claims director has implemented claims handling guidelines, and reporting and control procedures. The primary objectives of the claims department are to ensure that each claim is addressed, evaluated, processed and appropriately documented in a timely and efficient manner and information relevant to the management of the claim is retained.

*Talbot:* Where Talbot is a leading syndicate on business written, the claims adjusters will deal with the broker representing the insured. This may involve appointing attorneys, loss adjusters or other experts. The central Lloyd's market claims bureau will respond on behalf of syndicates other than the leading syndicate.

Where Talbot is not the lead underwriter on the business, the case reserves are established by the lead underwriter in conjunction with third party/bureau input who then advise regarding movements in loss reserves to all syndicates participating on the risk. Material claims and claims movements are subject to review by Talbot.



**Investments**

The Company manages its investment portfolio on a consolidated basis. As we provide short-tail insurance and reinsurance coverage, we could become liable to pay substantial claims on short notice. Accordingly, we follow a conservative investment strategy designed to emphasize the preservation of invested assets and provide sufficient

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liquidity for the prompt payment of claims. Our Board of Directors, led by our Finance Committee, oversees our investment strategy, and in consultation with BlackRock Financial Management, Inc., Goldman Sachs Asset Management, Conning, Inc. and Pinebridge Investments Europe Ltd., our portfolio advisors, has established investment guidelines for us. The investment guidelines dictate the portfolio's overall objective, benchmark portfolio, eligible securities, duration, use of derivatives, inclusion of foreign securities, diversification requirements and average portfolio rating. Management and the Finance Committee periodically review these guidelines in light of our investment goals and consequently they may change at any time. We also have entered into a securities lending agreement under which we loan certain fixed income securities to third parties and receive collateral, primarily in the form of cash. The collateral received is reinvested and is reflected as a short-term investment.

Substantially all of the fixed maturity investments held at December 31, 2009 were publicly traded. At December 31, 2009, the average duration of the Company's fixed maturity portfolio was 2.24 years (December 31, 2008 and 2007: 1.82 and 2.00 years, respectively). Management emphasizes capital preservation for the portfolio and maintains a significant allocation of short-term investments. At December 31, 2009, the average rating of the portfolio was AA+ (December 31, 2008 and 2007: AAA and AAA). At December 31, 2009, the total fixed maturity portfolio was \$4,869.4 million (December 31, 2008 and 2007: \$2,454.5 million and \$2,411.4 million, respectively), of which \$3,287.9 million or 67.5% (December 31, 2008 and 2007: \$1,941.3 million and \$2,029.6 million, respectively) were rated AAA.

Please refer to our Current Report on Form 8-K furnished to the Securities and Exchange Commission (the SEC) on February 18, 2010 for additional disclosure with respect to the composition of our investment portfolio.

**Financial Strength Ratings**

*Validus Re:* Validus Re's ability to underwrite business is dependent upon the quality of its claims paying and financial strength ratings as evaluated by independent rating agencies. Validus Re was assigned a rating of A- (Excellent) with a stable outlook by A.M. Best Company in December 2005. This rating was most recently affirmed by A.M. Best on September 9, 2009.

Ratings are not an evaluation directed to investors in the Company's securities or a recommendation to buy, sell or hold the Company's securities. Ratings may be revised or revoked at the sole discretion of A.M. Best, Standard & Poor's (S & P) or Fitch Ratings. In the normal course of business, the Company evaluates its capital needs to support the volume of business written in order to maintain its claims paying and financial strength ratings. Financial information is regularly provided to rating agencies to both maintain and enhance existing ratings. In the event of a downgrade below A- (Excellent), the Company believes its ability to write business would be materially adversely affected.

*Syndicate 1183 at Lloyd's of London:* All Lloyd's syndicates benefit from Lloyd's central resources, including the Lloyd's brand, its network of global licenses and the central fund. The central fund is available at the discretion of the Council of Lloyd's to meet any valid claim that cannot be met by the resources of any member. As all Lloyd's policies are ultimately backed by this common security, a single market rating can be applied. Lloyd's as a market is rated as follows:

AM Best	A	Excellent	Stable Outlook
Fitch Ratings	A+	Strong	Stable Outlook
S&P	A+	Strong	Stable Outlook

The syndicate benefits from these ratings and the Company believes that ratings impairments below A- would materially impair the syndicate's ability to write business.

**Competition**

The insurance and reinsurance industries are highly competitive. We compete with major U.S., Bermuda, European and other international insurers and reinsurers and certain underwriting syndicates and insurers. We

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encounter competition in all of our classes of business but there is less competition in those of our lines where we are a specialist underwriter. The Company competes with insurance and reinsurance providers such as:

ACE Tempest Re, Allied World Assurance Company Holdings Limited, Arch Capital Group Limited, AXIS Capital Holdings Limited, Endurance Specialty Holdings Limited, Everest Re Group Limited, Flagstone Reinsurance Holdings Group Limited, Munich Re, PartnerRe Ltd., Platinum Underwriters Holdings Ltd., Renaissance Reinsurance Holdings Ltd., Swiss Re and XL Re;  
Amlin plc, Aspen Insurance Holdings Limited, Catlin Group Limited, Hiscox and others in the Lloyd's market;  
Direct insurers who compete with Lloyd's on a worldwide basis;  
Various capital markets participants who access insurance and reinsurance business in securitized form, through special purpose entities or derivative transactions; and  
Government-sponsored insurers and reinsurers.

Competition varies depending on the type of business being insured or reinsured and whether the Company is in a leading or following position. Competition in the types of business that the Company underwrites is based on many factors, including:

Premiums charged and other terms and conditions offered;  
Services provided;  
Financial ratings assigned by independent rating agencies;  
Speed of claims payment;  
Reputation;  
Perceived financial strength; and  
The experience of the underwriter in the line of insurance or reinsurance written.

Increased competition could result in fewer submissions, lower premium rates, lower share of allocated cover, and less favorable policy terms, which could adversely impact the Company's growth and profitability. Capital market participants have created alternative products such as catastrophe bonds that are intended to compete with reinsurance products. The Company is unable to predict the extent to which these new, proposed or potential initiatives may affect the demand for products or the risks that may be available to consider underwriting.

## **Regulation**

### **United States**

Talbot operates primarily within the Lloyd's insurance market through Syndicate 1183, and Lloyd's operations are subject to regulation in the United States in addition to being regulated in the United Kingdom, as discussed below. The Lloyd's of London market is licensed to engage in insurance business in Illinois, Kentucky and the U.S. Virgin Islands and operates as an eligible excess and surplus lines insurer in all states and territories except Kentucky and the U.S. Virgin Islands. Lloyd's is also an accredited reinsurer in all states and territories of the United States. Lloyd's maintains various trust funds in the state of New York to protect its United States business and is therefore subject to regulation by the New York Insurance Department, which acts as the domiciliary department for Lloyd's U.S. trust funds. There are deposit trust funds in other states to support Lloyd's reinsurance and excess and surplus lines insurance business.

Talbot is subject to a Closing Agreement between Lloyd's and the U.S. Internal Revenue Service pursuant to which Talbot is subject to U.S. federal income tax to the extent its income is attributable to U.S. agents who have authority to bind Talbot. Specifically, U.S. federal income tax is imposed on 35% of its income attributable to U.S. binding authorities (70% for Illinois or Kentucky business).

We currently conduct our business in a manner such that we expect that Validus Re will not be subject to insurance and/or reinsurance licensing requirements or regulations in the United States. Although we do not currently intend for Validus Re to engage in activities which would require it to comply with insurance and reinsurance licensing requirements in the United States, should we choose to engage in activities that would require Validus Re to become licensed in the United States, we cannot assure you that we will be able to do so or to do so in a

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timely manner. Furthermore, the laws and regulations applicable to direct insurers could indirectly affect us, such as collateral requirements in various U.S. states to enable such insurers to receive credit for reinsurance ceded to us.

In addition, the insurance and reinsurance regulatory framework of Bermuda and the insurance of U.S. risk by companies based in Bermuda and not licensed or authorized in the United States recently has become subject to increased scrutiny in many jurisdictions, including the United States. We are not able to predict the future impact on the Company's operations of changes in the laws and regulation to which we are or may become subject.

### **United Kingdom**

The financial services industry in the UK is regulated by the Financial Services Authority ( FSA ). The FSA is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. Although accountable to treasury ministers and through them to Parliament, it is funded entirely by the firms it regulates. The FSA has wide ranging powers in relation to rule-making, investigation and enforcement to enable it to meet its four statutory objectives, which are summarized as one overall aim: to promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal.

In relation to insurance business, the FSA regulates insurers, insurance intermediaries and Lloyd's itself. The FSA and Lloyd's have common objectives in ensuring that Lloyd's market is appropriately regulated and, to minimize duplication, the FSA has agreed arrangements with Lloyd's for co-operation on supervision and enforcement.

Talbot's underwriting activities are therefore regulated by the FSA as well as being subject to the Lloyd's franchise. Both FSA and Lloyd's have powers to remove their respective authorization to manage Lloyd's syndicates. Lloyd's approves annually Syndicate 1183's business plan and any subsequent material changes, and the amount of capital required to support that plan. Lloyd's may require changes to any business plan presented to it or additional capital to be provided to support the underwriting (known as Funds as Lloyd's).

In addition, Talbot's intermediary company, Underwriting Risk Services Ltd. is regulated by the FSA as an insurance intermediary.

In November 2007 Talbot established Talbot Risk Services Pte Ltd in Singapore to source business in the Far East under the Lloyd's Asia Scheme. The Lloyds Asia Scheme was established by the Monetary Authority of Singapore to encourage members of Lloyd's to expand insurance activities in Asia.

### **Bermuda**

The Insurance Act 1978 regulates the Company's operating subsidiaries in Bermuda, and it provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the BMA) under the Insurance Act. Insurance as well as reinsurance is regulated under the Insurance Act.

The Insurance Act imposes on Bermuda insurance companies solvency and liquidity standards, certain restrictions on the declaration and payment of dividends and distributions, certain restrictions on the reduction of statutory capital, auditing and reporting requirements, and grants the BMA powers to supervise, investigate and intervene in the affairs of insurance companies. Significant requirements include the appointment of an independent auditor, the appointment of a loss reserve specialist and the filing of the Annual Statutory Financial Return with the BMA. The Supervisor of Insurance is the chief administrative officer under the Insurance Act.

Under the Bermuda Companies Act 1981, as amended, a Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Effective for statutory filings for the year ended December 31, 2008, the BMA introduced a risk-based capital model, or Bermuda Solvency Capital Requirement ( BSCR ), as a tool to assist the BMA in measuring risk and determining appropriate capitalization.

**Table of Contents****Employees**

The following table details our personnel by geographic location as at December 31, 2009:

<b>Location</b>	<b>Validus Re</b>	<b>Talbot</b>	<b>Corporate</b>	<b>Total</b>	<b>%</b>
London, England		222		222	58.4%
Hamilton, Bermuda	83		9	92	24.2%
Waterloo, Canada	17			17	4.5%
Singapore City, Singapore	7	8		15	3.9%
Miami, United States	13			13	3.4%
New York, United States	10			10	2.6%
Dubai, United Arab Emirates		4		4	1.1%
Grosseto, Italy		4		4	1.1%
Santiago, Chile	2			2	0.5%
Hamburg, Germany	1			1	0.3%
<b>Total</b>	133	238	9	380	100.0%

We believe our relations with our employees are excellent.

**Available Information**

The Company files periodic reports, proxy statements and other information with the SEC. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's website address is <http://www.sec.gov>. The Company's common shares are traded on the NYSE with the symbol **VR**. Similar information concerning the Company can be reviewed at the office of the NYSE at 20 Broad Street, New York, New York, 10005. The Company's website address is <http://www.validusholdings.com>. Information contained in this website is not part of this report.

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge, including through our website, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Copies of the charters for the audit committee, the compensation committee, the corporate governance and nominating committee, the finance committee and the risk committee, as well as the Company's Corporate Governance Guidelines, Code of Business Conduct and Ethics for Directors, Officers and Employees (the **Code**), which applies to all of the Company's Directors, officers and employees, and Code of Ethics for Senior Officers, which applies to the Company's principal executive officer, principal accounting officer and other persons holding a comparable position, are available free of charge on the Company's website at <http://www.validusholdings.com> writing to Investor Relations, Validus Holdings, Ltd., Suite 1790, 48 Par-La-Ville Road, Hamilton HM11 Bermuda. The Company will also post on its website any amendment to the Code and any waiver of the Code granted to any of its directors or executive officers to the extent required by applicable rules.



**Item 1A. Risk Factors**

**Risks Related to Our Company**

*Claims on policies written under our short-tail insurance lines that arise from unpredictable and severe catastrophic events could adversely affect our financial condition or results of operations.*

Substantially all of our gross premiums written to date are in short-tail lines, which means we could become liable for a significant amount of losses in a brief period. Short-tail policies expose us to claims arising out of unpredictable natural and other catastrophic events, such as hurricanes, windstorms, tsunamis, severe winter

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weather, earthquakes, floods, fires, explosions, acts of terrorism and other natural and man-made disasters. Many observers believe that the Atlantic basin is in the active phase of a multi-decade cycle in which conditions in the ocean and atmosphere, including warmer-than-average sea-surface temperatures and low wind shear, enhance hurricane activity. This increase in the number and intensity of tropical storms and hurricanes can span multiple decades (approximately 20 to 30 years). These conditions may translate to a greater potential for hurricanes to make landfall in the U.S. at higher intensities over the next five years. In addition, climate conditions may be changing, primarily through changes in global temperatures, which may in the future increase the frequency and severity of natural catastrophes and the losses resulting therefrom. The frequency and severity of catastrophes are inherently unpredictable.

The extent of losses from catastrophes is a function of both the number and severity of the insured events and the total amount of insured exposure in the areas affected. Increases in the value and concentrations of insured property, the effects of inflation and changes in cyclical weather patterns may increase the severity of claims from catastrophic events in the future. Claims from catastrophic events could reduce our earnings and cause substantial volatility in our results of operations for any fiscal quarter or year, which could adversely affect our financial condition, possibly to the extent of eliminating our shareholders' equity. Our ability to write new reinsurance policies could also be affected as a result of corresponding reductions in our capital.

Underwriting is inherently a matter of judgment, involving important assumptions about matters that are unpredictable and beyond our control, and for which historical experience and probability analysis may not provide sufficient guidance. One or more catastrophic or other events could result in claims that substantially exceed our expectations and which would become due in a short period of time, which could materially adversely affect our financial condition, liquidity or results of operations.

### ***Emerging claim and coverage issues could adversely affect our business.***

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until sometime after we have issued reinsurance contracts that are affected by the changes. For example, a reinsurance contract might limit the amount that can be recovered as a result of flooding. However, if the flood damage was caused by an event that also caused extensive wind damage, the quantification of the two types of damage is often a matter of judgment. Similarly, one geographic zone could be affected by more than one catastrophic event. In this case, the amount recoverable from a reinsurer may in part be determined by the judgmental allocation of damage between the storms. Given the magnitude of the amounts at stake involved with a catastrophic event, these types of issues occasionally necessitate judicial resolution. In addition, our actual losses may vary materially from our current estimate of the loss based on a number of factors, including receipt of additional information from insureds or brokers, the attribution of losses to coverages that had not previously been considered as exposed and inflation in repair costs due to additional demand for labor and materials. As a result, the full extent of liability under an insurance or reinsurance contract may not be known for many years after such contract is issued and a loss occurs. Our exposure to this uncertainty is greater in our longer tail lines (marine and energy liabilities and financial institutions).

### ***We depend on ratings from third party rating agencies. Our financial strength rating could be revised downward, which could affect our standing among brokers and customers, cause our premiums and earnings to decrease and limit our ability to pay dividends on our common shares.***

Third-party rating agencies assess and rate the financial strength of insurers and reinsurers based upon criteria established by the rating agencies, which criteria are subject to change. The financial strength ratings assigned by

rating agencies to insurance and reinsurance companies represent independent opinions of financial strength and ability to meet policyholder obligations and are not directed toward the protection of investors. Ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. Insurers and intermediaries use these ratings as one measure by which to assess the financial strength and quality of insurers and reinsurers. These ratings are often a key factor in the decision by an insured or intermediary of whether to place business with a particular insurance or reinsurance provider. These ratings are not

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an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our common shares.

If our financial strength rating is reduced from current levels, our competitive position in the reinsurance industry would suffer, and it would be more difficult for us to market our products. A downgrade could result in a significant reduction in the number of reinsurance contracts we write and in a substantial loss of business as our customers, and brokers that place such business, move to other competitors with higher financial strength ratings. The substantial majority of reinsurance contracts issued through reinsurance brokers contain provisions permitting the ceding company to cancel such contracts in the event of a downgrade of the reinsurer by A.M. Best below A- (Excellent). Consequently, substantially all of Validus Re's business could be affected by a downgrade of our A.M. Best rating.

It is increasingly common for our reinsurance contracts to contain terms that would allow the ceding companies to cancel the contract for the remaining portion of our period of obligation if our financial strength rating is downgraded below A- (Excellent) by A.M. Best. We cannot predict in advance the extent to which this cancellation right would be exercised, if at all, or what effect any such cancellations would have on our financial condition or future operations, but such effect could be material and adverse.

The indenture governing our Junior Subordinated Deferrable Debentures would restrict us from declaring or paying dividends on our common shares if we are downgraded by A.M. Best to a financial strength rating of B (Fair) or below or if A.M. Best withdraws its financial strength rating on any of our material insurance subsidiaries. A downgrade of the Company's A.M. Best financial strength rating below B++ (Fair) would also constitute an event of default under our credit facilities. Either of these events could, among other things, reduce the Company's financial flexibility.

***If Validus Re's risk management and loss limitation methods fail to adequately manage exposure to losses from catastrophic events, our financial condition and results of operations could be adversely affected.***

Validus Re manages exposure to catastrophic losses by analyzing the probability and severity of the occurrence of catastrophic events and the impact of such events on our overall reinsurance and investment portfolio. Validus Re uses various tools to analyze and manage the reinsurance exposures assumed from ceding companies and risks from a catastrophic event that could have an adverse effect on the investment portfolio. VCAPS, a proprietary risk modeling software, enables Validus Re to assess the adequacy of risk pricing and to monitor the overall exposure to risk in correlated geographic zones. VCAPS is new and relatively untested and Validus Re cannot assure the models and assumptions used by the software will accurately predict losses. Further, Validus Re cannot assure that it is free of defects in the modeling logic or in the software code. In addition, Validus Re has not sought copyright or other legal protection for VCAPS.

In addition, much of the information that Validus Re enters into the risk modeling software is based on third-party data that we cannot assure to be reliable, as well as estimates and assumptions that are dependent on many variables, such as assumptions about building material and labor demand surge, storm surge, the expenses of settling claims (known as loss adjustment expenses), insurance-to-value and storm intensity. Accordingly, if the estimates and assumptions that are entered into the proprietary risk model are incorrect, or if the proprietary risk model proves to be an inaccurate forecasting tool, the losses Validus Re might incur from an actual catastrophe could be materially higher than its expectation of losses generated from modeled catastrophe scenarios, and its financial condition and results of operations could be adversely affected.

A modeled outcome of net loss from a single event also relies in significant part on the reinsurance and retrocessional arrangements in place, or expected to be in place at the time of the analysis, and may change during the year. Modeled outcomes assume that the reinsurance in place responds as expected with minimal reinsurance failure or dispute. Reinsurance and retrocessional coverage is purchased to match the inwards exposure as far as possible, but it is

possible for there to be a mismatch or gap in cover which could result in higher than modeled losses to Validus Re. In addition, many parts of the reinsurance program are purchased with limited reinstatements and, therefore, the number of claims or events which may be recovered from second or subsequent events is limited. It should also be noted that renewal dates of the reinsurance and retrocessional program do not necessarily coincide with those of the inwards business written. Where inwards business is not protected by risks attaching reinsurance

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and retrocessional programs, the programs could expire resulting in an increase in the possible net loss retained by Validus Re and as such, could have a material adverse effect on our financial condition and results of operations.

Validus Re also seeks to limit loss exposure through loss limitation provisions in its policies, such as limitations on the amount of losses that can be claimed under a policy, limitations or exclusions from coverage and provisions relating to choice of forum, which are intended to assure that their policies are legally interpreted as intended. Validus Re cannot assure that these contractual provisions will be enforceable in the manner expected or that disputes relating to coverage will be resolved in its favor. If the loss limitation provisions in the policies are not enforceable or disputes arise concerning the application of such provisions, the losses it might incur from a catastrophic event could be materially higher than expectation, and its financial condition and results of operations could be adversely affected.

***The insurance and reinsurance business is historically cyclical, and we expect to experience periods with excess underwriting capacity and unfavorable premium rates and policy terms and conditions, which could materially adversely affect our financial condition and results of operations.***

The insurance and reinsurance industry has historically been cyclical. Insurers and reinsurers have experienced significant fluctuations in operating results due to competition, frequency of occurrence or severity of catastrophic events, levels of underwriting capacity, underwriting results of primary insurers, general economic conditions and other factors. The supply of insurance and reinsurance is related to prevailing prices, the level of insured losses and the level of industry surplus which, in turn, may fluctuate, including in response to changes in rates of return on investments being earned in the reinsurance industry.

The insurance and reinsurance pricing cycle has historically been a market phenomenon, driven by supply and demand rather than by the actual cost of coverage. The upward phase of a cycle is often triggered when a major event forces insurers and reinsurers to make large claim payments, thereby drawing down capital. This, combined with increased demand for insurance against the risk associated with the event, pushes prices upwards. Over time, insurers and reinsurers' capital is replenished with the higher revenues. At the same time, new entrants flock to the industry seeking a part of the profitable business. This combination prompts a slide in prices—the downward cycle—until a major insured event restarts the upward phase. As a result, the insurance and reinsurance business has been characterized by periods of intense competition on price and policy terms due to excessive underwriting capacity, which is the percentage of surplus or the dollar amount of exposure that a reinsurer is willing to place at risk, as well as periods when shortages of capacity result in favorable premium rates and policy terms and conditions.

Premium levels may be adversely affected by a number of factors which fluctuate and may contribute to price declines generally in the reinsurance industry. For example, as premium levels for many products have increased subsequent to the significant natural catastrophes of 2004 and 2005, the supply of reinsurance has increased and is likely to increase further, either as a result of capital provided by new entrants or by the commitment of additional capital by existing reinsurers. In addition, some of the prior upward cycles were initiated following each of Hurricane Andrew in 1992, the events of September 11, 2001 and the credit crisis commencing in 2008, coupled with industry losses from Hurricane Ike resulted in a reversal of rate pressure for 2009. Continued increases in the supply of insurance and reinsurance may have consequences for the reinsurance industry generally and for us including fewer contracts written, lower premium rates, increased expenses for customer acquisition and retention, and less favorable policy terms and conditions. As a consequence, the Company may experience greater competition on most insurance and reinsurance lines. This could adversely affect the rates we receive for our reinsurance and our gross premiums written.

The cyclical trends in the industry and the industry's profitability can also be affected significantly by volatile and unpredictable developments, such as natural disasters (such as catastrophic hurricanes, windstorms, tornados, earthquakes and floods), courts granting large awards for certain damages, fluctuations in interest rates, changes in the investment environment that affect market prices of investments and inflationary pressures that may tend to affect the

size of losses experienced by insureds and primary insurance companies. We expect to experience the effects of cyclicalities, which could materially adversely affect our financial condition and results of operations.

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***If we underestimate our reserve for losses and loss expenses, our financial condition and results of operations could be adversely affected.***

Our success depends on our ability to accurately assess the risks associated with the businesses and properties that we insure/reinsure. If unpredictable catastrophic events occur, or if we fail to adequately manage our exposure to losses or fail to adequately estimate our reserve requirements, our actual losses and loss expenses may deviate, perhaps substantially, from our reserve estimates.

We estimate the risks associated with our outstanding obligations, including the risk embedded within our unearned premiums. To do this, we establish reserves for losses and loss expenses (or loss reserves), which are liabilities that we record to reflect the estimated costs of claim payment and the related expenses that we will ultimately be required to pay in respect of premiums written and include case reserves and incurred but not reported (IBNR) reserves. However, under U.S. GAAP, we are not permitted to establish reserves for losses with respect to our property catastrophe reinsurance until an event which gives rise to a claim occurs. As a result, only reserves applicable to losses incurred up to the reporting date may be set aside on our financial statements, with no allowance for the provision of loss reserves to account for possible other future losses with respect to our catastrophe-exposed reinsurance. Case reserves are reserves established with respect to specific individual reported claims. IBNR reserves are reserves for estimated losses that we have incurred but that have not yet been reported to us. Property catastrophe reinsurance covers insurance companies' exposures to an accumulation of property and related losses from separate policies, typically relating to natural disasters or other catastrophic events.

Our reserve estimates do not represent an exact calculation of liability. Rather, they are estimates of what we expect the ultimate settlement and administration of claims will cost. These estimates are based upon actuarial and statistical projections and on our assessment of currently available data, predictions of future developments and estimates of future trends and other variable factors such as inflation. Establishing an appropriate level of our loss reserve estimates is an inherently uncertain process. It is likely that the ultimate liability will be greater or less than these estimates and that, at times, this variance will be material. Our reserve estimates are regularly refined as experience develops and claims are reported and settled. Establishing an appropriate level for our reserve estimates is an inherently uncertain process. In addition, as we operate solely through intermediaries, reserving for our business can involve added uncertainty arising from our dependence on information from ceding companies which, in addition to the risk of receiving inaccurate information involves an inherent time lag between reporting information from the primary insurer to us. Additionally, ceding companies employ differing reserving practices which add further uncertainty to the establishment of our reserves. Moreover, these uncertainties are greater for reinsurers like us than for reinsurers with a longer operating history, because we do not yet have an established loss history. The lack of historical information for the Company has necessitated the use of industry loss emergence patterns in deriving IBNR. Loss emergence patterns are development patterns used to project current reported or paid loss amounts to their ultimate settlement value or amount. Further, expected losses and loss ratios are typically developed using vendor and proprietary computer models and these expected loss ratios are a material component in the calculation deriving IBNR. Actual loss ratios will deviate from expected loss ratios and ultimate loss ratios will be greater or less than expected loss ratios. Because of these uncertainties, it is possible that our estimates for reserves at any given time could prove inadequate.

To the extent we determine that actual losses and loss adjustment expenses from events which have occurred exceed our expectations and the loss reserves reflected in our financial statements, we will be required to reflect these changes in the current reporting period. This could cause a sudden and material increase in our liabilities and a reduction in our profitability, including operating losses and reduction of capital, which could materially restrict our ability to write new business and adversely affect our financial condition and results of operations and potentially our A.M. Best rating.



***We rely on key personnel and the loss of their services may adversely affect us. The Bermuda location of our head office may be an impediment to attracting and retaining experienced personnel.***

Various aspects of our business depend on the services and skills of key personnel of the Company. We believe there are only a limited number of available qualified executives in the business lines in which we compete. We rely substantially upon the services of Edward J. Noonan, Chairman of our Board of Directors and Chief Executive

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Officer; George P. Reeth, President and the Deputy Chairman of our Board of Directors; C.N. Rupert Atkin, Chief Executive Officer of the Talbot Group; Michael E.A. Carpenter, Chairman of the Talbot Group; Joseph E. (Jeff) Consolino, Chief Financial Officer; C. Jerome Dill, General Counsel; Julian G. Ross, Chief Risk Officer; and Conan M. Ward, Chief Executive Officer of Validus Reinsurance, Ltd., among other key employees. The loss of any of their services or the services of other members of our management team or any difficulty in attracting and retaining other talented personnel could impede the further implementation of our business strategy, reduce our revenues and decrease our operational effectiveness. Although we have an employment agreement with each of the above named executives, there is a possibility that these employment agreements may not be enforceable in the event any of these employees leave. The employment agreements for each of the above-named executives provide that the terms of the agreement will continue for a defined period after either party giving notice of termination, and will terminate immediately upon the Company giving notice of termination for cause. We do not currently maintain key man life insurance policies with respect to them or any of our other employees.

The operating location of our head office and Validus Re subsidiary may be an impediment to attracting and retaining experienced personnel. Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Our success may depend in part on the continued services of key employees in Bermuda. A work permit may be granted or renewed upon demonstrating that, after proper public advertisement, no Bermudian (or spouse of a Bermudian or a holder of a permanent resident's certificate or holder of a working resident's certificate) is available who meets the minimum standards reasonably required by the employer. The Bermuda government's policy places a six-year term limit on individuals with work permits, subject to certain exemptions for key employees. A work permit is issued with an expiry date (up to five years) and no assurances can be given that any work permit will be issued or, if issued, renewed upon the expiration of the relevant term. If work permits are not obtained, or are not renewed, for our principal employees, we would lose their services, which could materially affect our business. Work permits are currently required for 42 of our Bermuda employees, all of whom have obtained three- or five-year work permits or have spousal letters.

***Certain of our directors and officers may have conflicts of interest with us.***

Entities affiliated with some of our directors have sponsored or invested in, and may in the future sponsor or invest in, other entities engaged in or intending to engage in insurance and reinsurance underwriting, some of which compete with us. They have also entered into, or may in the future enter into, agreements with companies that compete with us.

We have a policy in place applicable to each of our directors and officers which provides for the resolution of potential conflicts of interest. However, we may not be in a position to influence any party's decision to engage in activities that would give rise to a conflict of interest, and they may take actions that are not in our shareholders' best interests.

***We may require additional capital or credit in the future, which may not be available or only available on unfavorable terms.***

We monitor our capital adequacy on a regular basis. The capital requirements of our business depend on many factors, including our premiums written, loss reserves, investment portfolio composition and risk exposures, as well as satisfying regulatory and rating agency capital requirements. Our ability to underwrite is largely dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. To the extent that our existing capital is insufficient to fund our future operating requirements and/or cover claim losses, we may need to raise additional funds through financings or limit our growth. Any equity or debt financing, if available at all, may be on terms that are unfavorable to us. In the case of equity financings, dilution to our shareholders could result, and, in any case, such securities may have rights, preferences and privileges that are senior to those of our outstanding

securities. In addition, the capital and credit markets have been experiencing extreme volatility and disruption for more than one year. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity for certain issuers. If we are not able to obtain adequate capital, our business, results of operations and financial condition could be adversely affected.

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In addition, as an alien reinsurer (not licensed in the U.S.), we are required to post collateral security with respect to any reinsurance liabilities that we assume from ceding insurers domiciled in the U.S. in order for U.S. ceding companies to obtain full statutory and regulatory credit for our reinsurance. Other jurisdictions and non-U.S. ceding insurers may have similar collateral requirements. Under applicable statutory provisions, these security arrangements may be in the form of letters of credit, reinsurance trusts maintained by trustees or funds-withheld arrangements where assets are held by the ceding company. We intend to satisfy such statutory requirements by providing to primary insurers letters of credit issued under our credit facilities. To the extent that we are required to post additional security in the future, we may require additional letter of credit capacity and we cannot assure that we will be able to obtain such additional capacity or arrange for other types of security on commercially acceptable terms or on terms as favorable as under our current letter of credit facilities. Our inability to provide collateral satisfying the statutory and regulatory guidelines applicable to primary insurers would have a material adverse effect on our ability to provide reinsurance to third parties and negatively affect our financial position and results of operations.

Security arrangements may subject our assets to security interests and/or require that a portion of our assets be pledged to, or otherwise held by, third parties. Although the investment income derived from our assets while held in trust typically accrues to our benefit, the investment of these assets is governed by the investment regulations of the state of domicile of the ceding insurer.

***Competition for business in our industry is intense, and if we are unable to compete effectively, we may not be able to retain market share and our business may be materially adversely affected.***

The insurance and reinsurance industries are highly competitive. We face intense competition, based upon (among other things) global capacity, product breadth, reputation and experience with respect to particular lines of business, relationships with (re)insurance intermediaries, quality of service, capital and perceived financial strength (including independent rating agencies' ratings), innovation and price. We compete with major global insurance and reinsurance companies and underwriting syndicates, many of which have extensive experience in (re)insurance and may have greater financial, marketing and employee resources available to them than us. Other financial institutions, such as banks and hedge funds, now offer products and services similar to our products and services through alternative capital markets products that are structured to provide protections similar to those provided by reinsurers. These products, such as catastrophe-linked bonds, compete with our products. In the future, underwriting capacity will continue to enter the market from these identified competitors and perhaps other sources. After the events of September 11, 2001, and then again following the three major hurricanes of 2005 (Katrina, Rita and Wilma), new capital flowed into Bermuda, and much of these new proceeds went to a variety of Bermuda-based start-up companies. The full extent and effect of this additional capital on the reinsurance market will not be known for some time and market conditions could become less favorable. Increased competition could result in fewer submissions and lower rates, which could have an adverse effect on our growth and profitability. If we are unable to compete effectively against these competitors, we may not be able to retain market share.

In addition, insureds have been retaining a greater proportion of their risk portfolios than previously, and industrial and commercial companies have been increasingly relying upon their own subsidiary insurance companies, known as captive insurance companies, self-insurance pools, risk retention groups, mutual insurance companies and other mechanisms for funding their risks, rather than risk transferring insurance. This has put downward pressure on insurance premiums.

***Loss of business from one or more major brokers could adversely affect us.***

We market our insurance and reinsurance on a worldwide basis primarily through brokers, and we depend on a small number of brokers for a large portion of our revenues. For the year ended December 31, 2009, our business was primarily sourced from the following brokers: Aon Benfield Group Ltd. 25.7%, Marsh Inc./Guy Carpenter & Co.

23.3%, and Willis Group Holdings Ltd. 14.0%. These three brokers provided a total of 63.0% of our gross premiums written for the year ended December 31, 2009. Loss of all or a substantial portion of the business provided by one or more of these brokers could adversely affect our business.

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***We assume a degree of credit risk associated with substantially all of our brokers.***

In accordance with industry practice, we frequently pay amounts owed on claims under our policies to brokers and the brokers, in turn, pay these amounts over to the ceding insurers and reinsurers that have reinsured a portion of their liabilities with us. In some jurisdictions, if a broker fails to make such a payment, we might remain liable to the ceding insurer or reinsurer for the deficiency notwithstanding the broker's obligation to make such payment. Conversely, in certain jurisdictions, when the ceding insurer or reinsurer pays premiums for these policies to reinsurance brokers for payment to us, these premiums are considered to have been paid and the ceding insurer or reinsurer will no longer be liable to us for these premiums, whether or not we have actually received them. Consequently, we assume a degree of credit risk associated with substantially all of our brokers.

***Our success depends on our ability to establish and maintain effective operating procedures and internal controls. Failure to detect control issues and any instances of fraud could adversely affect us.***

Our success is dependent upon our ability to establish and maintain operating procedures and internal controls (including the timely and successful implementation of information technology systems and programs) to effectively support our business and our regulatory and reporting requirements. We may not be successful in such efforts. Even when implemented, as a result of the inherent limitations in all control systems, no evaluation of controls can provide full assurance that all control issues and instances of fraud, if any, within the Company will be detected.

***We may be unable to purchase reinsurance or retrocessional reinsurance in the future, and if we successfully purchase retrocessional reinsurance, we may be unable to collect, which could adversely affect our business, financial condition and results of operations.***

We purchase reinsurance and retrocessional reinsurance in order that we may offer insureds and cedants greater capacity, and to mitigate the effect of large and multiple losses on our financial condition. Reinsurance is a transaction whereby an insurer or reinsurer cedes to a reinsurer all or part of the insurance it has written or reinsurance it has assumed. A reinsurer's or retrocessional reinsurer's insolvency or inability or refusal to make timely payments under the terms of its reinsurance agreement with us could have an adverse effect on us because we remain liable to our client. From time to time, market conditions have limited, and in some cases have prevented, insurers and reinsurers from obtaining the types and amounts of reinsurance or retrocessional reinsurance that they consider adequate for their business needs. Accordingly, we may not be able to obtain our desired amounts of reinsurance or retrocessional reinsurance or negotiate terms that we deem appropriate or acceptable or obtain reinsurance or retrocessional reinsurance from entities with satisfactory creditworthiness.

***Our investment portfolio may suffer reduced returns or losses which could adversely affect our results of operations and financial condition. Any increase in interest rates or volatility in the fixed income markets could result in significant unrealized losses in the fair value of our investment portfolio which would reduce our net income.***

Our operating results depend in part on the performance of our investment portfolio, which currently consists of fixed maturity securities, as well as the ability of our investment managers to effectively implement our investment strategy. Our Board of Directors, led by our Finance Committee, oversees our investment strategy, and in consultation with our portfolio advisors, has established investment guidelines. The investment guidelines dictate the portfolio's overall objective, benchmark portfolio, eligible securities, duration, limitations on the use of derivatives and inclusion of foreign securities, diversification requirements and average portfolio rating. Management and the Finance Committee periodically review these guidelines in light of our investment goals and consequently they may change at any time.

The investment return, including net investment income, net realized gains (losses) on investments, net unrealized (losses) gains on investments, on our invested assets was \$192.0 million, or 4.8% for the year ended December 31, 2009. While we follow a conservative investment strategy designed to emphasize the preservation of invested assets and to provide sufficient liquidity for the prompt payment of claims, we will nevertheless be subject to market-wide risks including illiquidity and pricing uncertainty and fluctuations, as well as to risks inherent in

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particular securities. Our investment performance may vary substantially over time, and we cannot assure that we will achieve our investment objectives. Unlike more established companies with longer operating histories, we have a limited performance record to which investors can refer. See **Business Investments**.

Investment results will also be affected by general economic conditions, market volatility, interest rate fluctuations, liquidity and credit risks beyond our control. In addition, our need for liquidity may result in investment returns below our expectations. Also, with respect to certain of our investments, we are subject to prepayment or reinvestment risk. In particular, our fixed income portfolio is subject to reinvestment risk, and as at December 31, 2009, 15.8% of our fixed income portfolio is comprised of mortgage backed and asset backed securities which are subject to prepayment risk. Although we attempt to manage the risks of investing in a changing interest rate environment, a significant increase in interest rates could result in significant losses, realized or unrealized, in the fair value of our investment portfolio and, consequently, could have an adverse affect on our results of operations.

As of January 1, 2007, our investments were accounted for as trading and, as such, all unrealized gains and losses are included in Net Income on the Statement of Operations. Including unrealized gains and losses in Net Income has the effect of increasing the volatility of our reported earnings.

### ***Deterioration in the public debt and equity markets could lead to additional investment losses.***

Conditions in the public debt and equity markets continue to display high levels of volatility. The Company continues to closely monitor current market conditions and evaluate the long term impact of this recent market volatility on all of its investment holdings. Depending on market conditions, the Company could incur additional realized and unrealized losses in future periods, which could have a material adverse effect on the Company's results of operations, financial condition and business.

### ***Our operating results may be adversely affected by currency fluctuations.***

Our functional currency is the U.S. dollar. Many of our companies maintain both assets and liabilities in local currencies. Therefore, we are exposed to foreign exchange risk on the assets denominated in those foreign currencies. Foreign exchange risk is reviewed as part of our risk management process. Locally required capital levels may be invested in home currencies in order to satisfy regulatory requirements and to support local insurance operations. The principal currencies creating foreign exchange risk are the British pound sterling and the Euro. As of December 31, 2009, \$405.4 million, or 5.8% of our total assets and \$413.9 million, or 13.9% of our total liabilities were held in foreign currencies. As of December 31, 2009, \$81.2 million, or 2.7% of our total liabilities held in foreign currencies was non-monetary items which do not require revaluation at each reporting date. To the extent foreign currency exposure is not hedged, we may experience exchange losses, which in turn would adversely affect our results of operations and financial condition. Please refer to Part II, Item 7A **Quantitative and Qualitative Disclosures About Market Risk** for further discussion of foreign currency risk.

### ***The preparation of our financial statements will require us to make many estimates and judgments, which are even more difficult than those made in a mature company, and which, if inaccurate, could cause volatility in our results.***

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Management believes the item that requires the most subjective and complex estimates is the reserve for losses and loss expenses. Due to Validus Re's short operating history, loss experience is limited and reliable evidence of changes in trends of numbers of claims incurred, average settlement amounts, numbers of claims outstanding and average losses per claim will necessarily take many years to develop. Following a major catastrophic event, the possibility of future litigation or legislative change that may affect interpretation of policy terms further increases the degree of uncertainty in the reserving process. The uncertainties inherent in the reserving process, together with the potential for unforeseen



developments, including changes in laws and the prevailing interpretation of policy terms, may result in losses and loss expenses materially different than the reserves initially established. Changes to prior year reserves will affect current underwriting results by increasing net income if the prior year reserves prove to be redundant or by decreasing net income if the prior year reserves prove to be insufficient. We expect volatility in results in periods

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in which significant loss events occur because U.S. GAAP does not permit insurers or reinsurers to reserve for loss events until they have occurred and are expected to give rise to a claim. As a result, we are not allowed to record contingency reserves to account for expected future losses. We anticipate that claims arising from future events will require the establishment of substantial reserves from time to time.

## **Risks Related to Acquisitions and New Ventures**

*Any future acquisitions or new ventures may expose us to operational risks.*

We may in the future make strategic acquisitions, either of other companies or selected blocks of business, or grow our business organically. Any future acquisitions or new ventures may expose us to operational challenges and risks, including:

integrating financial and operational reporting systems;

establishing satisfactory budgetary and other financial controls;

funding increased capital needs and overhead expenses;

obtaining management personnel required for expanded operations;

funding cash flow shortages that may occur if anticipated sales and revenues are not realized or are delayed, whether by general economic or market conditions or unforeseen internal difficulties;

the value of assets related to acquisitions or new ventures may be lower than expected or may diminish due to credit defaults or changes in interest rates and liabilities assumed may be greater than expected;

the assets and liabilities related to acquisitions or new ventures may be subject to foreign currency exchange rate fluctuation; and

financial exposures in the event that the sellers of the entities we acquire are unable or unwilling to meet their indemnification, reinsurance and other obligations to us.

Our failure to manage successfully these operational challenges and risks may adversely impact our results of operations.

## **Risks Relating to Lloyd's and Other U.K. Regulatory Matters**

*The regulation of Lloyd's members and of Lloyd's by the U.K. Financial Services Authority ( FSA ) and under European Directives and other local laws may result in intervention that could have a significant negative impact on Talbot.*

Talbot operates in a regulated jurisdiction. Its underwriting activities are regulated by the FSA and franchised by Lloyd's. The FSA has substantial powers of intervention in relation to the Lloyd's managing agents (such as Talbot Underwriting Ltd.) which it regulates, including the power to remove their authorization to manage Lloyd's syndicates. In addition, the Lloyd's Franchise Board requires annual approval of Syndicate 1183's business plan, including a maximum underwriting capacity, and may require changes to any business plan presented to it or additional capital to be provided to support underwriting (known as Funds at Lloyd's or FAL ). An adverse determination in any of these cases could lead to a change in business strategy which may have an adverse effect on Talbot's financial condition and

operating results.

European Directives affect the regulation governing the carrying on of insurance business in the United Kingdom. A new Directive covering the prudential supervision of insurance companies is being developed to replace the existing insurance Directives. The proposed Solvency II insurance Directive is presently under consultation and is unlikely to come into force before 2012. Likewise, a new reinsurance Directive was adopted on October 17, 2005, which is likely to be fully implemented in the U.K. by the end of 2010. There can be no assurance that future legislation will not have an adverse effect on Talbot.

Additionally, Lloyd's worldwide insurance and reinsurance business is subject to local regulation. Changes in such regulation may have an adverse effect on Lloyd's generally and on Talbot.

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***Should Lloyd's Council decide additional levies are required to support the central fund, this could adversely affect Talbot.***

The central fund, which is funded by annual contributions and loans from Lloyd's members, acts as a policyholders protection fund to make payments where any Lloyd's member has failed to pay, or is unable to pay, valid claims. The Lloyd's Council may resolve to make payments from the central fund for the advancement and protection of policyholders, which could lead to additional or special contributions being payable by Lloyd's members, including Talbot. This, in turn, could adversely affect Talbot.

***Lloyd's 1992 and prior liabilities.***

Notwithstanding the firebreak introduced when Lloyd's implemented the Reconstruction and Renewal Plan in 1996, Lloyd's members, including Talbot subsidiaries, remain indirectly exposed in a number of ways to 1992 and prior business then reinsured by Equitas, including through the application of overseas deposits and the central fund.

Lloyd's currently has a number of contingent liabilities in respect of risks under certain policies allocated to 1992 or prior years of account. Notwithstanding the statutory transfer of 1992 and prior non-life business from Names to Equitas Insurance Limited, if the limit of retrocessional cover from National Indemnity Company in respect of that business proves to be insufficient and as a consequence Equitas is unable to pay the 1992 and prior liabilities in full, Lloyd's will be liable to meet any shortfall arising in respect of certain policies. The central fund, which Lloyd's can replenish, subject to its Bye-laws, by issuing calls on current underwriting members of Lloyd's (which will include Talbot subsidiaries), may be applied for these purposes. Lloyd's also has contingent liabilities under indemnities in respect of claims against certain persons.

***The failure of Lloyd's to satisfy the FSA's annual solvency test could result in limitations on Talbot's ability to underwrite or its ability to commence legal proceedings against Lloyd's.***

The FSA requires Lloyd's to satisfy an annual solvency test. The solvency requirement in essence measures whether Lloyd's has sufficient assets in the aggregate to meet all outstanding liabilities of its members, both current and in run-off. If Lloyd's fails to satisfy the test in any year, the FSA may require Lloyd's to cease trading and/or its members to cease or reduce underwriting. In the event of Lloyd's failing to meet any solvency requirement, either the Society of Lloyd's or the FSA may apply to the court for a Lloyd's Market Reorganisation Order ( LMRO ). On the making of an order a reorganisation controller is appointed, and for its duration, a moratorium is imposed preventing any proceedings or legal process from being commenced or continued against any party that is the subject of such an order, which, if made, would apply to the market as a whole, including members, former members, managing agents, members agents, Lloyd's brokers, approved run-off companies and managing general agents unless individual parties are specifically excluded.

***A downgrade in Lloyd's ratings would have an adverse effect on Syndicate 1183's standing among brokers and customers and cause its premiums and earnings to decrease.***

The ability of Lloyd's syndicates to trade in certain classes of business at current levels is dependent on the maintenance of a satisfactory credit rating issued by an accredited rating agency. The financial security of the Lloyd's market is regularly assessed by three independent rating agencies, A.M. Best, S & P and Fitch Ratings. Syndicate 1183 benefits from Lloyd's current ratings and would be adversely affected if the current ratings were downgraded from their present levels.

***An increase in the charges paid by Talbot to participate in the Lloyd's market could adversely affect Talbot's financial and operating results.***

Lloyd's imposes a number of charges on businesses operating in the Lloyd's market, including, for example, annual subscriptions and central fund contributions for members and policy signing charges. The basis and amounts of charges may be varied by Lloyd's and could adversely affect Talbot.

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***An increase in the level or type of deposits required by U.S. Situs Trust Deeds to be maintained by Lloyd's syndicates could result in Syndicate 1183 being required to make a cash call which could adversely affect Talbot's financial performance.***

The U.S. Situs Trust Deeds require syndicates transacting certain types of business in the United States to maintain minimum deposits as protection for U.S. policyholders. These deposits represent the syndicates' estimates of unpaid claims liabilities (less premiums receivable) relating to this business, adjusted for provisions for potential bad debt on premiums earned but not received and for any anticipated profit on unearned premiums. No credit is generally allowed for potential reinsurance recoveries. The New York Insurance Department and the U.S. National Association of Insurance Commissioners currently require funding of 30% of gross liabilities in relation to insurance business classified as Surplus Lines. The Credit for Reinsurance trust fund is usually required to be funded at 100% of gross liabilities. The funds contained within the deposits are not ordinarily available to meet trading expenses. U.S. regulators may increase the level of funding required or change the requirements as to the nature of funding. Accordingly, in the event of a major claim arising in the United States, for example from a major catastrophe, syndicates participating in such U.S. business may be required to make cash calls on their members to meet claims payments and deposit funding obligations. This could adversely affect Talbot.

## **Risks Related to Taxation**

***We may be subject to U.S. tax.***

We are organized under the laws of Bermuda and presently intend to structure our activities to minimize the risk that we would be considered engaged in a U.S. trade or business. No definitive standards, however, are provided by the Internal Revenue Code of 1986, as amended (the Code), U.S. Treasury regulations or court decisions regarding activities that constitute the conduct of a U.S. trade or business. Because that determination is essentially factual, we cannot assure that the Internal Revenue Service (the IRS) will not contend that we are engaged in a U.S. trade or business. If we were found to be so engaged, we would be subject to U.S. corporate income and branch profits tax on our earnings that are effectively connected to such U.S. trade or business.

If Validus Re is entitled to the benefits of the income tax treaty between the U.S. and Bermuda (the Bermuda Treaty), it would not be subject to U.S. income tax on any income protected by the Bermuda Treaty unless that income is attributable to a permanent establishment in the U.S. The treaty clearly applies to premium income, but may be construed as not protecting other income such as investment income. If Validus Re were found to be engaged in a trade or business in the U.S. and were entitled to the benefits of the treaty in general, but the treaty were found not to protect investment income, a portion of Validus Re's investment income could be subject to U.S. tax.

***U.S. persons who hold common shares may be subject to U.S. income taxation at ordinary income rates on our undistributed earnings and profits.***

***Controlled Foreign Corporation Status:*** The Company should not be a controlled foreign corporation (CFC) because its organizational documents provide that if the common shares owned, directly, indirectly or by attribution, by any person would otherwise represent more than 9.09% of the aggregate voting power of all the Company's common shares, the voting rights attached to those common shares will be reduced so that such person may not exercise and is not attributed more than 9.09% of the total voting power of the common shares. We cannot assure, however, that the provisions of the Organizational Documents will operate as intended and that the Company will not be considered a CFC. If the Company were considered a CFC, any shareholder that is a U.S. person that owns directly, indirectly or by attribution, 10% or more of the voting power of the Company may be subject to current U.S. income taxation at ordinary income tax rates on all or a portion of the Company's undistributed earnings and profits attributable to Validus Re's insurance and reinsurance income, including underwriting and investment income. Any gain realized on

sale of common shares by such shareholder may also be taxed as a dividend to the extent of the Company's earnings and profits attributed to such shares during the period that the shareholder held the shares and while the Company was a CFC (with certain adjustments).

*Related Person Insurance Income:* If the related person insurance income ( RPII ) of any of the Company's non-U.S. insurance subsidiaries were to equal or exceed 20% of that subsidiary's gross insurance income in any taxable year, and U.S. persons were treated as owning 25% or more of the subsidiary's stock, by vote or value, a

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U.S. person who directly or indirectly owns any common shares on the last day of such taxable year on which the 25% threshold is met would be required to include in income for U.S. federal income tax purposes that person's ratable share of that subsidiary's RPII for the taxable year. The amount includible in income is determined as if the RPII were distributed proportionately to U.S. holders on that date, regardless of whether that income is distributed. The amount of RPII includible in income is limited by such shareholder's share of the subsidiary's current-year earnings and profits, and possibly reduced by the shareholder's share of prior year deficits in earnings and profits. The amount of RPII earned by a subsidiary will depend on several factors, including the identity of persons directly or indirectly insured or reinsured by that subsidiary. Although we do not believe that the 20% threshold will be met for our non-U.S. insurance subsidiaries, some of the factors that might affect that determination in any period may be beyond our control. Consequently, we cannot assure that we will not exceed the RPII threshold in any taxable year.

If a U.S. person disposes of shares in a non-U.S. insurance corporation that had RPII (even if the 20% threshold was not met) and the 25% threshold is met at any time during the five-year period ending on the date of disposition, and the U.S. person owned any shares at such time, any gain from the disposition will generally be treated as a dividend to the extent of the holder's share of the corporation's undistributed earnings and profits that were accumulated during the period that the holder owned the shares (possibly whether or not those earnings and profits are attributable to RPII). In addition, the shareholder will be required to comply with specified reporting requirements, regardless of the amount of shares owned. We believe that those rules should not apply to a disposition of common shares because the Company is not itself directly engaged in the insurance business. We cannot assure, however, that the IRS will not successfully assert that those rules apply to a disposition of common shares.

***U.S. persons who hold common shares will be subject to adverse tax consequences if the Company is considered a passive foreign investment company for U.S. federal income tax purposes.***

If the Company is considered a passive foreign investment company (PFIC) for U.S. federal income tax purposes, a U.S. holder who owns common shares will be subject to adverse tax consequences, including a greater tax liability than might otherwise apply and an interest charge on certain taxes that are deferred as a result of the Company's non-U.S. status. We currently do not expect that the Company will be a PFIC for U.S. federal income tax purposes in the current taxable year or the foreseeable future because, through Validus Re, Talbot 2002 Underwriting Capital Ltd. and Talbot Underwriting Ltd., it intends to be predominantly engaged in the active conduct of a global insurance and reinsurance business. We cannot assure you, however, that the Company will not be deemed to be a PFIC by the IRS. No regulations currently exist regarding the application of the PFIC provisions to an insurance company.

***Changes in U.S. tax laws may be retroactive and could subject a U.S. holder of common shares to other adverse tax consequences.***

The tax treatment of non-U.S. companies and their U.S. and non-U.S. insurance and reinsurance subsidiaries has been the subject of Congressional discussion and legislative proposals in the U.S. We cannot assure that future legislative action will not increase the amount of U.S. tax payable by us.

In addition, the U.S. federal income tax laws and interpretations, including those regarding whether a company is engaged in a U.S. trade or business or is a PFIC, or whether U.S. holders would be required to include subpart F income or RPII in their gross income, are subject to change, possibly on a retroactive basis. No regulations regarding the application of the PFIC rules to insurance companies are currently in effect, and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when, or in what form, such regulations or pronouncements may be provided, and whether such guidance will have a retroactive effect.





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***The Obama administration's proposed budget for Fiscal Year 2011 could subject a U.S. holder of common shares to adverse tax consequences and may also have a material adverse effect on our results of operations.***

Under current U.S. law, non-corporate U.S. holders of our common shares generally are taxed on dividends at a capital gains tax rate of 15% rather than ordinary income tax rates. The Obama administration's proposed budget for fiscal year 2011 contains a proposal that would introduce a new tax rate of 20% for qualified dividends. The Obama Administration has proposed to maintain the 15-percent tax rate on dividends for most middle-income taxpayers (married taxpayers earning less than \$250,000 per year). If this proposal would become law, certain individual U.S. shareholders would no longer benefit from the current tax rate of 15% on dividend paid by us.

Insurance companies are generally allowed a deduction for premiums paid for reinsurance. The proposed Budget for fiscal year 2011 contains a proposal that would deny US Insurance companies a deduction for certain reinsurance premiums paid to affiliated foreign reinsurance companies with respect to U.S. risks insured by the insurance company or its U.S. affiliates. The U.S. insurance company would not be allowed a deduction to the extent that (1) the foreign reinsurers are not subject to U.S. income tax with respect to premiums received and (2) the amount of reinsurance premiums (net of ceding commissions) paid to foreign reinsurers exceeds 50 percent of the total direct insurance premiums received by the U.S. insurance company. Based on the information currently available to us, we do not believe that this legislation will adversely impact us. However, given that final wording of legislation is unknown, we could be adversely impacted if this proposal would become law.

***We may become subject to taxes in Bermuda after March 28, 2016, which may have a material adverse effect on our results of operations.***

Under current Bermuda law, we are not subject to tax on income or capital gains. We have received from the Minister of Finance under The Exempted Undertaking Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to us or to any of our operations or shares, debentures or other obligations, until March 28, 2016. We could be subject to taxes in Bermuda after that date. This assurance is subject to the proviso that it is not to be construed to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 or otherwise payable in relation to any property leased to us. We and Validus Re each pay annual Bermuda government fees; Validus Re pays annual insurance license fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

***The Organization for Economic Cooperation and Development and other multinational organizations are considering measures that might increase our taxes and reduce our net income.***

The Organization for Economic Cooperation and Development, which is commonly referred to as the OECD, has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. In the OECD's report dated 18 April 2002 and updated as of June 2004, Bermuda was not listed as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices and to embrace international tax standards for transparency, exchange of information and the elimination of any aspects of the regimes for financial and other services that attract business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

***Our non-U.K. companies may be subject to U.K. tax.***

We intend to operate in such a manner that none of our non-UK companies would be resident in the UK for tax purposes. A company incorporated outside the UK will be resident in the UK if its business is centrally managed and controlled from the UK. Because the concept of central management and control is not defined in statute but derives

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from case law and the determination of residence is subjective, the UK Inland Revenue might contend successfully that one or more of our companies is resident in the UK.

Furthermore, we intend to operate in such a manner that none of our non-UK companies carry on a trade wholly or partly in the UK. Case law has held that whether or not a trade is being carried on is a matter of fact and emphasis is placed on where operations take place from which the profits in substance arise. This judgment is subjective, U.K. Inland Revenue might contend successfully that one or more of our non-U.K. companies, is conducting business in the U.K. Some of our companies will benefit from treaty protection. In those situations, a taxable presence is only created when the non-UK company trades in the UK through a permanent establishment. Because the majority of the risks relates to non treaty countries, we apply the more conservative non-treaty standard to all companies.

### **Risks Related to Laws and Regulations Applicable to Us**

*If we become subject to insurance statutes and regulations in addition to the statutes and regulations that currently apply to us, there could be a significant and negative impact on our business.*

We currently conduct our business in a manner such that we expect the Company will not be subject to insurance and/or reinsurance licensing requirements or regulations in any jurisdiction other than Bermuda, in limited circumstances, the United States, and, with respect to Talbot, the U.K. and jurisdictions to which Lloyds is subject. See Business Regulation United States and Bermuda. Although we do not currently intend to engage in activities which would require us to comply with insurance and reinsurance licensing requirements of other jurisdictions, should we choose to engage in activities that would require us to become licensed in such jurisdictions, we cannot assure that we will be able to do so or to do so in a timely manner. Furthermore, the laws and regulations applicable to direct insurers could indirectly affect us, such as collateral requirements in various U.S. states to enable such insurers to receive credit for reinsurance ceded to us.

The insurance and reinsurance regulatory framework of Bermuda and the insurance of U.S. risk by companies based in Bermuda that are not licensed or authorized in the U.S. have recently become subject to increased scrutiny in many jurisdictions, including the United States. In the past, there have been U.S. Congressional and other initiatives in the United States regarding increased supervision and regulation of the insurance industry, including proposals to supervise and regulate offshore reinsurers. Government regulators are generally concerned with the protection of policyholders rather than other constituencies, such as our shareholders. We are not able to predict the future impact on our operations of changes in the laws and regulations to which we are or may become subject.

### **Risks Related to Ownership of Our Common Shares**

*Because we are a holding company and substantially all of our operations are conducted by our main operating subsidiaries, Validus Re and Talbot, our ability to meet any ongoing cash requirements and to pay dividends will depend on our ability to obtain cash dividends or other cash payments or obtain loans from Validus Re and Talbot.*

We conduct substantially all of our operations through subsidiaries. Our ability to meet our ongoing cash requirements, including any debt service payments or other expenses, and pay dividends on our common shares in the future, will depend on our ability to obtain cash dividends or other cash payments or obtain loans from these subsidiaries and will also depend on the financial condition of these subsidiaries. The inability of these subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements could have a material adverse effect on us and the value of our common shares. Each of these subsidiaries is a separate and distinct legal entity that has no obligation to pay any dividends or to lend or advance us funds and may be restricted from doing so by contract, including other financing arrangements, charter provisions or applicable legal and regulatory requirements or rating agency constraints. The payment of dividends by these subsidiaries to us is limited under Bermuda law and

regulations. The Insurance Act provides that our Bermuda subsidiaries may not declare or pay in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its statutory balance sheet in relation to the previous financial year) unless it files an affidavit with the BMA at least seven days prior to the payment signed by at least two directors and such subsidiary's principal representative, stating that in their opinion such subsidiaries will continue to satisfy the required margins following declaration of those dividends,

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though there is no additional requirement for BMA approval. In addition, before reducing its total statutory capital by 15% or more (as set out in its previous years' statutory financial statements) each of these subsidiaries must make application to the BMA for permission to do so, such application to consist of an affidavit signed by at least two directors and such subsidiary's principal representative stating that in their opinion the proposed reduction in capital will not cause such subsidiaries to fail to meet its relevant margins, and such other information as the BMA may require. At December 31, 2009, the excesses of statutory capital and surplus above minimum solvency margins for Validus Re and Talbot Insurance (Bermuda), Ltd., a Talbot subsidiary, were \$3,241.2 million and \$328.0 million, respectively. These amounts are available for distribution as dividend payments to the Company, subject to approval of the BMA. The BMA's approval is required for distributions greater than 25% of total statutory capital and surplus.

The timing and amount of any cash dividends on our common shares are at the discretion of our Board of Directors and will depend upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that our Board of Directors deems relevant. In addition, the indenture governing our Junior Subordinated Deferrable Debentures would restrict us from declaring or paying dividends on our common shares if we are downgraded by A.M. Best to a financial strength rating of B (Fair) or below or if A.M. Best withdraws its financial strength rating on any of our material insurance subsidiaries.

***Future sales of our common shares and grants of restricted shares may affect the market price of our common shares and the future exercise of options and warrants may result in immediate and substantial dilution of the common shares.***

As of February 26, 2010 (but without giving effect to unvested restricted shares), we had 125,970,164 common shares outstanding and 7,952,138 shares issuable upon exercise of outstanding warrants. Approximately 37,741,894 of these outstanding shares were subject to the volume limitations and other conditions of Rule 144 under the Securities Act of 1933, as amended, which we refer to as the Securities Act. Furthermore, certain of our sponsoring shareholders and their transferees have the right to require us to register these common shares under the Securities Act for sale to the public, either in an independent offering pursuant to a demand registration or in conjunction with a public offering, subject to a lock-up agreement of no more than 90 days. Following any registration of this type, the common shares to which the registration relates will be freely transferable. In addition, we have filed one or more registration statements on Form S-8 under the Securities Act to register common shares issued or reserved for issuance under our Long Term Incentive Plan (the Plan). The number of common shares that have been reserved for issuance under the Plan is equal to 13,126,896. We cannot predict what effect, if any, future sales of our common shares, or the availability of common shares for future sale, will have on the market price of our common shares. Sales of substantial amounts of our common shares in the public market, or the perception that sales of this type could occur, could depress the market price of our common shares and may make it more difficult for our shareholders to sell their common shares at a time and price that they deem appropriate.

Our Bye-laws authorize our Board of Directors to issue one or more series of common shares and preferred shares without stockholder approval. Specifically, we have an authorized share capital of 571,428,571 shares (\$0.175 par value per share), which can consist of common shares and/or preference shares, as determined by our Board of Directors. The Board of Directors has the right to issue the remaining shares without obtaining any approval from our stockholders and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series or designation of such series. Any issuance of our preferred stock could adversely affect the voting power of the holders of our common shares and could have the effect of delaying, deferring, or preventing the payment of any dividends (including any liquidating dividends) and any change in control of us. If a significant number of either common or preferred shares are issued, it may cause the market price of our common shares to decline.

***Our classified board structure may prevent a change in our control.***

Our board of directors is divided into three classes of directors. Each year one class of directors is elected by the shareholders for a three year term. The staggered terms of our directors may reduce the possibility of a tender

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offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our shareholders.

***There are provisions in our Bye-laws that reduce the voting rights of voting common shares that are held by a person or group to the extent that such person or group holds more than 9.09% of the aggregate voting power of all common shares entitled to vote on a matter.***

In general, and except as provided below, shareholders have one vote for each voting common share held by them and are entitled to vote at all meetings of shareholders. However, if, and for so long as, the common shares of a shareholder, including any votes conferred by controlled shares (as defined below), would otherwise represent more than 9.09% of the aggregate voting power of all common shares entitled to vote on a matter, including an election of directors, the votes conferred by such shares will be reduced by whatever amount is necessary such that, after giving effect to any such reduction (and any other reductions in voting power required by our Bye-laws), the votes conferred by such shares represent 9.09% of the aggregate voting power of all common shares entitled to vote on such matter.

Controlled shares include, among other things, all shares that a person is deemed to own directly, indirectly or constructively (within the meaning of Section 958 of the Code, or Section 13(d)(3) of the Securities and Exchange Act of 1934, as amended (the Exchange Act)). At December 31, 2009, there were 111,624,681 voting common shares, of which 10,146,684 voting common shares would confer votes that represent 9.09% of the aggregate voting power of all common shares entitled to vote generally at an election of directors. An investor who does not hold, and is not deemed under the provisions of our Bye-laws to own, any of our common shares may therefore purchase up to such amount without being subject to voting cutback provisions in our Bye-laws.

In addition, we have the authority under our Bye-laws to request information from any shareholder for the purpose of determining ownership of controlled shares by such shareholder.

***There are regulatory limitations on the ownership and transfer of our common shares which could result in the delay or denial of any transfers shareholders might seek to make.***

The BMA must approve all issuances and transfers of securities of a Bermuda exempt company. We have received permission from the BMA to issue our common shares, and for the free transferability of our common shares as long as the common shares are listed on the New York Stock Exchange or other appointed exchange, to and among persons who are residents and non-residents of Bermuda for exchange control purposes. Any other transfers remain subject to approval by the BMA and such approval may be denied or delayed.

***A shareholder of our company may have greater difficulties in protecting its interests than as a shareholder of a U.S. corporation.***

The Companies Act 1981 (the Companies Act), which applies to us, differs in material respects from laws generally applicable to U.S. corporations and their shareholders. Taken together with the provisions of our Bye-laws, some of these differences may result in a shareholder having greater difficulties in protecting its interests as a shareholder of our company than it would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with our company, what approvals are required for business combinations by our company with a large shareholder or a wholly owned subsidiary, what rights a shareholder may have as a shareholder to enforce specified provisions of the Companies Act or our Bye-laws, and the circumstances under which we may indemnify our directors and officers.

***We are a Bermuda company and it may be difficult for our shareholders to enforce judgments against us or against our directors and executive officers.***



We were incorporated under the laws of Bermuda and our business is based in Bermuda. In addition, certain of our directors and officers reside outside the United States, and a portion of our assets and the assets of such persons may be located in jurisdictions outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon us or those persons, or to recover against us or them on judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws.

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Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial application under Bermuda law and do not have force of law in Bermuda; however, a Bermuda court may impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law. Currently, of our executive officers, Joseph E. (Jeff) Consolino, C. Jerome Dill and Conan Ward reside in Bermuda, Edward Noonan, and George Reeth maintain residences in both Bermuda and the United States and Rupert Atkin, Michael Carpenter and Julian Ross reside in the United Kingdom. Of our directors, Edward Noonan and George Reeth maintain residences in both Bermuda and the United States, John Fitzpatrick resides in the United Kingdom, Jean-Marie Nessi resides in France and the remainder reside in the United States.

We have been advised by Bermuda counsel, that there is doubt as to whether the courts of Bermuda would enforce judgments of U.S. courts obtained in actions against us or our directors and officers, as well as the experts named herein, predicated upon the civil liability provisions of the U.S. federal securities laws, or original actions brought in Bermuda against us or such persons predicated solely upon U.S. federal securities laws. Further, we have been advised by Bermuda counsel that there is no treaty in effect between the United States and Bermuda providing for the enforcement of judgments of U.S. courts in civil and commercial matters, and there are grounds upon which Bermuda courts may decline to enforce the judgments of U.S. courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under the U.S. federal securities laws, may not be allowed in Bermuda courts as contrary to public policy in Bermuda. Because judgments of U.S. courts are not automatically enforceable in Bermuda, it may be difficult for our shareholders to recover against us based upon such judgments.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The Company and its subsidiaries currently occupy office space as described below. We believe our current facilities are sufficient for us to conduct our operations.

<b>Legal entity</b>	<b>Location</b>	<b>Expiration date</b>
Validus Holdings, Ltd.	Pembroke, Bermuda	August 31, 2011
Validus Re	Hamilton, Bermuda	August 31, 2011
Validus Re	Hamburg, Germany	June 30, 2010
Validus Research Inc.	Waterloo, Canada	February 28, 2018
Validus Reasegueros, Inc.	Miami, Florida, USA	March 29, 2011
Validus Services, Inc.	New York, New York, USA	January 31, 2012
Underwriting Risk Services, Inc.	New York, New York, USA	January 31, 2012
Talbot	London, England	June 22, 2019
Talbot	Singapore City, Singapore	December 14, 2011
Underwriting Services (Middle East) Ltd.	Dubai, United Arab Emirates	July 31, 2012
Validus Re Chile S.A.	Santiago, Chile	May 1, 2014

**Item 3. Legal Proceedings**

We anticipate that, similar to the rest of the insurance and reinsurance industry, we will be subject to litigation and arbitration in the ordinary course of business.



**Table of Contents****Executive Officers of the Company**

The following table provides information regarding our executive officers and key employees as of March 1, 2010:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Edward J. Noonan	51	Chairman of the Board of Directors Chief Executive Officer of the Validus Group
George P. Reeth	53	President and Deputy Chairman
C.N. Rupert Atkin	51	Chief Executive Officer of the Talbot Group
Michael E.A. Carpenter	60	Chairman of the Talbot Group
Joseph E. (Jeff) Consolino	43	Executive Vice President and Chief Financial Officer
C. Jerome Dill	49	Executive Vice President and General Counsel
Stuart W. Mercer	50	Executive Vice President
Julian G. Ross	44	Executive Vice President and Chief Risk Officer
Conan M. Ward	42	Executive Vice President and Chief Executive Officer of the Validus Reinsurance Group

*Edward J. Noonan* has been chairman of our Board and the chief executive officer of the Company since its formation. Mr. Noonan has 29 years of experience in the insurance and reinsurance industry, serving most recently as the acting chief executive officer of United America Indemnity Ltd. (Nasdaq: INDM) from February 2005 through October 2005 and as a member of the Board of Directors from December 2003 to May 2007. Mr. Noonan served as president and chief executive officer of American Re-Insurance Company from 1997 to 2002, having joined American Re in 1983. Mr. Noonan also served as chairman of Inter-Ocean Reinsurance Holdings of Hamilton, Bermuda from 1997 to 2002. Mr. Noonan is also a director of Central Mutual Insurance Company and All American Insurance Company, both of which are property and casualty companies based in Ohio.

*George P. Reeth* has been president and deputy chairman of the Company since its formation and has senior operating and distribution responsibilities. Mr. Reeth, who has 32 years experience in the insurance and reinsurance industry, was a senior executive with Willis Group Limited from 1992 to 2005 and was chairman & chief executive officer of North American Reinsurance Operations for Willis Re Inc. from 2000 to 2005. Prior to Willis, Mr. Reeth was executive vice president at Wilcox, Inc.

*C. N. Rupert Atkin* began his career at the Alexander Howden Group in 1980 before moving to Catlin Underwriting Agencies in 1984. After six years at Catlin he left to join Talbot, then Venton Underwriting Ltd, heading up the marine classes of business within Syndicate 376. In 1995 Syndicate 1183 was constituted with Mr. Atkin as the Active Underwriter. In 2000 Syndicate 1183 was merged back into Syndicate 376. The syndicate was reconstituted once again following the management led buyout of the Talbot Group in November 2001. Following the sale of Talbot to Validus in the summer of 2007 Mr. Atkin was appointed as Chief Executive Officer of Talbot. Mr. Atkin is also a director of 1384 Capital Ltd, a company incorporated in England & Wales and supporting the underwriting of the Talbot Group's syndicate for the 2007 year of account. Mr. Atkin was appointed to the Council of Lloyd's in 2007.

*Michael E. A. Carpenter* joined Talbot in June 2001 as the chief executive officer. Following the sale of Talbot to Validus in the summer of 2007 Mr. Carpenter was appointed as Chairman. Mr. Carpenter is also a director of 1384 Capital Ltd, a company incorporated in England & Wales and supporting the underwriting of the Talbot Group's syndicate for the 2007 year of account.

*Joseph E. (Jeff) Consolino* has been executive vice president and chief financial officer of the Company since March 2006. Mr. Consolino has over 17 years of experience in the financial services industry, specifically in providing investment banking services to the insurance industry, and most recently served as a managing director in Merrill Lynch's Financial Institutions Group specializing in insurance company advisory and financing transactions. He serves as a Director of National Interstate Corporation, a property and casualty company based in Ohio and of AmWINS Group, Inc., a wholesale insurance broker based in North Carolina.

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*C. Jerome Dill* has been executive vice president and general counsel of the Company since April 1, 2007. Prior to joining the Company, Mr. Dill was a partner with the law firm of Appleby Hunter Bailhache, which he joined in 1986. Mr. Dill serves on the Board of Directors of Bermuda Commercial Bank.

*Stuart W. Mercer* has been executive vice president of the Company since its formation. Mr. Mercer has over 19 years of experience in the financial industry focusing on structured derivatives, energy finance and reinsurance. Previously, Mr. Mercer was a senior advisor to DTE Energy Trading.

*Julian G. Ross* has been the Chief Risk Officer of the Company since January 2010. Previously, Mr. Ross held a number of senior positions within the Risk and Actuarial functions of Talbot Underwriting Ltd. ( Talbot ) one of the primary operating subsidiaries of the Company. Most recently, Mr. Ross was Talbot s Chief Risk Officer following twelve years as Talbot s Chief Actuary, from 1997 to 2009. Mr. Ross is a Fellow of the Institute of Actuaries and has over 20 years of actuarial and risk management experience.

*Conan M. Ward* has been executive vice president and chief executive officer of Validus Reinsurance since July of 2009. Mr. Ward has over 17 years of insurance industry experience. Mr. Ward was executive vice president of the Global Reinsurance division of Axis Capital Holdings, Ltd. from November 2001 until November 2005, where he oversaw the division s worldwide property catastrophe, property per risk, property pro rata portfolios. He is one of the founders of Axis Specialty, Ltd and was a member of the Operating Board and Senior Management Committee of Axis Capital. From July 2000 to November 2001, Mr. Ward was a senior vice president at Guy Carpenter & Co.

**PART II**

*All amounts presented in this part are in U.S. dollars except as otherwise noted.*

**Item 5. Market for Registrants, Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

The Company s common shares, \$0.175 par value per share, are listed on the New York Stock Exchange under the symbol VR.

The following tables sets forth the high and low sales prices per share, as reported on the New York Stock Exchange Composite Tape, of the Company s common shares per fiscal quarter for the two most recent fiscal years.

	<b>High</b>	<b>Low</b>
<b>2009:</b>		
1st Quarter	\$ 26.30	\$ 21.25
2nd Quarter	\$ 24.55	\$ 20.93
3rd Quarter	\$ 25.94	\$ 21.17
4th Quarter	\$ 27.24	\$ 24.81
	<b>High</b>	<b>Low</b>
<b>2008:</b>		
1st Quarter	\$ 26.22	\$ 23.00
2nd Quarter	\$ 23.72	\$ 20.11

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3rd Quarter	\$ 24.70	\$ 20.00
4th Quarter	\$ 26.16	\$ 14.84

There were approximately 170 record holders of our common shares as of December 31, 2009. This figure does not represent the actual number of beneficial owners of our common shares because such shares are frequently held in street name by securities dealers and others for the benefit of individual owners who may vote the shares.

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**Performance Graph**

Set forth below is a line graph comparing the percentage change in the cumulative total shareholder return, assuming the reinvestment of dividends, over the period from the Company's IPO on July 25, 2007, through December 31, 2009 as compared to the cumulative total return of the S & P 500 Stock Index and the cumulative total return of an index of the Company's peer group. The peer group index is comprised of the following companies: ACE Limited, Arch Capital Group Limited, Aspen Insurance Holdings Limited, Allied World Assurance Company Holdings, Ltd., Axis Capital Holdings Limited, Endurance Specialty Holdings Limited, Everest Re Group Limited, Flagstone Reinsurance Holdings Group Limited, Greenlight Capital Re Ltd., Maiden Holdings, Ltd., Max Capital Group Ltd., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., RenaissanceRe Holdings Ltd., Transatlantic Holdings Inc., and XL Capital Ltd.

**Dividend Policy**

On February 17, 2010, the Company announced that its Board of Directors had increased the Company's annual dividend by 10% from \$0.80 to \$0.88 per common share and common share equivalent for which each outstanding warrant is exercisable. On February 17, 2010, the Company announced a quarterly cash dividend of \$0.22 per each common share and \$0.22 per common share equivalent for which each outstanding warrant is then exercisable, payable on March 31, 2010 to holders of record on March 15, 2010. During 2009, the Company paid quarterly cash dividends of \$0.20 per each common share and \$0.20 per common share equivalent, for which each outstanding warrant is then exercisable, on March 31, June 30, September 30 and December 31 to holders of record on March 16, June 15, August 20 and December 15, 2009, respectively. The timing and amount of any future cash dividends, however, will be at the discretion of our Board of Directors and will depend upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that our Board of Directors deems relevant.

We are a holding company and have no direct operations. Our ability to pay dividends depends, in part, on the ability of Validus Re and Talbot to pay dividends to us. Each of the subsidiaries is subject to significant regulatory



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restrictions limiting its ability to declare and pay dividends. The Insurance Act provides that these subsidiaries may not declare or pay in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its statutory balance sheet in relation to the previous financial year) unless it files an affidavit with the BMA at least seven days prior to the payment signed by at least two directors and such subsidiary's principal representative, stating that in their opinion such subsidiaries will continue to satisfy the required margins following declaration of those dividends, though there is no additional requirement for BMA approval. In addition, before reducing its total statutory capital by 15% or more (as set out in its previous years' statutory financial statements) each of these subsidiaries must make application to the BMA for permission to do so, such application to consist of an affidavit signed by at least two directors and such subsidiary's principal representative stating that in their opinion the proposed reduction in capital will not cause such subsidiary to fail to meet its relevant margins, and such other information as the BMA may require. At December 31, 2009, the excesses of statutory capital and surplus above minimum solvency margins for Validus Re and Talbot Insurance (Bermuda), Ltd., a Talbot subsidiary, were \$3,241.2 million and \$328.0 million, respectively. These amounts are available for distribution as dividend payments to the Company, subject to approval of the BMA. The BMA's approval is required for distributions greater than 25% of total statutory capital and surplus.

Talbot manages Syndicate 1183 (the "Syndicate") at Lloyd's. Lloyd's requires Talbot to hold cash and investments in trust for the benefit of policyholders either as Syndicate trust funds or as Funds at Lloyd's ("FAL"). Talbot may not distribute funds from the Syndicate into its corporate member's trust accounts unless, firstly, they are represented by audited profits and, secondly, the Syndicate has adequate future cash flow to service its policyholders. Talbot's corporate member may not distribute funds to Talbot's unregulated bank or investment accounts unless they are represented by a surplus of cash and investments over the FAL requirement. Additionally, U.K. company law prohibits Talbot's corporate name from declaring a dividend to the Company unless it has profits available for distribution. The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the U.K. insurance regulatory laws do not impose statutory restrictions on a corporate name's ability to declare a dividend, the U.K. Financial Services Authority's ("FSA") rules require maintenance of each insurance company's solvency margin within its jurisdiction.

In addition, the indenture governing our Junior Subordinated Deferrable Debentures would restrict us from declaring or paying dividends on our common shares if we are downgraded by A.M. Best to a financial strength rating of "B" (Fair) or below or if A.M. Best withdraws its financial strength rating on any of our material insurance subsidiaries. On September 9, 2009, A.M. Best affirmed our financial strength rating of A- (Excellent) with a stable outlook. See "Business Regulation - Bermuda," "Risk Factors - Risks Related to Ownership of Our Common Shares." Because we are a holding company and substantially all of our operations are conducted by our main operating subsidiaries, Validus Re and Talbot, our ability to meet any ongoing cash requirements and to pay dividends will depend on our ability to obtain cash dividends or other cash payments or obtain loans from Validus Re and Talbot, "Risk Factors - Risks Related to Our Company." We depend on ratings by A.M. Best Company. Our financial strength rating could be revised downward, which could affect our standing among brokers and customers, cause our premiums and earnings to decrease and limit our ability to pay dividends on our common shares.

## **Purchases of Equity Securities by the Issuer and Affiliate Purchases**

In November 2009, the Board of Directors of the Company approved a share repurchase program, authorizing the Company to repurchase up to \$400.0 million of its common shares. The Company has repurchased approximately 3.2 million common shares for an aggregate purchase price of \$84.2 million from the inception of the share repurchase program to December 31, 2009.

## **Share Repurchase Program Modification and Extension**

The Company also announced that on February 17, 2010, the Board of Directors authorized the Company to return up to \$750.0 million to shareholders. To this end, the Board of Directors has expanded the Company's share repurchase program authorizing the Company to repurchase up to \$750.0 million of common shares. This amount is in addition to, and in excess of, the \$135.5 million of common shares repurchased by the Company

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through February 17, 2010 under its previously authorized \$400.0 million share repurchase program announced in November 2009. The Company expects the repurchases to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

Effect of Share Repurchases:	Share Repurchase Activity					
	November	December	As at December 31, 2009	January	February(1)	As at February 17, 2010(1)
Aggregate purchase price(1)	\$ 14,720	\$ 69,523	\$ 84,243	\$ 31,425	\$ 19,826	\$ 135,494
Shares repurchased	568,671	2,588,200	3,156,871	1,181,000	760,400	5,098,271
Average price(1)	\$ 25.88	\$ 26.86	\$ 26.69	\$ 26.61	\$ 26.07	\$ 26.58
Estimated net accretive (dilutive) impact on:						
Diluted BV per common share(2)			\$ 0.07			\$ 0.11
Diluted EPS Annual(3)			\$ 0.02			
Diluted EPS Quarter(3)			\$ 0.01			

- (1) Share transactions are on a trade date basis through February 17, 2010 and are inclusive of commissions. Average share price is rounded to two decimal places.
- (2) As the average price per share repurchased during the periods 2009 and 2010 was lower than the book value per common share, the repurchase of shares increased the ending book value per share.
- (3) The estimated impact on diluted earnings per share was calculated by comparing reported results versus i) net income per share plus an estimate of lost net investment income on the cumulative share repurchases divided by ii) weighted average diluted shares outstanding excluding the weighted average impact of cumulative share repurchases. The impact of cumulative share repurchases was accretive to diluted earnings per share.

Share repurchases includes repurchases by the Company of shares, from time to time, from employees in order to facilitate the payment of withholding taxes on restricted shares granted and the exercise of stock appreciation rights. We purchased these shares at their fair market value, as determined by reference to the closing price of our common shares on the day the restricted shares vested or the stock appreciation rights were exercised.

**Item 6. Selected Financial Data**

The summary consolidated statement of operations data for the years ended December 31, 2009, December 31, 2008, December 31, 2007, December 31, 2006 and the period ended December 31, 2005 and the summary consolidated balance sheet data as of December 31, 2009, December 31, 2008, December 31, 2007, December 31, 2006 and December 31, 2005 are derived from our audited consolidated financial statements. The Company was formed on October 19, 2005 and completed the acquisitions of Talbot and IPC on July 2, 2007 and September 4, 2009, respectively. Talbot is included in the Company's consolidated results only for the six months ended December 31, 2007 and subsequent fiscal year ends. Talbot is not included in consolidated results for the year ended December 31,

2006 and the six months ended June 30, 2007. IPC is included in the Company's consolidated results only for the four months ended December 31, 2009. IPC is not included in consolidated results for the years ended December 31, 2006, December 31, 2007, December 31, 2008, and the six months ended June 30, 2009.

You should read the following summary consolidated financial information together with the other information contained in this Annual Report on Form 10-K, including Management's Discussion and Analysis of

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Financial Condition and Results of Operations and the consolidated financial statements and related notes included elsewhere herein.

	Year Ended December 31,				Period Ended
	2009	2008	2007	2006	December 31, 2005
	(Dollars in thousands, except share and per share amounts)				
<b>Revenues</b>					
Gross premiums written	\$ 1,621,241	\$ 1,362,484	\$ 988,637	\$ 540,789	\$
Reinsurance premiums ceded	(232,883)	(124,160)	(70,210)	(63,696)	
Net premiums written	1,388,358	1,238,324	918,427	477,093	
Change in unearned premiums	61,219	18,194	(60,348)	(170,579)	
Net premiums earned	1,449,577	1,256,518	858,079	306,514	
Gain on bargain purchase, net of expenses(1)	287,099				
Net investment income	118,773	139,528	112,324	58,021	2,032
Realized gain on repurchase of debentures	4,444	8,752			
Net realized (losses) gains on investments	(11,543)	(1,591)	1,608	(1,102)	39
Net unrealized gains (losses) on investments(2)	84,796	(79,707)	12,364		
Other income	4,634	5,264	3,301		
Foreign exchange (losses) gains	(674)	(49,397)	6,696	2,157	
<b>Total revenues</b>	<b>1,937,106</b>	<b>1,279,367</b>	<b>994,372</b>	<b>365,590</b>	<b>2,071</b>
<b>Expenses</b>					
Losses and loss expenses	523,757	772,154	283,993	91,323	
Policy acquisition costs	262,966	234,951	134,277	36,072	
General and administrative expenses(3)	185,568	123,948	100,765	38,354	2,367
Share compensation expenses	27,037	27,097	16,189	7,878	290
Finance expenses	44,130	57,318	51,754	8,789	
Fair value of warrants issued			2,893	77	49,122

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<b>Total expenses</b>	1,043,458	1,215,468	589,871	182,493	51,779
<b>Net income (loss)</b>					
<b>before taxes</b>	893,648	63,899	404,501	183,097	(49,708)
Tax benefit (expense)	3,759	(10,788)	(1,505)		
<b>Net income (loss)</b>	897,407	53,111	402,996	183,097	(49,708)
<b>Comprehensive income (loss)</b>					
Unrealized (losses) gains arising during the period(2)				(332)	144
Foreign currency translation adjustments	3,007	(7,809)	(49)		
Adjustment for reclassification of gains (losses) realized in income				1,102	(39)
<b>Comprehensive income (loss)</b>	\$ 900,414	\$ 45,302	\$ 402,947	\$ 183,867	\$ (49,603)
<b>Earnings per share(4)</b>					
Weighted average number of common shares and common share equivalents outstanding					
Basic	93,697,194	74,677,903	65,068,093	58,477,130	58,423,174
Diluted	97,168,409	75,819,413	67,786,673	58,874,567	58,423,174
Basic earnings per share	\$ 9.51	\$ 0.62	\$ 6.19	\$ 3.13	\$ (0.85)
Diluted earnings per share	\$ 9.24	\$ 0.61	\$ 5.95	\$ 3.11	\$ (0.85)
Cash dividends declared per share	\$ 0.80	\$ 0.80	\$	\$	\$
<b>Selected financial ratios</b>					
Losses and loss expenses(5)	36.1%	61.5%	33.1%	29.8%	0.0%
Policy acquisition cost(6)	18.1%	18.7%	15.6%	11.8%	0.0%
General and administrative expense(7)	14.7%	12.0%	13.3%	15.1%	0.0%
Expense ratio(8)	32.8%	30.7%	28.9%	26.9%	0.0%

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Combined ratio(9)	68.9%	92.2%	62.0%	56.7%	0.0%
Return on average equity(10)	31.8%	2.7%	26.9%	17.0%	NM

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The following table sets forth summarized balance sheet data as of December 31, 2009, 2008, 2007, 2006 and 2005:

	As at December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands, except share and per share amounts)				
<b>Summary Balance Sheet Data:</b>					
Investments at fair value	\$ 5,388,759	\$ 2,831,537	\$ 2,662,021	\$ 1,376,387	\$ 610,800
Cash and cash equivalents	387,585	449,848	444,698	63,643	398,488
Total assets	7,019,140	4,322,480	4,144,224	1,646,423	1,014,453
Reserve for losses and loss expenses	1,622,134	1,305,303	926,117	77,363	
Unearned premiums	724,104	539,450	557,344	178,824	
Junior Subordinated Deferrable Debentures	289,800	304,300	350,000	150,000	
Total shareholders equity	4,031,120	1,938,734	1,934,800	1,192,523	999,806
Book value per common share(11)	31.38	25.64	26.08	20.39	17.11
Diluted book value per common share(12)	29.68	23.78	24.00	19.73	16.93

NM Not meaningful

- (1) The gain on bargain purchase, net of expenses, arises from the acquisition of IPC Holdings, Ltd. on September 4, 2009 and is net of transaction related expenses.
- (2) During the first quarter of 2007, the Company adopted authoritative guidance on Fair Value Measurements and Disclosures and Financial Instruments and elected the fair value option on all securities previously accounted for as available-for-sale. Unrealized gains and losses on available-for-sale investments at December 31, 2006 of \$875,000, previously included in accumulated other comprehensive income, were treated as a cumulative-effect adjustment as of January 1, 2007. The cumulative-effect adjustment transferred the balance of unrealized gains and losses from accumulated other comprehensive income to retained earnings and has no impact on the results of operations for the annual or interim periods beginning January 1, 2007. The Company's investments were accounted for as trading for the annual or interim periods beginning January 1, 2007 and as such all unrealized gains and losses are included in net income.
- (3) General and administrative expenses for the years ended December 31, 2007 and 2006 include \$4,000,000 and \$1,000,000 respectively, related to our Advisory Agreement with Aquiline. Our Advisory Agreement with Aquiline terminated upon completion of our IPO, in connection with which the Company recorded general and administrative expense of \$3,000,000 in the third quarter of the year ended December 31, 2007.
- (4) U.S. GAAP fair value recognition provisions for *Stock Compensation* require that any unrecognized stock-based compensation expense that will be recorded in future periods be included as proceeds for purposes of treasury stock repurchases, which is applied against the unvested restricted shares balance. On March 1, 2007, we effected a 1.75 for one reverse stock split of our outstanding common shares. The stock split does not affect our financial statements other than to the extent it decreases the number of outstanding shares and correspondingly



increases per share information for all periods presented. The share consolidation has been reflected retroactively in these financial statements.

- (5) The loss and loss expense ratio is calculated by dividing losses and loss expenses by net premiums earned.
- (6) The policy acquisition cost ratio is calculated by dividing policy acquisition costs by net premiums earned.
- (7) The general and administrative expense ratio is calculated by dividing the sum of general and administrative expenses and share compensation expenses by net premiums earned. The general and administrative expense ratio for the year ended December 31, 2007 is calculated by dividing the total of general and administrative expenses plus share compensation expenses less the \$3,000,000 Aquiline termination fee by net premiums earned.

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- (8) The expense ratio is calculated by combining the policy acquisition cost ratio and the general and administrative expense ratio.
- (9) The combined ratio is calculated by combining the loss ratio, the policy acquisition cost ratio and the general and administrative expense ratio.
- (10) Return on average equity is calculated by dividing the net income for the period by the average shareholders equity during the period. Quarterly average shareholders equity is the annualized average of the beginning and ending shareholders equity balances. Annual average shareholders equity is the average of the beginning, ending and intervening quarter end shareholders equity balances.
- (11) Book value per common share is defined as total shareholders equity divided by the number of common shares outstanding as at the end of the period, giving no effect to dilutive securities.
- (12) Diluted book value per common share is calculated based on total shareholders equity plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares, options and warrants outstanding (assuming their exercise).
- (13) Non-GAAP financial measures disclosed above are as described under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Measures.

**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following is a discussion and analysis of the Company's consolidated results of operations for the three months ended December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 and the Company's consolidated financial condition, liquidity and capital resources at December 31, 2009 and 2008. The Company was formed on October 19, 2005 and completed the acquisitions of Talbot and IPC on July 2, 2007 and September 4, 2009, respectively. Talbot is included in the Company's consolidated results only for the six months ended December 31, 2007 and subsequent fiscal year ends. Talbot is not included in consolidated results for the year ended December 31, 2006 and the six months ended June 30, 2007. IPC is included in the Company's consolidated results only for the four months ended December 31, 2009. IPC is not included in consolidated results for the years ended December 31, 2006, December 31, 2007, December 31, 2008, and the six months ended June 30, 2009. This discussion and analysis pertains to the results of the Company inclusive of Talbot and IPC from the dates of acquisition. This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto included elsewhere within this filing.

For a variety of reasons, the Company's historical financial results may not accurately indicate future performance. See Cautionary Note Regarding Forward-Looking Statements. The Risk Factors set forth in Item 1A above present a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

**Executive Overview**

The Company underwrites from two distinct global operating subsidiaries, Validus Re and Talbot. Validus Re, the Company's principal reinsurance operating subsidiary, operates as a Bermuda-based provider of short-tail reinsurance products on a global basis and incorporates historical IPC business. Talbot, the Company's principal insurance operating subsidiary, operates through its two underwriting platforms: Talbot Underwriting Ltd, which manages Syndicate 1183 at Lloyd's of London (Lloyd's) which writes short-tail insurance products on a worldwide basis, and

Underwriting Risk Services Ltd, which is an underwriting agency writing primarily yachts and onshore energy business on behalf of the Talbot syndicate and others.

The Company's strategy is to concentrate primarily on short-tail risks, which is an area where management believes current prices and terms provide an attractive risk adjusted return and the management team has proven expertise. The Company's profitability in any given period is based upon premium and investment revenues less net losses and loss expenses, acquisition expenses and operating expenses. Financial results in the insurance and reinsurance industry are influenced by the frequency and/or severity of claims and losses, including as a result of catastrophic events, changes in interest rates, financial markets and general economic conditions, the supply of insurance and reinsurance capacity and changes in legal, regulatory and judicial environments.

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On September 4, 2009, the Company acquired all of the outstanding shares of IPC (the "IPC Acquisition"). Pursuant to an Amalgamation Agreement dated July 9, 2009 among IPC, Validus Holdings, Ltd and Validus, Ltd. (the

Amalgamation Agreement), the Company acquired all of IPC's outstanding common shares in exchange for the Company's common shares and cash. IPC's operations focused on short-tail lines of reinsurance. The primary lines in which IPC conducted business were property catastrophe reinsurance and, to a limited extent, property-per-risk excess, aviation (including satellite) and other short-tail reinsurance on a worldwide basis. The acquisition of IPC was undertaken to increase the Company's capital base and gain a strategic advantage in the then current reinsurance market, where capital and capacity had been depleted. This acquisition allowed the Company to become a leading Bermuda carrier in the short-tail reinsurance and insurance market that facilitates stronger relationships with major reinsurance intermediaries. For segmental reporting purposes, the results of IPC's operations since the acquisition date have been included within the Validus Re segment in the consolidated financial statements.

Written premiums are a function of the number and type of contracts written, as well as prevailing market prices. Renewal dates for reinsurance business tend to be concentrated at the beginning of quarters, and the timing of premiums written varies by line of business. Most property catastrophe business is written in the January 1, April 1, June 1 and July 1 inception and renewal periods, while most insurance and specialty lines are written throughout the year. Written premiums are generally highest in the first quarter and lowest during the fourth quarter of the year. Gross premiums written for pro rata programs are initially recorded as estimates and are adjusted as actual results are reported by the cedant during the period. Pro rata reinsurance is a type of reinsurance whereby the reinsurer indemnifies the policyholder against a predetermined portion of losses. Earned premiums do not necessarily follow the written premium pattern as premiums written are primarily earned ratably over the contract term, which is ordinarily one year. Although, many pro rata contracts are written on a risks attaching basis, which means that the contracts cover claims that arise on underlying insurance policies that incept during the term of the reinsurance contract, and are generally earned over a 24 month period, which is the risk period of the underlying (twelve month) policies. Premiums are generally due in monthly or quarterly installments.

The following are the primary lines in which the Company conducts business:

*Property:* Validus Re underwrites property catastrophe reinsurance, property per risk reinsurance and property pro rata reinsurance. Property catastrophe includes reinsurance for insurance companies' exposures to an accumulation of property and related losses from separate policies, typically relating to natural disasters or other catastrophic events. Property per risk provides reinsurance for insurance companies' excess retention on individual property and related risks, such as highly-valued buildings. In property pro rata contracts the reinsurer shares the premiums as well as the losses and expenses in an agreed proportion with the cedant. Talbot primarily writes direct and facultative property insurance, lineslips and binding authorities and property treaty. The business written is principally commercial and industrial insurance. The business is short-tail with premiums generally earned within one year and claims generally paid within two years.

*Marine:* The Company underwrites insurance and reinsurance on marine risks covering damage to or losses of marine vessels or cargo, yachts and marinas, third-party liability for marine accidents and physical loss and liability from principally offshore energy properties. Talbot primarily underwrites marine insurance on a direct and facultative basis. Validus Re underwrites marine reinsurance on an excess of loss basis, and to a lesser extent, on a pro rata basis.

*Specialty:* The Company underwrites other specialty lines with very limited exposure correlation with its property, marine and energy portfolios. Validus Re underwrites other lines of business depending on an evaluation of pricing and market conditions, which include aerospace, terrorism, life and accident & health and workers' compensation catastrophe. With the exception of the aerospace line of business, which has a meaningful portion of its gross premiums written volume on a proportional basis, Validus Re's other specialty lines are primarily written on an excess of loss basis. Talbot underwrites war, political risks, political violence, financial institutions, contingency, bloodstock

and livestock, accident and health, and aviation. Most of the Talbot specialty business is written on a direct or facultative basis or through a binding authority or coverholder.

Income from the Company's investment portfolio is primarily comprised of interest income on fixed maturity investments net of investment expenses and net realized/unrealized gains/losses on investments. A significant

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portion of the Company's contracts provide short-tail coverage for damages resulting mainly from natural and man-made catastrophes, which means that the Company could become liable for a significant amount of losses on short notice. Accordingly, the Company has structured its investment portfolio to preserve capital and maintain a high level of liquidity, which means that the large majority of the Company's investment portfolio consists of short-term fixed maturity investments. The Company's fixed income investments are classified as trading. Under U.S. GAAP, these securities are carried at fair value, and unrealized gains and losses are included in net income in the Company's consolidated statements of operations and comprehensive income.

The Company's expenses consist primarily of losses and loss expenses, acquisition costs, general and administrative expenses, and finance expenses related to debentures, senior notes and our credit facilities. Organizational expenses and expenses associated with the issuance of warrants were also incurred in the first quarter of 2006 as well as in the period ended December 31, 2005. New warrants were issued in the third quarter of 2007 due to an anti-dilution provision of the warrants arising from the issuance of securities related to the Talbot acquisition. Expenses related to the issuance of warrants are included in the line item "Fair value of warrants issued" in the Company's consolidated statements of operations and comprehensive income.

Losses and loss expenses are a function of the amount and type of insurance and reinsurance contracts written and of the loss experience of the underlying risks. Reserves for losses and loss expense include a component for outstanding case reserves for claims which have been reported and a component for losses incurred but not reported. The uncertainties inherent in the reserving process, together with the potential for unforeseen developments, may result in losses and loss expenses materially different than the reserve initially established. Changes to prior year loss reserves will affect current underwriting results by increasing net income if a portion of the prior year reserves prove to be redundant or decreasing net income if the prior year reserves prove to be insufficient. Adjustments resulting from new information will be reflected in income in the period in which they become known. The Company's ability to estimate losses and loss expenses accurately, and the resulting impact on contract pricing, is a critical factor in determining profitability.

Since most of the lines of business underwritten have large aggregate exposures to natural and man-made catastrophes, the Company expects that claims experience will often be the result of irregular and significant events. The occurrence of claims from catastrophic events is likely to result in substantial volatility in, and could potentially have a material adverse effect on, the Company's financial condition, results of operations, and ability to write new business. The acquisition of Talbot helps to mitigate these risks by providing us with significant benefits in terms of product line and geographic diversification.

Acquisition costs consist principally of brokerage expenses and commissions which are driven by contract terms on reinsurance contracts written, and are normally a specific percentage of premiums. Under certain contracts, cedants may also receive profit commissions which will vary depending on the loss experience on the contract. Acquisition costs are presented net of commissions or fees received on any ceded premium.

General and administrative expenses are generally comprised of fixed expenses which do not vary with the amount of premiums written or losses incurred. Applicable expenses include salaries and benefits, professional fees, office expenses, risk management, and stock compensation expenses. Stock compensation expenses include costs related to the Company's long-term incentive plan, under which restricted stock and stock options are granted to certain employees.

## **Business Outlook and Trends**

We underwrite global specialty property insurance and reinsurance and have large aggregate exposures to natural and man-made disasters. The occurrence of claims from catastrophic events results in substantial volatility, and can have

material adverse effects on the Company's financial condition and results and ability to write new business. This volatility affects results for the period in which the loss occurs because U.S. accounting principles do not permit reinsurers to reserve for such catastrophic events until they occur. Catastrophic events of significant magnitude historically have been relatively infrequent, although management believes the property catastrophe reinsurance market has experienced a higher level of worldwide catastrophic losses in terms of both frequency and severity in the period from 1992 to the present. We also expect that increases in the values and concentrations of

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insured property will increase the severity of such occurrences in the future. The Company seeks to reflect these trends when pricing contracts.

Property and other reinsurance premiums have historically risen in the aftermath of significant catastrophic losses. As loss reserves are established, industry surplus is depleted and the industry's capacity to write new business diminishes. At the same time, management believes that there is a heightened awareness of exposure to natural catastrophes on the part of cedants, rating agencies and catastrophe modeling firms, resulting in an increase in the demand for reinsurance protection.

The global property and casualty insurance and reinsurance industry has historically been highly cyclical. The Company was formed in October 2005 in response to the supply/demand imbalance resulting from the large industry losses in 2004 and 2005. In the aggregate, the Company observed substantial increases in premium rates in 2006 compared to 2005 levels. During the years ended December 31, 2007 and 2008, the Company had experienced increased competition in most lines of business. Capital provided by new entrants or by the commitment of additional capital by existing insurers and reinsurers had increased the supply of insurance and reinsurance which resulted in a softening of rates in most lines. However, during 2008, the insurance and reinsurance industry incurred material losses and capital declines due to Hurricanes Ike and Gustav and the global financial crisis.

In the wake of these events, the January 2009 renewal season saw decreased competition and increased premium rates due to relatively scarce capital and increased demand. During 2009, the Company observed reinsurance demand stabilization and modest increases in credit market liquidity. The July 2009 renewal season continued to show notable rate increases as compared to the July 2008 renewal season. For the year ended December 31, 2009, there have been few notable large losses affecting the worldwide (re)insurance industry and no major hurricanes making landfall in the United States. For the year ended December 31, 2009, Validus Re gross premiums written grew by 11.7%, from the year ended December 31, 2008. These increases were largely due to rate increases coupled with modest exposure growth and the addition of new underwriting teams. The acquisition of IPC contributed \$125.2 million of net premiums earned to the Validus Re segment from the date of acquisition to December 31, 2009. Validus Re gross premiums written for the January 2010 renewal period were \$574.3 million, an increase of 56.6% from the prior year period. The January 2010 renewal period saw business being withdrawn from the market, notably catastrophe excess of loss, resulting in the Company writing less business in these lines and reducing the Company's aggregate loss exposure. The Company also wrote more proportional business as compared to the prior year.

**Financial Measures**

The Company believes the following financial indicators are important in evaluating performance and measuring the overall growth in value generated for shareholders:

*Annualized return on average equity* represents the level of net income available to shareholders generated from the average shareholders' equity during the period. Annualized return on average equity is calculated by dividing the net income for the period by the average shareholders' equity during the period. Average shareholders' equity is the average of the beginning, ending and intervening quarter end shareholders' equity balances. The Company's objective is to generate superior returns on capital that appropriately reward shareholders for the risks assumed and to grow revenue only when returns meet or exceed internal requirements. Details of annualized return on average equity are provided below.

<b>Three Months Ended</b>			<b>Year Ended December 31,</b>		
<b>December 31,</b>					
<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>



Annualized return on average equity	16.6%	7.7%	29.9%	31.8%	2.7%	26.9%
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The increases in annualized return on average equity were driven primarily by an increase in net income for the three months ended and year ended December 31, 2009. Net income for the three months ended December 31, 2009 increased by \$128.7 million, or 347.8% compared to the three months ended December 31, 2008 as the fourth quarter of 2008 was adversely affected by developments on losses on Hurricane Ike. Net income for the year ended December 31, 2009 increased by \$844.3 million compared to the year ended December 31, 2008 due primarily to the gain on bargain purchase of IPC and the large event losses incurred for the year ended December 31, 2008.

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*Diluted book value per common share* is considered by management to be an appropriate measure of our returns to common shareholders, as we believe growth in our book value on a diluted basis ultimately translates into growth of our stock price. Diluted book value per common share increased by \$5.90, or 24.8%, from \$23.78 at December 31, 2008 to \$29.68 at December 31, 2009. The increase was substantially due to earnings generated in the year ended December 31, 2009, partially offset by dividend payments totaling \$0.80 per share and per share equivalent in the period. Diluted book value per common share is a Non-GAAP financial measure. The most comparable U.S. GAAP financial measure is book value per common share. Diluted book value per common share is calculated based on total shareholders' equity plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares, options and warrants outstanding (assuming their exercise). A reconciliation of diluted book value per common share to book value per common share is presented below in the section entitled *Non-GAAP Financial Measures*.

*Cash dividends per common share* are an integral part of the value created for shareholders. The Company declared quarterly cash dividends of \$0.20 per common share and common share equivalent in each of the four quarters of 2009. On February 17, 2010, The Company announced that its Board of Directors had increased the Company's annual dividend by 10% from \$0.80 to \$0.88 per common share and common share equivalent for which each outstanding warrant is exercisable. On February 17, 2010, the Company announced a quarterly cash dividend of \$0.22 per each common share and \$0.22 per common share equivalent for which each outstanding warrant is then exercisable, payable on March 31, 2010 to holders of record on March 15, 2010.

*Underwriting income* measures the performance of the Company's core underwriting function, excluding revenues and expenses such as net investment income (loss), other income, finance expenses, net realized and unrealized gains (losses) on investments, foreign exchange gains (losses) and gain on bargain purchase, net of expenses. The Company believes the reporting of underwriting income enhances the understanding of our results by highlighting the underlying profitability of the Company's core insurance and reinsurance operations. Underwriting income for the three months ended December 31, 2009 and 2008 was \$153.6 million and \$33.0 million, respectively. Underwriting income for the year ended December 31, 2009 and 2008 was \$450.2 million and \$98.4 million, respectively. Underwriting income is a Non-GAAP financial measure as described in detail and reconciled in the section below entitled *Underwriting Income*.

**Critical Accounting Policies and Estimates**

The Company's consolidated financial statements have been prepared in accordance with U.S. GAAP. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect reported and disclosed amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities as at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management believes the following accounting policies are critical to the Company's financial reporting as the application of these policies requires management to make significant judgments. Management believes the items that require the most subjective and complex estimates are (1) reserve for losses and loss expenses, (2) premiums, (3) reinsurance premiums ceded and reinsurance recoverable, and (4) investment valuation.

*Reserve for Losses and Loss Expenses.* For insurance and reinsurance companies, a significant judgment made by management is the estimation of the reserve for losses and loss expenses. The Company establishes its reserve for losses and loss expenses to cover the estimated remaining liability incurred for both reported claims ( *case reserves* ) and unreported amounts ( *incurred but not reported* or *IBNR reserves* ). For insurance and reinsurance business, the IBNR reserves include provision for loss incidents that have occurred but have not yet been reported to the Company as well as for future variation in case reserves (where the claim has been reported but the ultimate value is not yet known). Within the reinsurance business, the portion of total IBNR related to future variation on known claims is calculated at the individual claim level in some instances (an additional case reserve or individual claim IBNR).

Within the insurance business, the provision for future variation in current case reserves is generally calculated using actuarial estimates of total IBNR, while individual claim IBNR amounts are sometimes calculated for larger claims.

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Loss reserve estimates for insurance and reinsurance business are not precise in that they deal with the inherent uncertainty in the outcome of insurance and reinsurance claims made on the Company, many of which have not yet been reported to the Company. Estimating loss reserves requires management to make assumptions, both explicit and implicit, regarding future paid and reported loss development patterns, frequency and severity trends, claims settlement practices, potential changes in the legal environment and other factors. These estimates and judgments are based on numerous factors, and may be revised over time as additional experience or other data becomes available, as new or improved methodologies are developed or as current laws change.

As predominantly a broker market insurer and reinsurer, the Company must rely on loss information reported to us by brokers from clients, where such information is often incomplete or changing. The quality and type of information received varies by client and by the nature of the business, insurance or reinsurance.

For insurance business, for risks that the Company leads, the Company receives from brokers details of potential claims, on the basis of which the Company's loss adjusters make estimates of the likely ultimate outcome of the claims. In determining these reserves, the Company takes into account a number of factors including the facts and circumstances of the individual claim, the nature of the coverage, and historical information about its experience on similar types of claims. For insurance business where another company is the lead, the case reserves are established by the lead underwriter and validated centrally by the Lloyd's market claims bureau, with a sample reviewed by the Company. The sum of the individual claim estimates for lead and follow business constitutes the case reserves.

For reinsurance business, the Company typically receives from brokers details of paid losses and estimated case reserves recorded by the ceding company. In addition to this, the ceding company's estimated provision for IBNR losses is sometimes also available, although this in itself introduces additional uncertainty owing to the differing and typically unknown reserving practices of ceding companies.

There will also be a time lag between a loss occurring and it being reported, first by the original claimant to its insurer, via the insurance broker, and for reinsurance business, subsequently from the insurer to the reinsurer via the reinsurance broker.

The Company writes a mix of predominantly short-tail business, both insurance and reinsurance. The combination of low claim frequency and high claim severity that is characteristic of much of this short-tail business makes the available data more volatile and less reliable for predicting ultimate losses. For example, in property lines, there can be additional uncertainty in loss estimation related to large catastrophe events, whether natural or man-made. With winds events, such as hurricanes, the damage assessment process may take more than a year. The cost of claims is also subject to volatility due to supply shortages for construction materials and labor. In the case of earthquakes, the damage assessment process may take longer as buildings are discovered to have structural weaknesses not initially detected.

The Company also writes longer tail insurance lines of business, predominantly financial institutions (\$41.7 million of gross premiums written on a claims made basis) and marine and energy liabilities (\$43.5 million of gross premiums substantially written on a losses occurring basis) for the year ended December 31, 2009. These longer tail lines represent 9.3% of Talbot's gross premiums written for the year ended December 31, 2009. For marine and energy liability, the time from the occurrence of a claim to its first report to the Company can be years. For both marine and energy liability and financial institutions, the subsequent time between reporting of a claim and its settlement can be years. In these intervening periods between occurrence, reporting and settlement, additional facts regarding individual claims and trends often will become known and current laws and case law may change, affecting the ultimate value of the claim.

Taken together, these issues add considerable uncertainty to the process of estimating ultimate losses, hence loss reserves, and this uncertainty is increased for reinsurance business compared with insurance business due to the additional parties in the chain of reporting from the original claimant to the reinsurer.

As a result of the uncertainties described above, the Company must estimate IBNR reserves, which consist of a provision for future development on known loss events, as well as a provision for claims which have occurred but which have not yet been reported to us by clients. Because of the degree of reliance that is necessarily placed on brokers and (re)insured companies for claims reporting, the associated time lag, the low frequency/high severity

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nature of much of the business underwritten, the rapidly emerging and changing nature of facts and circumstances surrounding large events and, for reinsurance business, the varying reserving practices among ceding companies as described above, reserve estimates are highly dependent on management's judgment and are subject to uncertainty.

The Company strives to take account of these uncertainties in the judgments and assumptions made when establishing loss reserves, but it is not possible to eliminate the uncertainties. As a result, there is a risk that the Company's actual losses may be higher or lower than the reserves booked.

For the Company's insurance business written by Talbot, where a longer reserving history exists, the Company examines the development of its own historical paid and incurred losses to identify trends, which it then incorporates into the reserving process where it deems appropriate.

For the Company's reinsurance business, especially that written by Validus Re where the Company relies more heavily on information provided by clients in order to assist it in estimating reserves, the Company performs certain processes in order to help assess the completeness and accuracy of such information as follows:

1. In addition to information received from clients on reported claims, the Company also uses information on the patterns of client loss reporting and loss settlements from previous events in order to estimate the Company's ultimate liability related to these events.
2. The Company uses reinsurance industry information in order to perform consistency checks on the data provided by ceding companies and to identify trends in loss reporting and settlement activity. Where it deems appropriate, the Company incorporates such information in establishing reinsurance reserves.
3. For both insurance and reinsurance business, the Company supplements the loss information received from clients with loss estimates developed by market share techniques and third party catastrophe models when such information is available.

Although there is normally a lag in receiving reinsurance data from cedants, the Company currently has no backlog related to the processing of assumed reinsurance information. The Company actively manages its relationships with brokers and clients and considers existing disputes with counterparties to be in the normal course of business.

As described above, the reserve for losses and loss expenses includes both a component for outstanding case reserves for claims which have been reported and a component for IBNR reserves. IBNR reserves are the difference between ultimate losses and reported losses, where reported losses are the sum of paid losses and outstanding case reserves. Ultimate losses are estimated by management using various actuarial methods, including exposure-based and loss-based methods, as well as other qualitative assessments regarding claim trends.

The Company uses a reserving methodology that establishes a point estimate for ultimate losses. The point estimate represents management's best estimate of ultimate losses and loss expenses. The Company does not select a range as part of its loss reserving process. The extent of reliance on management judgment in the reserving process differs depending on the circumstances surrounding the estimations, including the volume and credibility of data, the perceived relevance of historical data to future conditions, the stability or lack of stability in the Company's operational processes for handling losses (including claims practices and systems) and other factors. The Company reviews its reserving assumptions and methodologies on a quarterly basis. Two of the most critical assumptions in establishing reserves are loss emergence patterns and expected (or prior) loss ratios. Loss emergence patterns are critical to the reserving process as they can be one key indicator of the ultimate liability. A pattern of reported loss emergence different from expectations may indicate a change in the loss climate and may thus influence the estimate of future payments that should be reflected in reserves. Expected loss ratios are a primary component in the Company's

calculation of estimated ultimate losses for business at an early stage in its development.

Loss emergence patterns for the business written by Talbot are generally derived from Talbot's own historic loss development triangulations, supplemented in some instances by Lloyd's market data. For the business written by Validus Re, where its own historic loss development triangulations are currently more limited, greater use is made of market data including reinsurance industry data available from organizations such as statistical bureaus and consulting firms, where appropriate. Expected loss ratios are estimated in a variety of ways, largely dependent upon the data available. Wherever it deems appropriate, management incorporates the Company's own loss experience in

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establishing initial expected loss ratios and reserves. This is particularly true for the business written by Talbot where a longer reserving history exists and expected losses and loss ratios consider, among other things, rate increases and changes in terms and conditions that have been observed in the market. For reinsurance business, expected losses and loss ratios are typically developed using vendor and proprietary computer models. The information used in these models is collected by underwriters and actuaries during the initial pricing of the business.

The Company has catastrophe event ultimate loss reserve estimation procedures for the investigation, analysis, and estimation of ultimate losses resulting from large catastrophe events. The determination regarding which events follow these procedures is made by members of senior management from relevant departments within the Company. The procedures are designed to facilitate the communication of information between various relevant functions and provide an efficient approach to determining the estimated loss for the event.

In developing estimates for large catastrophe events, the Company considers various sources of information including; specific loss estimates reported by our cedants and policyholders, ceding company and overall industry loss estimates reported by our brokers and by claims reporting services, proprietary and third party vendor models and internal data regarding insured or reinsured exposures related to the geographical location of the event. Use of these various sources enables management to estimate the ultimate loss for known events with a higher degree of accuracy and timeliness than if the Company relied solely on one data source. Generally, catastrophe event ultimate loss estimates are established without regard to whether we may subsequently contest any claim resulting from the event. Indicated ultimate loss estimates for catastrophe events are compiled by a committee of management, and these indicated ultimate losses are incorporated into the process of selecting management's best estimate of reserves.

As with large catastrophe events, the Company separately estimates ultimate losses for certain large claims using a number of methods, including estimation based on vendor models, analyses of specific industry occurrences and facts, as well as information from cedants and policyholders on individual contract involvements.

Management's loss estimates are subject to annual corroborative review by independent actuaries using generally accepted actuarial techniques and other analytical and qualitative methods.

The Company's three lines of business, property, marine and specialty, are exposed to event-related risks that are generally reported and paid within three years of the event except for financial institutions and energy and marine liability. The Company estimates that 83.2% of its current reserves will be paid within three years. The Company writes longer tail business in its financial institutions and energy and marine liabilities lines. Factors contributing to uncertainty in reserving for these lines include longer duration of loss development patterns, difficulty applying older loss experience to newer years, and the possibility of future litigation. The Company considers these factors when reserving for longer tail lines.

As described above, for all lines of business, the Company's reserve for losses and loss adjustment expenses and loss reserves recoverable consist of three categories: (1) case reserves, (2) in certain circumstances, ACR, and (3) IBNR reserves. For both Talbot and Validus Re, IBNR is established separately for large or catastrophe losses and smaller attritional losses. The reserves and recoverables for attritional and large or catastrophe losses are established on an annual and interim basis as follows:

1. Case reserves: Case reserves generally are analyzed and established by each segment's claims department on all lines, making use of third party input where appropriate (including, for the reinsurance business, reports of losses from the ceding companies). For insurance business where Talbot is not the Lead underwriter on the business, the case reserves are established by the lead underwriter and validated by central Lloyd's market claims bureau, with a sample reviewed by Talbot.



2. ACR reserves: ACRs are established for Validus Re business by our claims department in cases where we believe the case reserves reported by the cedant require adjustment. ACRs supplement case reserves based on information obtained through ceding company audits or other sources. ACRs are not generally used at Talbot as claim volumes are generally greater and thus the potential for future variation in case reserve estimates on known claims often can be analyzed at an aggregate level using historical data.

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## 3. IBNR reserves:

a. Large or catastrophe events IBNR reserves are established for all lines based on each segment's estimates for known loss events for which not all claims have been reported to the Company. In establishing such IBNR reserves, the Company accumulates loss information from modeling agencies, where possible, publicly available sources, and information contained in client reports and estimates. The loss information is applied to the Company's book of in-force contracts to establish an estimate of the Company's ultimate exposure to the loss event. For some large loss events, the Company estimates an ultimate loss expectation for the individual event. Paid losses, case reserves and any additional case reserves are deducted from the ultimate loss to ascertain the IBNR estimate for individual large claims or catastrophe events. The size of event for which the Company establishes a separate ultimate loss estimate may vary based on an assessment of the materiality of the event, as well as on other factors.

b. Attritional losses IBNR reserves are established using some combination of the actuarial methods described above, including the Chain Ladder method, the Generalized Cape Cod method and the Bornhuetter-Ferguson method. In situations where limited historic development data is available and/or the year being analyzed is more recent (less mature), the expected loss method and the Bornhuetter-Ferguson method are more commonly used. Under all methods used at both Validus Re and Talbot, an ultimate loss amount is established.

Paid losses, case reserves and any additional case reserves are then deducted from the ultimate loss to ascertain the attritional IBNR reserves.

For all sources of IBNR, net reserves are estimated by first estimating gross IBNR reserves, then estimating reinsurance recoverables on IBNR.

The Company's reserving methodology was not changed materially in the year ended December 31, 2009 from the methodology used in the year ended December 31, 2008 for either Validus Re or Talbot. Management's best estimate of the gross reserve for losses and loss expenses and loss reserves recoverable at December 31, 2009 were \$1,622.1 million and \$181.8 million, respectively. The following table sets forth a breakdown between gross case reserves and gross IBNR by business segment at December 31, 2009.

(Dollars in thousands)	As at December 31, 2009		
	Gross Case Reserves	Gross IBNR	Total Gross Reserve for Losses and Loss Expenses
Validus Re	\$ 397,133	\$ 345,377	\$ 742,510
Talbot	440,881	463,105	903,986
Eliminations	(6,689)	(17,673)	(24,362)
<b>Total</b>	<b>\$ 831,325</b>	<b>\$ 790,809</b>	<b>\$ 1,622,134</b>

Management's best estimate of the gross reserve for losses and loss expenses and loss reserves recoverable at December 31, 2008 were \$1,305.3 million and \$208.8 million, respectively. The following table sets forth a breakdown between gross case reserves and gross IBNR by business segment at December 31, 2008.

(Dollars in thousands)	As at December 31, 2008		
	Gross Case Reserves	Gross IBNR	Total Gross Reserve for Losses and Loss Expenses
Validus Re	\$ 294,215	\$ 241,673	\$ 535,888
Talbot	424,119	366,080	790,199
Eliminations	(10,617)	(10,167)	(20,784)
<b>Total</b>	<b>\$ 707,717</b>	<b>\$ 597,586</b>	<b>\$ 1,305,303</b>

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To the extent insurance and reinsurance industry data is relied upon to aid in establishing reserve estimates, there is a risk that the data may not match the Company's risk profile or that the industry's reserving practices overall differ from those of the Company and its clients. In addition, reserving can prove especially difficult should a significant loss event take place near the end of an accounting period, particularly if it involves a catastrophic event. These factors further contribute to the degree of uncertainty in the reserving process.

The uncertainties inherent in the reserving process, together with the potential for unforeseen developments, including changes in laws and the prevailing interpretation of policy terms, may result in losses and loss expenses materially different from the reserves initially established. Changes to prior year reserves will affect current period underwriting income by increasing income if the prior year ultimate losses are reduced or decreasing income if the prior year ultimate losses are increased. The Company expects volatility in results in periods when significant loss events occur because U.S. GAAP does not permit insurers or reinsurers to reserve for loss events until they have both occurred and are expected to give rise to a claim. As a result, the Company is not allowed to record contingency reserves to account for expected future losses. The Company anticipates that claims arising from future events will require the establishment of substantial reserves in future periods.

Given the risks and uncertainties associated with the process for estimating reserves for losses and loss expenses, management has performed an evaluation of the potential variability in loss reserves and the impact this variability may have on reported results, financial condition and liquidity. Management's best estimate of the net reserve for losses and loss expenses at December 31, 2009 is \$1,440.4 million. The following tables show the effect on estimated net reserves for losses and loss expenses as of December 31, 2009 of a change in two of the most critical assumptions in establishing reserves: (1) loss emergence patterns, accelerated or decelerated by three and six months; and (2) expected loss ratios varied by plus or minus five and ten percent. Management believes that a reasonably likely scenario is represented by such a standard, as used by some professional actuaries as part of their review of an insurer's or reinsurer's reserves. Utilizing this standard as a guide, management has selected these variances to determine reasonably likely scenarios of variability in the loss emergence and loss ratio assumptions. These scenarios consider normal levels of catastrophe events. Loss reserves may vary beyond these scenarios in periods of heightened or reduced claim activity. The reserves resulting from the changes in the assumptions are not additive and should be considered separately. The following tables vary the assumptions employed therein independently. In addition, the tables below do not adjust any other parameters than the ones described above. Specifically, reinsurance collectability was not explicitly stressed as part of the calculations below.

**Net reserve for losses and loss expenses at December 31, 2009    Sensitivity to  
loss emergence patterns**

<b>Change in Assumption</b>	<b>Reserve for Losses and Loss Expenses (Dollars in thousands)</b>
Six month acceleration	\$ 1,227,477
Three month acceleration	1,324,131
No change (selected)	1,440,369
Three month deceleration	1,574,291
Six month deceleration	1,771,927

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expected loss expenses**

<b>Change in Assumption</b>	<b>Reserve for Losses and Loss Expenses (Dollars in thousands)</b>
10% favorable	\$ 1,378,922
5% favorable	1,409,642
No change (selected)	1,440,369
5% unfavorable	1,471,233
10% unfavorable	1,502,098

The most significant variance in the above scenarios, six month deceleration in loss emergence patterns, would have the effect of increasing losses and loss expenses by \$331.6 million.

Management believes that the reserve for losses and loss expenses is sufficient to cover expected claims incurred before the evaluation date on the basis of the methodologies and judgments used to support its estimates. However, there can be no assurance that actual payments will not vary significantly from total reserves. The reserve for losses and loss expenses and the methodology of estimating such reserve are regularly reviewed and updated as new information becomes known. Any resulting adjustments are reflected in income in the period in which they become known.

*Premiums.* For insurance business, written premium estimates are determined from the business plan estimates of premiums by class, the aggregate of underwriters' estimates on a policy-by-policy basis, and projections of ultimate premiums using generally accepted actuarial methods. In particular, direct insurance premiums are recognized in accordance with the type of contract written.

The majority of our insurance premium is accepted on a direct open market or facultative basis. We receive a premium which is identified in the policy and recorded as unearned premium on the inception date of the contract. This premium will typically adjust only if the underlying insured values adjust. We actively monitor underlying insured values and record adjustment premiums in the period in which amounts are reasonably determinable.

For business written on a facultative basis, although a premium estimate is not contractually stated for the amount of business to be written under any particular facility, an initial estimate of the expected premium written is received from the coverholder via the broker. Our estimate of premium is derived by reference to one or more of the following: the historical premium volume experienced by the facility; historical premium volume of similar facilities; the estimates provided by the broker; and industry information on the underlying business. We actively monitor the development of actual reported premium against the estimates made; where actual reported premiums deviate from the estimate, we carry out an analysis to determine the cause and may, if necessary, adjust the estimated premiums. In the year ended December 31, 2009, premiums written on a facultative basis accounted for approximately 24.0% of total gross premiums written at Talbot.

For contracts written on a losses occurring basis or claims made basis, premium income is generally earned proportionately over the expected risk period, usually 12 months. For all other contracts, comprising contracts written on a risks attaching basis, premiums are generally earned over a 24 month period due to the fact that some of the underlying exposures may attach towards the end of the contract, and such underlying exposures generally have a 12 month coverage period. The portion of the premium related to the unexpired portion of the policy at the end of any

reporting period is presented on the consolidated balance sheet as unearned premiums.

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(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007(b)	
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)
	Proportional	\$ 180,752	11.1%	\$ 179,530	13.2%	\$ 193,598
Non-proportional	1,440,489	88.9%	1,182,954	86.8%	1,196,225	86.1%
<b>Total</b>	<b>\$ 1,621,241</b>	<b>100.0%</b>	<b>\$ 1,362,484</b>	<b>100.0%</b>	<b>\$ 1,389,823</b>	<b>100.0%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only. The figures presented are gross of \$11.9 million pro forma purchase adjustments for the year ended December 31, 2007.

For reinsurance business where the assumed reinsurance premium is written on an excess of loss or on a pro rata basis, reinsurance contracts are generally written prior to the time the underlying direct policies are written by cedants and accordingly cedants must estimate such premiums when purchasing reinsurance coverage. For excess of loss contracts, the deposit premium is defined in the contract. The deposit premium is based on the client's estimated premiums, and this estimate is the amount recorded as written premium in the period the risk incepts. In the majority of cases, these contracts are adjustable at the end of the contract period to reflect the changes in underlying risks during the contract period. Subsequent adjustments, based on reports by the clients of actual premium, are recorded in the period in which the cedant reports are received, which would normally be reported within six months to one year subsequent to the expiration of the contract. For pro rata reinsurance contracts, an estimate of written premium is recorded in the period in which the risk incepts. The written premiums estimate is based on the pro rata cession percentage, on information provided by ceding companies and on management's judgment. Management critically evaluates the information provided by ceding companies based on experience with the cedant, broker and the underlying book of business.

Throughout the term of the policy, periodic review of the estimated premium takes place based on the latest information available, which may include actual reported premium to date, the latest premium estimates as provided by cedants and brokers, historical experience, management's professional judgment, information obtained during the underwriting renewal process, as well as an assessment of relevant economic conditions. If necessary, subsequent adjustments are recorded at the time of review.

Reporting of actual premiums ceded by the ceding company may be on a one to three month lag and may lead to revised estimates significantly different from the original figure.

On a quarterly basis, the Company evaluates the appropriateness of these premium estimates based on the latest information available, which may include actual reported premium to date, the latest premium estimates as provided by cedants and brokers, historical experience, management's professional judgment, information obtained during the underwriting renewal process, as well as an assessment of relevant economic conditions. As the Company's

reinsurance lines have a short operating history, we have limited past history that reflects how our premium estimates will develop. Furthermore, past experience may not be indicative of how future premium estimates develop. The Company believes that reasonably likely changes in assumptions made in the estimation process would not have a significant impact on gross premiums written as recorded.

Where contract terms on excess of loss contracts require the mandatory reinstatement of coverage after a client's loss, the mandatory reinstatement premiums are recorded as written and earned premiums when the loss event occurs.

Management includes an assessment of the creditworthiness of cedants in the review process above, primarily based on market knowledge, reports from rating agencies, the timeliness of cedants' payments and the status of current balances owing. Based on this assessment, management believes that as at December 31, 2009 no provision for doubtful accounts is necessary for receivables from cedants.



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*Reinsurance Premiums Ceded and Reinsurance Recoverables.* As discussed in Item 1 Business Risk Management, the Company primarily uses ceded reinsurance for risk mitigation purposes. Talbot purchases reinsurance on an excess of loss and a proportional basis together with a relatively small amount of facultative reinsurance and ILWs. Validus Re purchases reinsurance on an excess of loss and a proportional basis together with ILW coverage.

For excess of loss business, the amount of premium payable is usually contractually documented at inception and management judgment is only necessary in respect of any loss-related elements of the premium, for example reinstatement or adjustment premiums, and loss-related commissions. The full premium is recorded at inception and if the contract is purchased on a losses occurring during basis, the premium is earned on a straight line basis over the life of the contract. If the policy is purchased on a risks attaching during basis, the premium is earned in line with the inwards gross premiums to which the risk attaching relates. After the contract has expired, a No Claims Bonus may be received for certain policies, and this is recorded as a reinsurance premium adjustment in the period in which it can be reasonably determined.

Reinsurance receivable and reinsurance recoverable balances include amounts owed to us in respect of paid and unpaid ceded losses and loss expenses, respectively. The balances are presented net of a reserve for non-recoverability. As at December 31, 2009, reinsurance recoverable balances were \$181.8 million and paid losses recoverable balances were \$14.8 million. In establishing our reinsurance recoverable balances, significant judgment is exercised by management in determining the amount of unpaid losses and loss expenses to be ceded as well as our ability to cede losses and loss expenses under our reinsurance contracts.

Our ceded unpaid losses and loss expense consists of two elements, those for reported losses and those for losses incurred but not reported ( IBNR ). Ceded amounts for IBNR are developed as part of our loss reserving process. Consequently, the estimation of ceded unpaid losses and loss expenses is subject to similar risks and uncertainties in the estimation of gross IBNR (see Reserve for Losses and Loss Expenses ). As at December 31, 2009, ceded IBNR recoverable balances were \$99.6 million.

Although our reinsurance receivable and reinsurance recoverable balances are derived from our determination of contractual provisions, the recoverability of such amounts may ultimately differ due to the potential for a reinsurer to become financially impaired or insolvent or for a contractual dispute over contract language or coverage. Consequently, we review our reinsurance recoverable balances on a regular basis to determine if there is a need to establish a provision for non-recoverability. In performing this review, we use judgment in assessing the credit worthiness of our reinsurers and the contractual provisions of our reinsurance agreements. As at December 31, 2009, we had a provision for non-recoverability of \$3.5 million. In the event that the credit worthiness of our reinsurers were to deteriorate, actual uncollectible amounts could be significantly greater than our provision for non-recoverability.

The Company uses a default analysis to estimate uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer and default factors used to determine the portion of a reinsurer's balance deemed to be uncollectible. Default factors require considerable judgment and are determined using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions.

At December 31, 2009, the use of different assumptions within the model could have an effect on the provision for uncollectible reinsurance reflected in the Company's consolidated financial statements. To the extent the creditworthiness of the Company's reinsurers was to deteriorate due to an adverse event affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the Company's provision.

*Investment Valuation.* Consistent with U.S. GAAP, the Company recognizes fixed maturity and short-term investments at their fair value in the consolidated balance sheets. Fair value is defined as the price that would be

received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also established a three level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level

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( Level 1 ) and unobservable inputs being the lowest level ( Level 3 ). Generally, the degree of judgment used in measuring the fair value of financial instruments inversely correlates with the availability of observable inputs. All of the Company's short-term investment and 98.2% of the Company's fixed maturity fair value measurements have either quoted market prices or other observable inputs. Fair value measurements of certain non-Agency RMBS securities, representing 1.2% of the Company's total assets, have primarily unobservable inputs. Certain market conditions allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable. Further details are presented in Note 7 to the consolidated financial statements.

The Company's external investment accounting service provider receives prices from independent pricing sources to measure the fair values of its fixed maturity investments. These independent pricing sources are prioritized with respect to reliability to ensure that only the highest priority pricing inputs are used. The independent pricing sources are received via automated feeds from indices, pricing and broker-dealers services. Pricing is also obtained from other external investment managers. This information is applied consistently across all portfolios. The Company's external investment accounting service provider confirms and documents all prices received from broker-dealers on a daily basis for quality control and audit purposes.

In addition to internal controls, management relies on the effectiveness of the valuation controls in place at the Company's external investment accounting service provider (supported by a SAS 70 Type II Report) in conjunction with regular discussion and analysis of the investment portfolio's structure and performance. To date, management has not noted any issues or discrepancies related to investment valuation. The Company's investment custodian performs independent monthly valuations of the investment portfolio using available market prices. Management obtains this information from the Company's investment custodian's internet-based reporting system and compares it to valuations received from the Company's external investment accounting service provider.

During the years ended December 31, 2009 and 2008, the Company identified certain non-Agency RMBS Securities ( identified RMBS securities ) trading in inactive markets. The financial and mainstream press has provided continuous coverage of the credit crisis and the related impact on world markets. The Company's external investment advisors have noted illiquidity and dislocation in the non-Agency RMBS market during 2009 and 2008. In order to gauge market activity for the identified RMBS securities, management, with assistance from external investment advisors, reviewed the pricing sources for each security in the portfolio. Pricing services were the primary sources for the prices. Documentation provided by pricing services regarding the pricing of non-Agency RMBS indicated that Volatile CMO Tranche Evaluations are performed via a proprietary evaluated pricing and prepayment model. This matrix or option adjusted spread ( OAS ) model, uses a combination of Monte Carlo simulations and arbitrage analysis to determine prices. As a result, these securities are included as Level 3 assets with respect to the fair value hierarchy.

Consistent with U.S. GAAP, market approach fair value measurements for securities trading in inactive markets are not determinative. In weighing the fair value measurements resulting from market approach and income approach valuation techniques, the Company has placed less reliance on the market approach fair value measurements. The income approach valuation technique determines the fair value of each security on the basis of contractual cash flows, discounted using a risk-adjusted discount rate. As the proposed valuation technique incorporates both observable and significant unobservable inputs, these securities have been included as Level 3 assets with respect to the fair value hierarchy. The foundation for the income approach is the amount and timing of future cash flows.

The Company examined several sources in the determination of an appropriate, risk-adjusted discount rate. In doing so, the Company concluded that liquidity risk was the primary driver of the discount rate as prepayment, default and credit risk are incorporated into the underlying cash flows and thus it is not appropriate to include the associated risks in the discount rate. The risk adjusted discount rate used in the income valuation calculation was the three month over USD LIBOR at December 31, 2009 plus a spread of 781 basis points, representing the average spreads of single-B U.S. Corporate Securities over U.S. Treasuries for the last six months of 2009. While the majority of the identified

RMBS securities were rated AAA at the time of purchase, nearly all have been downgraded, mostly to single B. The Company has conservatively used single-B as a benchmark in determining an appropriate discount rate.

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The change in fair value measurement for the identified RMBS securities from a market approach to an income approach resulted in a \$6.4 million increase in net unrealized losses on investments in the quarter. This increase in net unrealized losses on investments resulted in a \$6.4 million decrease in shareholders' equity as at December 31, 2009.

Other investments consist of an investment in a fund of hedge funds and a deferred compensation trust. The fund investment manager provides monthly reported net asset values ( NAV ) with a one-month delay in its valuation. As a result, the fund investment manager's November 30, 2009 NAV was used as a partial basis for fair value measurement in the Company's December 31, 2009 balance sheet. The fund investment manager's NAV relies on an estimate of the performance of the fund based on the month end positions from the underlying third-party funds. The Company utilizes the fund investment manager's primarily market approach estimated NAV that incorporates relevant valuation sources on a timelier basis. As this valuation technique incorporates both observable and significant unobservable inputs, the fund of hedge funds is classified as a Level 3 asset. To determine the reasonableness of the estimated NAV, the Company assesses the variance between the estimated NAV and the one-month delayed fund investment manager's NAV. These variances are recorded in the following reporting period. During the fourth quarter of 2009, a majority of the fund of hedge funds was redeemed. The remaining portion is a side pocket of \$25.7 million at December 31, 2009. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is indeterminable. During the fourth quarter of 2009, the Company received distribution proceeds of \$2.6 million from the side pocket. Subsequent to year-end, an additional \$4.4 million was received from the side pocket.

Refer to Item 7A. **Quantitative and Qualitative Disclosures About Market Risk** for further discussion of interest rate risk and a sensitivity analysis of the impact of interest rate variances on the valuation of the Company's fixed maturity and short-term investments.

## **Segment Reporting**

Management has determined that the Company operates in two reportable segments. The two segments are its significant operating subsidiaries, Validus Re and Talbot. For segmental reporting purposes, the results of IPC's operations since the acquisition date have been included within the Validus Re segment in the consolidated financial statements.

## **Results of Operations**

Validus Re commenced operations on December 16, 2005. On July 2, 2007, the Company acquired Talbot. On September 4, 2009, the Company acquired all of the outstanding shares of IPC. The Company's fiscal year ends on December 31. Financial statements are prepared in accordance with U.S. GAAP and relevant SEC guidance.

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The following table presents results of operations for the three months ended December 31, 2009 and 2008 and years ended December 31, 2009, 2008 and 2007:

(Dollars in thousands)	Three Months Ended		Year Ended December 31,		
	December 31, 2009(a)	2008	2009(a)	2008	2007(b)
Gross premiums written	\$ 255,289	\$ 191,736	\$ 1,621,241	\$ 1,362,484	\$ 988,637
Reinsurance premiums ceded	(30,393)	(2,722)	(232,883)	(124,160)	(70,210)
Net premiums written	224,896	189,014	1,388,358	1,238,324	918,427
Change in unearned premiums	203,005	127,017	61,219	18,194	(60,348)
Net premiums earned	427,901	316,031	1,449,577	1,256,518	858,079
Losses and loss expenses	133,020	191,576	523,757	772,154	283,993
Policy acquisition costs	72,843	61,407	262,966	234,951	134,277
General and administrative expenses	60,253	22,809	185,568	123,948	97,765
Share compensation expenses	8,189	7,279	27,037	27,097	16,189
Total underwriting deductions	274,305	283,071	999,328	1,158,150	532,224
Underwriting income(c)	153,596	32,960	450,249	98,368	325,855
Net investment income	35,506	30,671	118,773	139,528	112,324
Other income	1,759	1,598	4,634	5,264	3,301
Finance expenses	(14,398)	(8,522)	(44,130)	(57,318)	(51,754)
Operating income before taxes(c)	176,463	56,707	529,526	185,842	389,726
Tax benefit (expense)	458	(5,796)	3,759	(10,788)	(1,505)
Net operating income(c)	176,921	50,911	533,285	175,054	388,221
Gain on bargain purchase, net of expenses			287,099		
Realized gain on repurchase of debentures	4,444		4,444	8,752	
Net realized gains (losses) on investments	9,099	6,757	(11,543)	(1,591)	1,608
Net unrealized (losses) gains on investments	(25,043)	(7,099)	84,796	(79,707)	12,364
Fair value of warrants issued					(2,893)
Aquiline termination fee					(3,000)
Foreign exchange gains (losses)	338	(13,554)	(674)	(49,397)	6,696
Net income (loss)	\$ 165,759	\$ 37,015	\$ 897,407	\$ 53,111	\$ 402,996
Net premiums written / Gross premiums written	88.1%	98.6%	85.6%	90.9%	92.9%
Losses and loss expenses	31.1%	60.6%	36.1%	61.5%	33.1%
Policy acquisition costs	17.0%	19.4%	18.1%	18.7%	15.6%

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General and administrative expenses	16.0%	9.5%	14.7%	12.0%	13.3%
Expense ratio	33.0%	28.9%	32.8%	30.7%	28.9%
Combined ratio	64.1%	89.5%	68.9%	92.2%	62.0%

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.
- (c) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income (loss) and operating income that are not calculated under standards or rules that comprise

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U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. A reconciliation underwriting income (loss) measure to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

	<b>Three Months Ended</b>		<b>Year Ended December 31,</b>		
	<b>2009(a)</b>	<b>2008</b>	<b>2009(a)</b>	<b>2008</b>	<b>2007(b)</b>
<b><u>Validus Re</u></b>					
Gross premiums written	\$ 33,694	\$ 43,873	\$ 768,084	\$ 687,771	\$ 702,098
Reinsurance premiums ceded	(652)	(1,696)	(95,446)	(62,933)	(68,842)
Net premiums written	33,042	42,177	672,638	624,838	633,256
Change in unearned premiums	224,596	122,191	122,912	28,693	(74,227)
Net premiums earned	257,638	164,368	795,550	653,531	559,029
Losses and loss expenses	44,134	95,972	186,704	420,645	175,538
Policy acquisition costs	37,088	28,011	127,433	100,243	70,323
General and administrative expenses	19,782	7,301	65,710	34,607	31,412
Share compensation expenses	2,590	2,197	7,576	6,829	4,013
Total underwriting deductions	103,594	133,481	387,423	562,324	281,286
Underwriting income(c)	154,044	30,887	408,127	91,207	277,743
<b><u>Talbot</u></b>					
Gross premiums written	\$ 229,548	\$ 152,662	\$ 919,906	\$ 708,996	\$ 286,539
Reinsurance premiums ceded	(37,694)	(5,825)	(204,186)	(95,510)	(1,368)
Net premiums written	191,854	146,837	715,720	613,486	285,171
Change in unearned premiums	(21,591)	4,826	(61,693)	(10,499)	13,879
Net premiums earned	170,263	151,663	654,027	602,987	299,050
Losses and loss expenses	88,886	95,604	337,053	351,509	108,455
Policy acquisition costs	37,555	33,560	139,932	135,017	63,954
General and administrative expenses	30,787	12,882	96,352	71,443	48,886
Share compensation expenses	1,367	1,436	7,171	4,702	1,709
Total underwriting deductions	158,595	143,482	580,508	562,671	223,004
Underwriting income(c)	11,668	8,181	73,519	40,316	76,046
<b><u>Corporate &amp; Eliminations</u></b>					
Gross premiums written	\$ (7,953)	\$ (4,799)	\$ (66,749)	\$ (34,283)	\$
Reinsurance premiums ceded	7,953	4,799	66,749	34,283	
Net premiums written					



## Change in unearned premiums

## Net premiums earned

## Losses and loss expenses

Policy acquisition costs	(1,800)	(164)	(4,399)	(309)	
General and administrative expenses	9,684	2,626	23,506	17,898	17,467
Share compensation expenses	4,232	3,646	12,290	15,566	10,467
Total underwriting deductions	12,116	6,108	31,397	33,155	27,934
Underwriting (loss)(c)	(12,116)	(6,108)	(31,397)	(33,155)	(27,934)
<b>Total underwriting income(c)</b>	<b>\$ 153,596</b>	<b>\$ 32,960</b>	<b>\$ 450,249</b>	<b>\$ 98,368</b>	<b>\$ 325,855</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.
- (c) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income (loss) that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies.

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These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. A reconciliation of this measure to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

**Three months ended December 31, 2009 compared to three months ended December 31, 2008**

Net income for the three months ended December 31, 2009 was \$165.8 million compared to \$37.0 million for the three months ended December 31, 2008, an increase of \$128.7 million or 347.8%. The primary factors driving the increase in net income were:

Increase in underwriting income of \$120.6 million due primarily to increased net premiums earned of \$111.9 million and reduced losses and loss expenses of \$58.6 million. For the three months ended December 31, 2008, the Company incurred losses of \$77.2 million related to Hurricane Ike; and

Increased foreign exchange gains of \$13.9 million due primarily to the stable major currency movements during the three months ended December 31, 2009, compared to fluctuations resulting in a decline in the value of assets denominated in foreign currencies relative to the U.S. dollar reporting currency for the three months ended December 31, 2008.

The items above were partially offset by the following factor:

Increase in net unrealized losses on investments of \$17.9 million due to an upward shift in the yield curve during the three months ended December 31, 2009. The shift negatively affected the performance of the fixed income portfolio.

The change in net income for the three months ended December 31, 2009 of \$128.7 million is described in the following table:

	<b>Three Months Ended December 31, 2009</b>			
	<b>Increase (decrease) over the Three Months Ended</b>			
	<b>December 31, 2008(a)</b>			
			<b>Corporate and Other Reconciling Items</b>	
	<b>Validus Re</b>	<b>Talbot</b>		<b>Total</b>
	<b>(Dollars in thousands)</b>			
Hurricanes Ike and Gustav net losses and loss expenses(b)	\$ 58,938	\$ 18,257	\$	\$ 77,195
Hurricanes Ike and Gustav net reinstatement premiums(b)	(6,592)	(505)		(7,097)
Other underwriting income	70,811	(14,265)	(6,008)	50,538
Underwriting income(c)	123,157	3,487	(6,008)	120,636
Net investment income	4,726	223	(114)	4,835
Other income	1,951	1,187	(2,977)	161
Finance expenses	(317)	(5,507)	(52)	(5,876)

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	129,517	(610)	(9,151)	119,756
Taxes	(46)	6,300		6,254
	129,471	5,690	(9,151)	126,010
Realized gain on repurchase of debentures			4,444	4,444
Net realized gains (losses) on investments	4,861	(2,519)		2,342
Net unrealized gains (losses) on investments	5,613	(23,557)		(17,944)
Foreign exchange gains	289	13,603		13,892
<b>Change in net income</b>	\$ 140,234	\$ (6,783)	\$ (4,707)	\$ 128,744

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- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) Hurricanes Ike and Gustav net losses and loss expenses and net reinstatement premiums recognized for the three months ended December 31, 2008; therefore, figures exclude loss development in subsequent periods.
- (c) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income (loss) that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. A reconciliation of this measure to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

**Gross Premiums Written**

Gross premiums written for the three months ended December 31, 2009 were \$255.3 million compared to \$191.7 million for the three months ended December 31, 2008, an increase of \$63.6 million or 33.1%. The increase in gross premiums written was driven primarily by the property and specialty lines which increased by \$20.0 million and \$43.9 million, respectively. Details of gross premiums written by line of business are provided below.

(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
Property	\$ 65,453	25.6%	\$ 45,410	23.7%	44.1%
Marine	60,659	23.8%	61,040	31.8%	(0.6)%
Specialty	129,177	50.6%	85,286	44.5%	51.5%
<b>Total</b>	<b>\$ 255,289</b>	<b>100.0%</b>	<b>\$ 191,736</b>	<b>100.0%</b>	<b>33.1%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

*Validus Re.* Validus Re gross premiums written for the three months ended December 31, 2009 were \$33.7 million compared to \$43.9 million for the three months ended December 31, 2008, a decrease of \$10.2 million or 23.2%. Details of Validus Re gross premiums written by line of business are provided below.

Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008	
Gross Premiums	Gross Premiums	Gross Premiums	Gross Premiums

<b>(Dollars in thousands)</b>	<b>Written</b>	<b>Written (%)</b>	<b>Written</b>	<b>Written (%)</b>	<b>% Change</b>
Property	\$ 21,204	62.9%	\$ 21,004	47.9%	1.0%
Marine	(1,060)	(3.1)%	5,799	13.2%	(118.3)%
Specialty	13,550	40.2%	17,070	38.9%	(20.6)%
<b>Total</b>	<b>\$ 33,694</b>	<b>100.0%</b>	<b>\$ 43,873</b>	<b>100.0%</b>	<b>(23.2)%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

The decrease in Validus Re gross premiums written was driven primarily by decreases of \$6.9 million and \$3.5 million in the marine and specialty lines, respectively. The decrease in the marine line was due primarily to \$2.4 million in non-recurring reinstatement premiums relating to Hurricane Ike losses in 2008. The marine premium was negative in the three months ended December 31, 2009 due to a reduction in earned premium estimates on proportional treaty business. The decrease in the specialty line was due primarily to the non-renewal of certain general aviation accounts totaling \$4.6 million in which unfavorable changes in risk adjusted pricing did not

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meet Validus Re's thresholds. Gross premiums written under the quota share, surplus treaty and excess of loss contracts with Talbot decreased by \$1.8 million as compared to the three months ended December 31, 2008. The quota share, surplus treaty and excess of loss contracts with Talbot are eliminated upon consolidation.

*Talbot.* Talbot gross premiums written for the three months ended December 31, 2009 were \$229.5 million compared to \$152.7 million for the three months ended December 31, 2008, an increase of \$76.9 million or 50.4%.

Details of Talbot gross premiums written by line of business are provided below.

(Dollars in thousands)	Three Months Ended December 31, 2009		Three Months Ended December 31, 2008		% Change
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
Property	\$ 50,933	22.2%	\$ 29,159	19.1%	74.7%
Marine	62,697	27.3%	56,918	37.3%	10.2%
Specialty	115,918	50.5%	66,585	43.6%	74.1%
<b>Total</b>	<b>\$ 229,548</b>	<b>100.0%</b>	<b>\$ 152,662</b>	<b>100.0%</b>	<b>50.4%</b>

The increase in the property lines was due primarily to \$22.3 million of gross premiums written on the onshore energy lines as well as increased gross premiums written by Validus Reaseguros, Inc., which acts as an approved Lloyd's coverholder for Syndicate 1183 on the Latin America and Caribbean property treaty lines. The increase in the specialty lines was due primarily to \$35.0 million of additional gross premiums written by the new aviation team.

**Reinsurance Premiums Ceded**

Reinsurance premiums ceded for the three months ended December 31, 2009 were \$30.4 million compared to \$2.7 million for the three months ended December 31, 2008, an increase of \$27.7 million. Talbot increased its property and specialty ceded reinsurance premiums as described below.

(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	
Property	\$ 12,858	42.3%	\$ (1,359)	(50.0)%	NM
Marine	3,042	10.0%	2,789	102.5%	9.1%
Specialty	14,493	47.7%	1,292	47.5%	NM
<b>Total</b>	<b>\$ 30,393</b>	<b>100.0%</b>	<b>\$ 2,722</b>	<b>100.0%</b>	<b>NM</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

*Validus Re.* Validus Re reinsurance premiums ceded for the three months ended December 31, 2009 were \$0.7 million compared to \$1.7 million for the three months ended December 31, 2008, a decrease of \$1.0 million.

(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	
Property	\$ 459	70.4%	\$ (2,446)	(144.2)%	118.8%
Marine	(90)	(13.8)%	4,125	243.2%	(102.2)%
Specialty	283	43.4%	17	1.0%	NM
<b>Total</b>	\$ 652	100.0%	\$ 1,696	100.0%	(61.6)%

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- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

*Talbot.* Talbot reinsurance premiums ceded for the three months ended December 31, 2009 were \$37.7 million compared to \$5.8 million for the three months ended December 31, 2008, an increase of \$31.9 million or 547.1%.

(Dollars in thousands)	Three Months Ended December 31, 2009		Three Months Ended December 31, 2008		% Change
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	
Property	\$ 19,083	50.6%	\$ 5,840	100.2%	226.8%
Marine	4,110	10.9%	341	5.9%	NM
Specialty	14,501	38.5%	(356)	(6.1)%	NM
<b>Total</b>	<b>\$ 37,694</b>	<b>100.0%</b>	<b>\$ 5,825</b>	<b>100.0%</b>	<b>547.1%</b>

The increase in Talbot reinsurance premiums ceded was driven primarily by an increase in reinsurance premiums ceded under the third party quota share, surplus treaty and excess of loss contracts on the property lines. This was due to increased premiums written through Talbot's overseas offices and \$11.7 million from premiums written under the new energy onshore account of which 60% is ceded under the third party quota share. Specialty reinsurance premiums ceded increased by \$14.9 million primarily due to \$12.3 million of reinsurance premium costs in respect of the new airline accounts.

Reinsurance premiums under the quota share, surplus treaty and excess of loss contracts with Validus Re for the three months ended December 31, 2009 were \$8.0 million compared to \$4.8 million for the three months ended December 31, 2008. The quota share, surplus treaty and excess of loss with Validus Re are eliminated upon consolidation.

**Net Premiums Written**

Net premiums written for the three months ended December 31, 2009 were \$224.9 million compared to \$189.0 million for the three months ended December 31, 2008, an increase of \$35.9 million, or 19.0%. The ratios of net premiums written to gross premiums written for the three months ended December 31, 2009 and 2008 were 88.1% and 98.6%, respectively. Details of net premiums written by line of business are provided below.

(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	



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Property	\$ 52,595	23.4%	\$ 46,769	24.8%	12.5%
Marine	57,617	25.6%	58,251	30.8%	(1.1)%
Specialty	114,684	51.0%	83,994	44.4%	36.5%
<b>Total</b>	\$ 224,896	100.0%	\$ 189,014	100.0%	19.0%

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

*Validus Re.* Validus Re net premiums written for the three months ended December 31, 2009 were \$33.0 million compared to \$42.2 million for the three months ended December 31, 2008, a decrease of \$9.1 million or 21.7%. Details of net premiums written by line of business are provided below.

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(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	
Property	\$ 20,745	62.8%	\$ 23,450	55.6%	(11.5)%
Marine	(970)	(2.9)%	1,674	4.0%	(157.9)%
Specialty	13,267	40.1%	17,053	40.4%	(22.2)%
<b>Total</b>	<b>\$ 33,042</b>	<b>100.0%</b>	<b>\$ 42,177</b>	<b>100.0%</b>	<b>(21.7)%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

The decrease in Validus Re net premiums written was driven by a decrease in the property lines of \$2.7 million as well as \$2.6 million and \$3.8 million decreases in the marine and specialty lines, respectively. The decrease in the marine line was due primarily to \$2.4 million in non-recurring reinstatement premiums relating to Hurricane Ike losses in 2008, as discussed above. The decrease in the specialty line was due primarily to the non-renewal of certain general aviation accounts totaling \$4.6 million in which unfavorable changes in risk adjusted pricing did not meet Validus Re's thresholds, as discussed above. The ratios of net premiums written to gross premiums written were 98.1% and 96.1% for the three months ended December 31, 2009 and 2008, respectively.

*Talbot.* Talbot net premiums written for the three months ended December 31, 2009 were \$191.9 million compared to \$146.8 million for the three months ended December 31, 2008, an increase of \$45.0 million or 30.7%. Details of net premiums written by line of business are provided below:

(Dollars in thousands)	Three Months Ended December 31, 2009		Three Months Ended December 31, 2008		% Change
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	
Property	\$ 31,850	16.6%	\$ 23,319	15.9%	36.6%
Marine	58,587	30.5%	56,577	38.5%	3.6%
Specialty	101,417	52.9%	66,941	45.6%	51.5%
<b>Total</b>	<b>\$ 191,854</b>	<b>100.0%</b>	<b>\$ 146,837</b>	<b>100.0%</b>	<b>30.7%</b>

The increase in net premiums written was driven by the factors highlighted above in respect of gross premiums written and reinsurance premiums ceded. The ratios of net premiums written to gross premiums written for the three months ended December 31, 2009 and 2008 were 83.6% and 96.2%, respectively, reflecting the increase in related

party reinsurance and quota share costs on the new onshore energy and aviation lines.

### Change in Unearned Premiums

Change in unearned premiums for the three months ended December 31, 2009 was \$203.0 million compared to \$127.0 million for the three months ended December 31, 2008, a change of \$76.0 million or 59.8%. The change was primarily due to the acquisition of IPC.

(Dollars in thousands)	Change in Unearned Premiums		% Change
	Three Months Ended December 31, 2009(a)	Three Months Ended December 31, 2008	
Change in gross unearned premium	\$ 238,460	\$ 157,695	51.2%
Change in prepaid reinsurance premium	(35,455)	(30,678)	15.6%
<b>Net change in unearned premium</b>	<b>\$ 203,005</b>	<b>\$ 127,017</b>	<b>59.8%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

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*Validus Re.* Validus Re's change in unearned premiums for the three months ended December 31, 2009 were \$224.6 million compared to \$122.2 million for the three months ended December 31, 2008, a change of \$102.4 million or 83.8%. As discussed above, the increase in the change in unearned premium was due to the acquisition of IPC on September 4, 2009.

(Dollars in thousands)	Change in Unearned Premiums		
	Three Months Ended December 31, 2009(a)	Three Months Ended December 31, 2008	% Change
Change in gross unearned premium	\$ 251,205	\$ 136,682	83.8%
Change in prepaid reinsurance premium	(26,609)	(14,491)	83.6%
<b>Net change in unearned premium</b>	<b>\$ 224,596</b>	<b>\$ 122,191</b>	<b>83.8%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

*Talbot.* The Talbot change in unearned premiums for the three months ended December 31, 2009 was (\$21.6) million compared to \$4.8 million for the three months ended December 31, 2008, a change of \$26.4 million, or 547.4%.

(Dollars in thousands)	Change in Unearned Premiums		
	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	% Change
Change in gross unearned premium	\$ (12,745)	\$ 21,013	(160.7)%
Change in prepaid reinsurance premium	(8,846)	(16,187)	(45.4)%
<b>Net change in unearned premium</b>	<b>\$ (21,591)</b>	<b>\$ 4,826</b>	<b>(547.4)%</b>

The change in gross unearned premiums is largely driven by seasonality of earnings and also as a result of the new premiums written by the onshore energy and aviation teams occurring during the three months ended December 31, 2009. The lower change in prepaid reinsurance premiums in the three months ended December 31, 2009 is reflective of the increased amounts of onshore energy exposures and premiums written by Validus Reaseguros, Inc., which have increased levels of ceded reinsurance. This results in less seasonality in the ceded reinsurance and hence a small change in prepaid reinsurance for the three months ended December 31, 2009.

**Net Premiums Earned**

Net premiums earned for the three months ended December 31, 2009 were \$427.9 million compared to \$316.0 million for the three months ended December 31, 2008, an increase of \$111.9 million or 35.4%. The increase in net premiums earned was driven by increased net premiums earned of \$93.3 million and \$18.6 million in the Validus Re and Talbot segments, respectively.

The increase in net premiums earned was due primarily to \$93.3 million of net premiums earned resulting from the acquisition of IPC.

(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)	
Property	\$ 240,787	56.3%	\$ 145,752	46.2%	65.2%
Marine	93,693	21.9%	93,339	29.5%	0.4%
Specialty	93,421	21.8%	76,940	24.3%	21.4%
<b>Total</b>	<b>\$ 427,901</b>	<b>100.0%</b>	<b>\$ 316,031</b>	<b>100.0%</b>	<b>35.4%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

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*Validus Re.* Validus Re net premiums earned for the three months ended December 31, 2009 were \$257.6 million compared to \$164.4 million for the three months ended December 31, 2008, an increase of \$93.3 million or, 56.7%. The increase in net premiums earned was due primarily to \$93.3 million of net premiums earned resulting from the acquisition of IPC.

(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)	
Property	\$ 204,255	79.3%	\$ 117,496	71.5%	73.8%
Marine	28,888	11.2%	29,371	17.9%	(1.6)%
Specialty	24,495	9.5%	17,501	10.6%	40.0%
<b>Total</b>	<b>\$ 257,638</b>	<b>100.0%</b>	<b>\$ 164,368</b>	<b>100.0%</b>	<b>56.7%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

The increase in Validus Re net premiums earned was driven by an increase in the property lines of \$86.8 million due primarily to \$93.3 million of property net premiums earned resulting from the acquisition of IPC, as discussed above. The increase in specialty net premiums earned of \$7.0 million was due to proportional risks attaching premiums from prior years which is generally earned over 24 months.

*Talbot.* Talbot net premiums earned for the three months ended December 31, 2009 were \$170.3 million compared to \$151.7 million for the three months ended December 31, 2008, an increase of \$18.6 million or 12.3%.

(Dollars in thousands)	Three Months Ended December 31, 2009		Three Months Ended December 31, 2008		% Change
	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)	
Property	\$ 36,532	21.5%	\$ 28,256	18.6%	29.3%
Marine	64,805	38.1%	63,968	42.2%	1.3%
Specialty	68,926	40.4%	59,439	39.2%	16.0%
<b>Total</b>	<b>\$ 170,263</b>	<b>100.0%</b>	<b>\$ 151,663</b>	<b>100.0%</b>	<b>12.3%</b>

The increase in net premiums earned is due primarily to the contribution of net premiums written by the new aviation and onshore energy underwriting teams over the three months ended December 31, 2009, as compared with the three months ended December 31, 2008.

### Losses and Loss Expenses

Losses and loss expenses for the three months ended December 31, 2009 were \$133.0 million compared to \$191.6 million for the three months ended December 31, 2008, a decrease of \$58.6 million or 30.6%. The loss ratios, defined as losses and loss expenses divided by net premiums earned, for the three months ended December 31, 2009 and 2008 were 31.1% and 60.6%, respectively. Details of loss ratios by line of business are provided below.

	<b>Three Months Ended December 31, 2009(a)</b>	<b>Three Months Ended December 31, 2008</b>	<b>Percentage Point Change</b>
Property	12.5%	73.7%	(61.2)
Marine	58.0%	50.4%	7.6
Specialty	52.0%	48.3%	3.7
<b>All lines</b>	31.1%	60.6%	(29.5)

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- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. Consequently, 2008 data does not include IPC financial results.

The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the three months ended December 31, 2009:

(Dollars in thousands)	Three Months Ended December 31, 2009			
	Validus	Talbot	Eliminations	Total
Gross reserves at period beginning	\$ 783,235	\$ 870,079	\$ (28,571)	\$ 1,624,743
Losses recoverable at period beginning	(57,608)	(143,064)	28,571	(172,101)
Net reserves at period beginning	725,627	727,015		1,452,642
Incurred losses current year	73,013	108,730		181,743
Incurred losses change in prior accident years	(28,879)	(19,844)		(48,723)
Incurred losses	44,134	88,886		133,020
Paid losses	(76,764)	(67,286)		(144,050)
Foreign exchange	(295)	(948)		(1,243)
Net reserves at period end	692,702	747,667		1,440,369
Losses recoverable	49,808	156,319	(24,362)	181,765
Gross reserves at period end	\$ 742,510	\$ 903,986	\$ (24,362)	\$ 1,622,134

The amount of recorded reserves represents management's best estimate of expected losses and loss expenses incurred. Prior years favorable loss development totaled \$48.7 million. The Company's loss ratio benefited by 11.4 percentage points as a result of favorable loss development for the three months ended December 31, 2009. For the three months ended December 31, 2009, the Company incurred \$5.7 million of losses attributable to the Dublin floods, which represented 1.3 percentage points of the loss ratio. For the three months ended December 31, 2008, the Company incurred \$77.2 million of loss expense attributable to development of previously announced Hurricane Ike, which represented 24.4 percentage points of the loss ratio.

Management of insurance and reinsurance companies use significant judgment in the estimation of reserves for losses and loss expenses. Given the magnitude of recent loss events and other uncertainties inherent in loss estimation, meaningful uncertainty remains regarding the estimation of recent losses. The Company's actual ultimate net loss may vary materially from estimates.

At December 31, 2009 and 2008, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in the Critical Accounting Policies and Estimates section. The Company did not make any significant changes in the assumptions or methodology used in its reserving process for the three months ended December 31, 2009.

**As at December 31, 2009**

<b>Gross</b>	<b>Total Gross</b>
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<b>(Dollars in thousands)</b>	<b>Case</b>		<b>Reserve for Losses and Loss Expenses</b>
	<b>Reserves</b>	<b>Gross IBNR</b>	
Property	\$ 365,858	\$ 338,795	\$ 704,653
Marine	321,844	254,056	575,900
Specialty	143,623	197,958	341,581
<b>Total</b>	<b>\$ 831,325</b>	<b>\$ 790,809</b>	<b>\$ 1,622,134</b>

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(Dollars in thousands)	As at December 31, 2009		
	Net Case Reserves	Net IBNR	Total Net Reserve for Losses and Loss Expenses
Property	\$ 359,657	\$ 306,745	\$ 666,402
Marine	259,617	232,105	491,722
Specialty	127,502	154,743	282,245
<b>Total</b>	<b>\$ 746,776</b>	<b>\$ 693,593</b>	<b>\$ 1,440,369</b>

During the three months ended December 31, 2008, the Company incurred losses of \$77.2 million related to the development of previously announced Hurricane Ike reserves, as detailed in the table below.

(Dollars in thousands)	Net Losses and Loss Expenses(a)	Net Reinstatement Premiums	Net Effect on Net Income(b)
<b>Hurricane Ike</b>			
<i>Validus Re</i>			
Property	\$ 38,229	\$ (4,205)	\$ 34,024
Marine	20,834	(2,387)	18,447
Specialty	(125)		(125)
All lines	58,938	(6,592)	52,346
<i>Talbot</i>			
Property	16,354	(289)	16,065
Marine	1,903	(216)	1,687
All lines	18,257	(505)	17,752
<i>Total</i>			
Property	54,583	(4,494)	50,089
Marine	22,737	(2,603)	20,134
Specialty	(125)		(125)
<b>All lines</b>	<b>\$ 77,195</b>	<b>\$ (7,097)</b>	<b>\$ 70,098</b>

(a) Net of reinsurance.

(b)

Net effect on net income includes the sum of estimates of net claims and claim expenses incurred, and earned reinstatement premiums assumed and ceded.

*Validus Re.* Validus Re losses and loss expenses for the three months ended December 31, 2009 were \$44.1 million compared to \$96.0 million for the three months ended December 31, 2008, a decrease of \$51.8 million or 54.0%. The loss ratio, defined as losses and loss expenses divided by net premiums earned, was 17.1% and 58.4% for the three months ended December 31, 2009 and 2008, respectively. For the three months ended December 31, 2009, Validus Re incurred \$5.7 million of losses attributable to the Dublin floods, which represents 2.2 percentage points of the loss ratio. For the three months ended December 31, 2008, Validus Re incurred \$58.9 million of losses attributable to Hurricane Ike, which represented 35.9 percentage points of the segment loss ratio. Validus Re segment loss ratios, excluding prior year development and loss events identified above, for the three months ended

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December 31, 2009 and 2008 were 26.1% and 26.2%, respectively. Details of loss ratios by line of business and period of incurrence are provided below.

		<b>Three Months Ended</b>		<b>Percentage Point Change</b>
		<b>December 31,</b>	<b>2008</b>	
		<b>2009(a)</b>	<b>2008</b>	
Property	current year	21.4%	59.4%	(38.0)
Property	change in prior accident years	(11.8)%	(2.9)%	(8.9)
Property	loss ratio	9.6%	56.5%	(46.9)
Marine	current year	53.3%	84.1%	(30.8)
Marine	change in prior accident years	(7.8)%	(10.8)%	3.0
Marine	loss ratio	45.5%	73.3%	(27.8)
Specialty	current year	56.9%	43.5%	13.4
Specialty	change in prior accident years	(10.4)%	2.5%	(12.9)
Specialty	loss ratio	46.5%	46.0%	0.5
All lines	current year	28.3%	62.1%	(33.8)
All lines	change in prior accident years	(11.2)%	(3.7)%	(7.5)
<b>All lines</b>	<b>loss ratio</b>	<b>17.1%</b>	<b>58.4%</b>	<b>(41.3)</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

For the three months ended December 31, 2009, the property lines include \$43.7 million related to current year losses and \$24.1 million of favorable development relating to prior accident years. This favorable development is attributable principally to lower than expected claim development in the property classes, as well as reduced loss estimates for a number of catastrophe loss events. For the three months ended December 31, 2009, Validus Re's property lines incurred \$5.7 million of losses attributable to the Dublin floods, which represents 2.8 percentage points of the property lines' loss ratio. For the three months ended December 31, 2008, Validus Re's property line incurred \$38.2 million losses attributable to Hurricane Ike, which represented 32.5 percentage points of the property lines' loss ratio. Validus Re property line loss ratios, excluding prior year development and loss events identified above, for the three months ended December 31, 2009 and 2008 were 18.6% and 26.9%, respectively.

For the three months ended December 31, 2009, the marine lines include \$15.4 million related to current year losses and \$2.2 million of favorable development relating to prior accident years. This favorable development is primarily attributable to lower than expected claims development. For the three months ended December 31, 2008, Validus Re's marine lines incurred \$20.8 million of losses attributable to Hurricane Ike, which represented 70.9 percentage points of the marine lines loss ratio. Validus Re marine line loss ratios, excluding prior year development and loss events identified above, for the three months ended December 31, 2009 and 2008 were 53.3% and 13.2%, respectively.

For the three months ended December 31, 2009, the specialty lines include \$13.9 million related to current year losses and \$2.5 million of favorable development relating to prior accident years. Validus Re specialty lines loss ratios, excluding prior year development, for the three months ended December 31, 2009 and 2008 were 56.9% and 43.5%,

respectively.

*Talbot.* Talbot losses and loss expenses for the three months ended December 31, 2009 were \$88.9 million compared to \$95.6 million for the three months ended December 31, 2008, a decrease of \$6.7 million, or 7.0%. The loss ratio was 52.2% and 63.0% for the three months ended December 31, 2009 and 2008, respectively. For the three months ended December 31, 2009, Talbot did not experience any notable loss events. For the three months ended December 31, 2008, Talbot incurred \$18.3 million of losses attributable to Hurricane Ike, which represented 12.1 percentage points of the segment loss ratio. For the three months ended December 31, 2009, \$108.7 million of losses and loss expenses related to current year losses and \$19.8 million related to favorable development of prior accident years. Talbot segment loss ratios, excluding the prior year development and loss events identified above,

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for the three months ended December 31, 2009 and 2008 were 63.9 and 59.9, respectively. Details of loss ratios by line of business and calendar period are provided below.

	<b>Three Months Ended December 31,</b>		<b>Percentage Point Change</b>
	<b>2009</b>	<b>2008</b>	
Property current year	51.0%	142.5%	(91.5)
Property change in prior accident years	(22.2)%	2.5%	(24.7)
Property loss ratio	28.8%	145.0%	(116.2)
Marine current year	81.3%	54.7%	26.6
Marine change in prior accident years	(17.8)%	(14.9)%	(2.9)
Marine loss ratio	63.5%	39.8%	23.7
Specialty current year	54.2%	57.0%	(2.8)
Specialty change in prior accident years	(0.3)%	(8.0)%	7.7
Specialty loss ratio	53.9%	49.0%	4.9
All lines current year	63.9%	72.0%	(8.1)
All lines change in prior accident years	(11.7)%	(9.0)%	(2.7)
<b>All lines loss ratio</b>	<b>52.2%</b>	<b>63.0%</b>	<b>(10.8)</b>

For the three months ended December 31, 2009, the property lines include \$18.6 million related to current year losses and \$8.1 million of favorable development relating to prior accident years. For the three months ended December 31, 2008, Talbot's property lines incurred \$16.4 million of losses attributable to Hurricane Ike, which represented 57.9 percentage points of the property lines' loss ratio. Talbot property line loss ratio, excluding prior year development and the loss events identified above, for the three months ended December 31, 2009 and 2008 were 51.0% and 84.6%, respectively.

For the three months ended December 31, 2009, the marine lines include \$52.7 million related to current year and \$11.6 million of favorable development relating to prior accident years. For the three months ended December 31, 2008, Talbot's marine lines incurred \$2.0 million of losses attributable to Hurricane Ike, which represented 3.0 percentage points of the marine lines' loss ratio. Talbot marine line loss ratios, excluding prior year development and the loss events identified above, for the three months ended December 31, 2009 and 2008 were 81.3% and 51.8%, respectively.

For the three months ended December 31, 2009, the specialty lines include \$37.4 million relating to current year losses and \$0.2 million due to favorable development on prior accident years. Talbot specialty lines' loss ratios, excluding prior year development, for the three months ended December 31, 2009 and 2008 were 54.2% and 57.0%, respectively.

**Policy Acquisition Costs**

Policy acquisition costs for the three months ended December 31, 2009 were \$72.8 million compared to \$61.4 million for the three months ended December 31, 2008, an increase of \$11.4 million or 18.6%. Policy acquisition costs as a percent of net premiums earned for the three months ended December 31, 2009 and 2008 were 17.0% and 19.4%,

respectively.

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	Three Months Ended December 31, 2009(a)			Three Months Ended December 31, 2008			% Change
	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	
(Dollars in thousands)							
Property	\$ 31,694	43.5%	13.2%	\$ 26,197	42.7%	18.0%	21.0%
Marine	21,780	29.9%	23.2%	18,432	30.0%	19.7%	18.2%
Specialty	19,369	26.6%	20.7%	16,778	27.3%	21.8%	15.4%
<b>Total</b>	<b>\$ 72,843</b>	<b>100.0%</b>	<b>17.0%</b>	<b>\$ 61,407</b>	<b>100.0%</b>	<b>19.4%</b>	<b>18.6%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

*Validus Re.* Validus Re policy acquisition costs for the three months ended December 31, 2009 were \$37.1 million compared to \$28.0 million for the three months ended December 31, 2008, an increase of \$9.1 million or 32.4%.

	Three Months Ended December 31, 2009(a)			Three Months Ended December 31, 2008			% Change
	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	
(Dollars in thousands)							
Property	\$ 27,463	74.0%	13.4%	\$ 21,279	75.9%	18.1%	29.1%
Marine	5,257	14.2%	18.2%	4,222	15.1%	14.4%	24.5%
Specialty	4,368	11.8%	17.8%	2,510	9.0%	14.3%	74.0%
<b>Total</b>	<b>\$ 37,088</b>	<b>100.0%</b>	<b>14.4%</b>	<b>\$ 28,011</b>	<b>100.0%</b>	<b>17.0%</b>	<b>32.4%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

Policy acquisition costs include brokerage, commission and excise tax and are generally driven by contract terms. They are normally a set percentage of premiums and are also net of ceding commission income on retrocessions. Policy acquisition costs as a percent of net premiums earned for the three months ended December 31, 2009 and 2008 were 14.4% and 17.0%, respectively. The policy acquisition ratio decreased on the property line as a result on non renewal of a few proportional loss contracts with a high portion of policy acquisition costs. The policy acquisition ratio increased on the marine and specialty lines due primarily to the effects of Hurricanes Ike and Gustav reinstatement premiums earned without related policy acquisition costs for three months ended December 31, 2008.



*Talbot.* Talbot policy acquisition costs for the three months ended December 31, 2009 were \$37.6 million compared to \$33.6 million for the three months ended December 31, 2008, an increase of \$4.0 million or 11.9%.

	Three Months Ended December 31, 2009			Three Months Ended December 31, 2008			% Change
	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	
(Dollars in thousands)							
Property	\$ 6,031	16.1%	16.5%	\$ 5,082	15.2%	18.0%	18.7%
Marine	16,523	44.0%	25.5%	14,210	42.3%	22.2%	16.3%
Specialty	15,001	39.9%	21.8%	14,268	42.5%	24.0%	5.1%
<b>Total</b>	<b>\$ 37,555</b>	<b>100.0%</b>	<b>22.1%</b>	<b>\$ 33,560</b>	<b>100.0%</b>	<b>22.1%</b>	<b>11.9%</b>

Policy acquisition costs as a percent of net premiums earned were 22.1% and 22.1%, respectively, for the three months ended December 31, 2009 and 2008.

**Table of Contents****General and Administrative Expenses**

General and administrative expenses for the three months ended December 31, 2009 were \$60.3 million compared to \$22.8 million for the three months ended December 31, 2008, an increase of \$37.4 million or 164.2%. The increase was a result of increased expenses in both the Validus Re and Talbot segments.

(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	General and Administrative Expenses(a)	General and Administrative Expenses (%)	General and Administrative Expenses	General and Administrative Expenses (%)	
Validus Re	\$ 19,782	32.8%	\$ 7,301	32.0%	170.9%
Talbot	30,787	51.1%	12,882	56.5%	139.0%
Corporate & Eliminations	9,684	16.1%	2,626	11.5%	268.8%
<b>Total</b>	<b>\$ 60,253</b>	<b>100.0%</b>	<b>\$ 22,809</b>	<b>100.0%</b>	<b>164.2%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

General and administrative expense ratios for the three months ended December 31, 2009 and 2008 was 16.0% and 9.5%, respectively. General and administrative expense ratio is the sum of general and administrative expenses and share compensation expense divided by net premiums earned.

(Dollars in thousands)	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008	
	Expenses	Expenses as % of Net Earned Premiums	Expenses	Expenses as % of Net Earned Premiums
General and Administrative	\$ 60,253	14.1%	\$ 22,809	7.2%
Share Compensation	8,189	1.9%	7,279	2.3%
<b>Total</b>	<b>\$ 68,442</b>	<b>16.0%</b>	<b>\$ 30,088</b>	<b>9.5%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

General and administrative expenses of \$60.3 million in the three months ended December 31, 2009 represents 14.1 percentage points of the expense ratio. Share compensation expense is discussed in the following section.

*Validus Re.* Validus Re general and administrative expenses for the three months ended December 31, 2009 were \$19.8 million compared to \$7.3 million for the three months ended December 31, 2008, an increase of \$12.5 million or 170.9%. General and administrative expenses have increased primarily as a result of the associated costs from the acquisition of IPC, including increased headcount as well as additional rent and office costs. The Validus Re segment headcount increased to 133 at December 31, 2009 from 91 at December 31, 2008. General and administrative expenses are generally comprised of salaries and benefits, professional fees, rent and office expenses. Validus Re's general and administrative expenses as a percent of net premiums earned for the three months ended December 31, 2009 and 2008 were 7.7% and 4.4%, respectively.

*Talbot.* Talbot general and administrative expenses for the three months ended December 31, 2009 were \$30.8 million compared to \$12.9 million for the three months ended December 31, 2008, an increase of \$17.9 million or 139.0%. General and administrative expenses have increased primarily as a result of the increase in staff to 238 at December 31, 2009 from 182 at December 31, 2008 and expenses related to the new onshore energy and aviation underwriting teams. In addition to increased staff costs, Talbot rent and office expenses increased by \$5.9 million for three months ended December 31, 2009 due to a 2009 office move, including a \$4.2 million

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provision for the deficiency between the expected costs incurred up to the expiry of the previous office lease and any recoveries under potential sub-leases. Talbot's general and administrative expenses as a percent of net premiums earned for the three months ended December 31, 2009 and 2008 were 18.1% and 8.5%, respectively.

*Corporate & Eliminations.* Corporate general and administrative expenses for the three months ended December 31, 2009 were \$9.7 million compared to \$2.6 million for the three months ended December 31, 2008, an increase of \$7.1 million or 268.8%. General and administrative expenses have increased primarily as a result of an additional accrual for the performance bonus for the three months ended December 31, 2009 compared to a reduction in the performance bonus accrual for the three months ended December 31, 2008. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses and other costs relating to the Company as a whole.

**Share Compensation Expense**

Share compensation expense for the three months ended December 31, 2009 was \$8.2 million compared to \$7.3 million for the three months ended December 31, 2008, an increase of \$0.9 million or 12.5%. This expense is non-cash and has no net effect on total shareholders' equity, as it is balanced by an increase in additional paid-in capital.

	Three Months Ended December 31, 2009(a)		Three Months Ended December 31, 2008		% Change
	Shared Compensation Expense	Shared Compensation Expense (%)	Shared Compensation Expense	Shared Compensation Expense (%)	
(Dollars in thousands)					
Validus Re	\$ 2,590	31.6%	\$ 2,197	30.2%	17.9%
Talbot	1,367	16.7%	1,436	19.7%	(4.8)%
Corporate & Eliminations	4,232	51.7%	3,646	50.1%	16.1%
<b>Total</b>	<b>\$ 8,189</b>	<b>100.0%</b>	<b>\$ 7,279</b>	<b>100.0%</b>	<b>12.5%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

Share compensation expense of \$8.2 million in the three months ended December 31, 2009 represents 1.9 percentage points of the general and administrative expense ratio.

*Validus Re.* Validus Re share compensation expense for the three months ended December 31, 2009 was \$2.6 million compared to \$2.2 million for the three months ended December 31, 2008. Share compensation expense as a percent of net premiums earned for the three months ended December 31, 2009 and 2008 were 1.0% and 1.3%, respectively.

*Talbot.* Talbot share compensation expense for the three months ended December 31, 2009 was \$1.4 million compared to \$1.4 million for the three months ended December 31, 2008. Share compensation expense as a percent of net premiums earned for the three months ended December 31, 2009 and 2008 was 0.8% and 0.9%, respectively.

*Corporate & Eliminations.* Corporate share compensation expense for the three months ended December 31, 2009 was \$4.2 million compared to \$3.6 million for the three months ended December 31, 2008, an increase of \$0.6 million or 16.1%. This increase was due primarily to several share award issuances that vested during the three months ended December 31, 2008 and therefore had no further amortization expense during the three months ended December 31, 2009.

### **Selected Ratios**

The underwriting results of an insurance or reinsurance company are often measured by reference to its combined ratio, which is the sum of the loss ratio and the expense ratio. The net loss ratio is calculated by dividing losses and loss expenses incurred (including estimates for incurred but not reported losses) by net premiums earned. The expense ratio is calculated by dividing acquisition costs combined with general and administrative expenses by net premiums earned. The following table presents the losses and loss expenses ratio, policy acquisition cost ratio,

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general and administrative expense ratio, expense ratio and combined ratio for the three months ended December 31, 2009 and 2008:

	<b>Three Months Ended December 31, 2009(a)</b>	<b>Three Months Ended December 31, 2008</b>	<b>Percentage Point Change</b>
Losses and loss expenses ratio	31.1%	60.6%	(29.5)
Policy acquisition cost ratio	17.0%	19.4%	(2.4)
General and administrative expense ratio(b)	16.0%	9.5%	6.5
Expense ratio	33.0%	28.9%	4.1
<b>Combined ratio</b>	64.1%	89.5%	(25.4)

	<b>Three Months Ended December 31, 2009(a)</b>	<b>Three Months Ended December 31, 2008</b>	<b>Percentage Point Change</b>
<b><u>Validus Re</u></b>			
Losses and loss expenses ratio	17.1%	58.4%	(41.3)
Policy acquisition cost ratio	14.4%	17.0%	(2.6)
General and administrative expense ratio(b)	8.7%	5.8%	2.9
Expense ratio	23.1%	22.8%	0.3
<b>Combined ratio</b>	40.2%	81.2%	(41.0)

	<b>Three Months Ended December 31, 2009</b>	<b>Three Months Ended December 31, 2008</b>	<b>Percentage Point Change</b>
<b><u>Talbot</u></b>			
Losses and loss expenses ratio	52.2%	63.0%	(10.8)
Policy acquisition cost ratio	22.1%	22.1%	(0.0)
General and administrative expense ratio(b)	18.9%	9.4%	9.5
Expense ratio	41.0%	31.5%	9.5
<b>Combined ratio</b>	93.2%	94.5%	(1.3)

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) Includes general and administrative expense and share compensation expense.

### Underwriting Income

Underwriting income for the three months ended December 31, 2009 was \$153.6 million compared to \$33.0 million for the three months ended December 31, 2008, an increase of \$120.6 million, or 366.0%.

(Dollars in thousands)	Three Months Ended December 31,		Three Months Ended December 31,		% Change
	2009(a)	% of Sub Total	2008	% of Sub Total	
Validus Re	\$ 154,044	93.0%	\$ 30,887	79.1%	398.7%
Talbot	11,668	7.0%	8,181	20.9%	42.6%
Sub total	165,712	100.0%	39,068	100.0%	324.2%
Corporate & Eliminations	(12,116)		(6,108)		(98.4)%
<b>Total</b>	<b>\$ 153,596</b>		<b>\$ 32,960</b>		<b>366.0%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

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The underwriting results of an insurance or reinsurance company are also often measured by reference to its underwriting income, which is a non-GAAP measure as previously defined. Underwriting income, as set out in the table below, is reconciled to net income (the most directly comparable GAAP financial measure) by the addition or subtraction of certain Consolidated Statement of Operations and Comprehensive Income line items, as described below.

<b>(Dollars in thousands)</b>	<b>Three Months Ended December 31, 2009(a)</b>	<b>Three Months Ended December 31, 2008</b>
<b>Underwriting income</b>	\$ 153,596	\$ 32,960
Net investment income	35,506	30,671
Other income	1,759	1,598
Finance expenses	(14,398)	(8,522)
Realized gain on repurchase of debentures	4,444	
Net realized gains on investments	9,099	6,757
Net unrealized (losses) on investments	(25,043)	(7,099)
Foreign exchange gains (losses)	338	(13,554)
<b>Net income before taxes</b>	<b>\$ 165,301</b>	<b>\$ 42,811</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

Underwriting income indicates the performance of the Company's core underwriting function, excluding revenues and expenses such as the reconciling items in the table above. The Company believes the reporting of underwriting income enhances the understanding of our results by highlighting the underlying profitability of the Company's core insurance and reinsurance business. Underwriting profitability is influenced significantly by earned premium growth, adequacy of the Company's pricing and loss frequency and severity. Underwriting profitability over time is also influenced by the Company's underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance and its ability to manage its expense ratio, which it accomplishes through its management of acquisition costs and other underwriting expenses. The Company believes that underwriting income provides investors with a valuable measure of profitability derived from underwriting activities.

The Company excludes the U.S. GAAP measures noted above, in particular net realized and unrealized gains and losses on investments, from its calculation of underwriting income because the amount of these gains and losses is heavily influenced by, and fluctuates in part, according to availability of investment market opportunities. The Company believes these amounts are largely independent of its underwriting business and including them distorts the analysis of trends in its operations. In addition to presenting net income determined in accordance with U.S. GAAP, the Company believes that showing underwriting income enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the Company's results of operations in a manner similar to how management analyzes the Company's underlying business performance. The Company uses underwriting income as a primary measure of underwriting results in its analysis of historical financial information and when performing its



budgeting and forecasting processes. Analysts, investors and rating agencies who follow the Company request this non-GAAP financial information on a regular basis. In addition, underwriting income is one of the factors considered by the compensation committee of our Board of Directors in determining the bonus component of the total annual incentive compensation.

Underwriting income should not be viewed as a substitute for U.S. GAAP net income as there are inherent material limitations associated with the use of underwriting income as compared to using net income, which is the most directly comparable U.S. GAAP financial measure. The most significant limitation is the ability of users of the financial information to make comparable assessments of underwriting income with other companies, particularly as underwriting income may be defined or calculated differently by other companies. Therefore, the Company provides more prominence in this filing to the use of the most comparable U.S. GAAP financial measure, net income, which includes the reconciling items in the table above. The Company compensates for these limitations by

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providing both clear and transparent disclosure of net income and reconciliation of underwriting income to net income.

**Net Investment Income**

Net investment income for the three months ended December 31, 2009 was \$35.5 million compared to \$30.7 million for the three months ended December 31, 2008, an increase of \$4.8 million or 15.8%. Net investment income increased due primarily to a larger fixed maturity portfolio post-IPC acquisition. Net investment income is comprised of accretion of premium or discount on fixed maturities, interest on coupon-paying bonds, short-term investments and cash and cash equivalents, partially offset by investment management fees. The components of net investment income for the three months ended December 31, 2009 and 2008 are as presented below.

<b>(Dollars in thousands)</b>	<b>Three Months Ended December 31, 2009(a)</b>	<b>Three Months Ended December 31, 2008</b>	<b>% Change</b>
Fixed maturities and short-term investments	\$ 35,290	\$ 29,035	21.5%
Cash and cash equivalents	751	1,892	(60.3)%
Securities lending income	89	625	(85.8)%
Gross investment income	36,130	31,552	14.5%
Investment expenses	(624)	(881)	(29.2)%
<b>Net investment income</b>	<b>\$ 35,506</b>	<b>\$ 30,671</b>	<b>15.8%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

Investment management fees incurred relate to BlackRock Financial Management, Inc. ( BlackRock ) and Goldman Sachs Asset Management L.P. and its affiliates ( GSAM ). Each of Merrill Lynch & Co, Inc. ( Merrill Lynch ), a wholly owned subsidiary of Bank of America Corp., and Goldman Sachs are major shareholders of the Company. BlackRock is considered a related party due to its merger in February 2006 with Merrill Lynch Investment Managers. Investment management fees earned by BlackRock for the three months ended December 31, 2009 and 2008 were \$0.5 million and \$0.4 million, respectively. Investment management fees earned by GSAM for the three months ended December 31, 2009 and 2008 were \$0.2 million and \$0.4 million, respectively. The Company entered into investment management agreements during the three months ended December 31, 2009 with each of Conning, Inc. ( Conning ) and Pinebridge Investments Europe Ltd. On June 16, 2009, Aquiline Capital Partners LLC ( Aquiline ), a major shareholder of the Company, acquired Conning. Management believes that the fees charged were consistent with those that would have been charged in arm's-length transactions with unrelated third parties.

Annualized effective investment yield is based on the weighted average investments held calculated on a simple period average and excludes net unrealized gains (losses), foreign exchange gains (losses) on investments and the foreign exchange effect of insurance balances. The Company's annualized effective investment yield was 2.47% and 3.75% for the three months ended December 31, 2009 and 2008, respectively, and the average duration at December 31, 2009 was 2.2 years (December 31, 2008 1.8 years).

**Other Income**

Other income for the three months ended December 31, 2009 was \$1.8 million compared to \$1.6 million for the three months ended December 31, 2008, an increase of \$0.2 million or 10.1%.

**Finance Expenses**

Finance expenses for the three months ended December 31, 2009 were \$14.4 million compared to \$8.5 million for the three months ended December 31, 2008, an increase of \$5.9 million or 69.0%. The increase was primarily a result of a \$5.1 million increase in Talbot third party FAL expense.

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Finance expenses also include the amortization of debt offering costs and discounts and fees related to our credit facilities.

(Dollars in thousands)	Three Months Ended December 31,		% Change
	2009(a)	2008	
9.069% Junior Subordinated Deferrable Debentures	\$ 3,589	\$ 3,589	0.0%
8.480% Junior Subordinated Deferrable Debentures	2,688	3,187	(15.7)%
Credit facilities	1,084	218	397.2%
Talbot FAL facilities	375	86	336.0%
Talbot other interest		(105)	NM
Talbot third party FAL facility	6,662	1,547	330.6%
<b>Finance expenses</b>	<b>\$ 14,398</b>	<b>\$ 8,522</b>	<b>69.0%</b>

NM: Not Meaningful

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

Capital in Lloyd's entities, whether personal or corporate, is required to be set annually for the prospective year and held by Lloyd's in trust (Funds at Lloyd's or FAL). In underwriting years up to and including 2007, Talbot's FAL has been provided both by Talbot and by third parties, thereafter Talbot's FAL has been provided exclusively by the Company. Because the third party FAL providers remain on risk until each year of account that their support closes (normally after three years), Talbot must retain third party FAL even if a third party FAL provider has ceased to support the active underwriting year. This is achieved by placing such FAL in escrow outside Lloyd's. Thus the total FAL facility available to the Company is the total FAL for active and prior underwriting years, although the Company can only apply specific FAL against losses incurred by an underwriting year that such FAL is contracted to support.

For each year of account up to and including the 2007 year of account, between 30% and 40% of an amount equivalent to each underwriting year's profit is payable to Talbot third party FAL providers. However, some of these costs are fixed. There are no FAL finance charges related to the 2008 and 2009 years of account as there were no third party FAL providers in those periods.

The FAL finance charges relate to total syndicate profit (underwriting income, investment income and realized and unrealized capital gains and losses). FAL finance charges and total syndicate profits are analyzed by underwriting year of account as follows:

FAL Finance Charges	Three Months Ended December 31,	
	Total Syndicate Profit	FAL Finance Charges as % of Total Syndicate Profit

<b>Underwriting Year of Account (Dollars in thousands)</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008(1)</b>
2006(1)	\$	\$ 3,873	\$	\$ 14,765	NM	26.2%
2007	5,203	(2,326)	17,302	372	30.1%	(625.3)%
2008			(5,265)	10,495	NM	NM
2009			10,420		NM	NM
NIC Capital agreement	1,459				NM	NM
<b>Total</b>	\$ 6,662	\$ 1,547	\$ 22,457	\$ 25,632	29.7%	6.0%
Percentage excluding years in deficit					24.0%	6.0%

(1) The earliest year of account includes the run-off of prior (closed) years of account.

NM: Not Meaningful

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FAL finance charges are based on syndicate profit but include fixed elements. FAL finance charges for the three months ended December 31, 2009 were \$6.7 million compared to \$1.5 million for the three months ended December 31, 2008, an increase of \$5.1 million. This increase was due to the increase of FAL finance charges related to the 2007 year of account, which was closed in the three months ended December 31, 2009. The Talbot group has entered into an agreement with National Indemnity Corporation ( NIC ), whereby NIC, in the past, provided letters of credit to support the group's underwriting. Part of the agreement stipulates that part of the reinsurance to close premium in respect of the 2006 year of account will be made available to NIC, at NIC's option, as a limited quota share agreement. The portion that shall be offered is the amount of support provided by NIC for the 2006 year of account divided by the overall support provided for that year.

Total syndicate profit, as set out in the table below, is reconciled to the Talbot segment net income by the addition or subtraction of items noted below.

<b>(Dollars in thousands)</b>	<b>Three Months Ended December 31, 2009</b>	<b>Three Months Ended December 31, 2008</b>
<b>Total syndicate profit</b>	\$ 22,457	\$ 25,632
FAL Finance expenses	(6,662)	(1,547)
Managing agent's fee(1)	2,727	1,889
Managing agent's profit commission(2)	3,567	8,892
Investment income(3)	5,281	(468)
Other segment operating expenses, net	(13,460)	(7,335)
Share compensation expenses	(1,367)	(1,436)
Intangible amortization expenses	(1,040)	(1,041)
Income tax benefit (expense)	514	(5,786)
<b>Talbot segment net income</b>	<b>\$ 12,017</b>	<b>\$ 18,800</b>

(1) 1.5% of syndicate capacity; corresponding syndicate expense reflected in total syndicate profit, above.

(2) 15.0% of syndicate profit; corresponding syndicate expense reflected in total syndicate profit, above.

(3) On FAL and on non-syndicate cash balances.

**Tax Benefit (Expense)**

Tax benefit for the three months ended December 31, 2009 was \$0.5 million compared to an (expense) of (\$5.8) million for the three months ended December 31, 2008, a change of \$6.3 million. The tax benefit is primarily due to the Talbot segment and was due to expenses incurred in the fourth quarter in respect of the performance related bonus together with tax relief on stock compensation costs. This was offset by tax on profit commission earned by the managing agent. The tax charge in 2008 was largely due to tax on profit commissions.

**Realized Gain on Repurchase of Debentures**

On December 1, 2009, the Company repurchased from an unaffiliated financial institution \$14.5 million principal amount of its 8.480% Junior Subordinated Deferrable Debentures due 2037 at an aggregate price of \$9.9 million plus accrued and unpaid interest of \$0.3 million. The repurchase resulted in the recognition of a realized gain of \$4.4 million for the three months ended December 31, 2009.

**Net Realized Gains (Losses) on Investments**

Net realized gains on investments for the three months ended December 31, 2009 were \$9.1 million compared to gains of \$6.8 million for the three months ended December 31, 2008. The net realized gains for the three months ended December 31, 2009 resulted primarily from the disposition of fixed maturities during the restructure of the IPC investment portfolio.

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**Net Unrealized (Losses) Gains on Investments**

Net unrealized losses on investments for the three months ended December 31, 2009 were (\$25.0) million compared to losses of (\$7.1) million for the three months ended December 31, 2008. The net unrealized losses in the three months ended December 31, 2009 were due to an upward shift in the yield curve during the three months ended December 31, 2009. The shift negatively affected the performance of the fixed maturity portfolio.

The net unrealized gains on investments for the three months ended December 31, 2009 included a \$0.7 million unrealized gain on the fund of hedge funds purchased in the IPC Acquisition. The fund of hedge funds was included in other investments on the balance sheet as at December 31, 2009.

Net unrealized gains on investments are recorded as a component of net income. The Company has adopted all authoritative guidance on U.S. GAAP fair value measurements in effect as of the balance sheet date. Consistent with these standards, certain market conditions allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable. Certain non-Agency RMBS securities were identified as trading in inactive markets. The change in fair value for the identified non-Agency RMBS securities was a \$6.4 million increase in net unrealized loss on investments for the three months ended December 31, 2009. Further details are provided in the Investments section below.

**Foreign Exchange Gains (Losses)**

Foreign exchange gains (losses) for the three months ended December 31, 2009 were \$0.3 million compared to (\$13.6) million for the three months ended December 31, 2008, an increase of \$13.9 million. The decrease in foreign exchange (losses) was due primarily to the stable major currency movements during the three months ended December 31, 2009, compared to fluctuations resulting in a decline in the value of assets denominated in foreign currencies relative to the U.S. dollar reporting currency for the three months ended December 31, 2008. For the three months ended December 31, 2009, Validus Re recognized foreign exchange losses of \$0.8 million. For the three months ended December 31, 2009, Talbot segment foreign exchange gains were \$1.1 million compared to losses of \$12.5 million for the three months ended December 31, 2008, an increase of \$13.6 million. The British pound sterling to U.S. dollar exchange rates were 1.60 and 1.59 at September 30, 2009 and December 31, 2009, respectively. In the prior year, the British pound sterling to U.S. dollar exchange rates were 1.78 and 1.44 at September 30, 2008 and December 31, 2008, respectively. Certain premiums receivable and liabilities for losses incurred in currencies other than the U.S. dollar are exposed to the risk of changes in value resulting from fluctuations in foreign exchange rates and may affect financial results in the future.

At December 31, 2009, Talbot's balance sheet includes net unearned premiums and deferred acquisition costs denominated in foreign currencies of approximately \$81.4 million and \$17.5 million. This net balance of \$63.9 million consisted of British pounds sterling and Canadian dollars of \$56.8 million and \$7.1 million, respectively. Net unearned premiums and deferred acquisition costs are classified as non-monetary items and are translated at historic exchange rates. All of Talbot's other balance sheet items are classified as monetary items and are translated at period end exchange rates. Additional foreign exchange (losses) gains may be incurred on the translation of net unearned premiums and deferred acquisition costs arising from insurance and reinsurance premiums written in future periods.



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The following table presents results of operations for the three months ended December 31, 2009 and 2008 and years ended December 31, 2009, 2008 and 2007:

(Dollars in thousands)	Three Months Ended		Year Ended December 31,		
	December 31, 2009(a)	2008	2009(a)	2008	2007(b)
Gross premiums written	\$ 255,289	\$ 191,736	\$ 1,621,241	\$ 1,362,484	\$ 988,637
Reinsurance premiums ceded	(30,393)	(2,722)	(232,883)	(124,160)	(70,210)
Net premiums written	224,896	189,014	1,388,358	1,238,324	918,427
Change in unearned premiums	203,005	127,017	61,219	18,194	(60,348)
Net premiums earned	427,901	316,031	1,449,577	1,256,518	858,079
Losses and loss expenses	133,020	191,576	523,757	772,154	283,993
Policy acquisition costs	72,843	61,407	262,966	234,951	134,277
General and administrative expenses	60,253	22,809	185,568	123,948	97,765
Share compensation expenses	8,189	7,279	27,037	27,097	16,189
Total underwriting deductions	274,305	283,071	999,328	1,158,150	532,224
Underwriting income(c)	153,596	32,960	450,249	98,368	325,855
Net investment income	35,506	30,671	118,773	139,528	112,324
Other income	1,759	1,598	4,634	5,264	3,301
Finance expenses	(14,398)	(8,522)	(44,130)	(57,318)	(51,754)
Operating income before taxes(c)	176,463	56,707	529,526	185,842	389,726
Tax benefit (expense)	458	(5,796)	3,759	(10,788)	(1,505)
Net operating income(c)	176,921	50,911	533,285	175,054	388,221
Gain on bargain purchase, net of expenses			287,099		
Realized gain on repurchase of debentures	4,444		4,444	8,752	
Net realized gains (losses) on investments	9,099	6,757	(11,543)	(1,591)	1,608
Net unrealized (losses) gains on investments	(25,043)	(7,099)	84,796	(79,707)	12,364
Fair value of warrants issued					(2,893)
Aquiline termination fee					(3,000)
Foreign exchange gains (losses)	338	(13,554)	(674)	(49,397)	6,696
Net income	\$ 165,759	\$ 37,015	\$ 897,407	\$ 53,111	\$ 402,996
Net premiums written / Gross premiums written	88.1%	98.6%	85.6%	90.9%	92.9%
Losses and loss expenses	31.1%	60.6%	36.1%	61.5%	33.1%
Policy acquisition costs	17.0%	19.4%	18.1%	18.7%	15.6%

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General and administrative expenses	16.0%	9.5%	14.7%	12.0%	13.3%
Expense ratio	33.0%	28.9%	32.8%	30.7%	28.9%
Combined ratio	64.1%	89.5%	68.9%	92.2%	62.0%

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.
- (c) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income (loss) and operating income that are not calculated under standards or rules that comprise

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U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. A reconciliation underwriting income (loss) measure to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

	<b>Three Months Ended</b>		<b>Year Ended December 31,</b>		
	<b>December 31,</b>		<b>2009(a)</b>	<b>2008</b>	<b>2007(b)</b>
	<b>2009(a)</b>	<b>2008</b>	<b>2009(a)</b>	<b>2008</b>	<b>2007(b)</b>
<b><u>Validus Re</u></b>					
Gross premiums written	\$ 33,694	\$ 43,873	\$ 768,084	\$ 687,771	\$ 702,098
Reinsurance premiums ceded	(652)	(1,696)	(95,446)	(62,933)	(68,842)
Net premiums written	33,042	42,177	672,638	624,838	633,256
Change in unearned premiums	224,596	122,191	122,912	28,693	(74,227)
Net premiums earned	257,638	164,368	795,550	653,531	559,029
Losses and loss expenses	44,134	95,972	186,704	420,645	175,538
Policy acquisition costs	37,088	28,011	127,433	100,243	70,323
General and administrative expenses	19,782	7,301	65,710	34,607	31,412
Share compensation expenses	2,590	2,197	7,576	6,829	4,013
Total underwriting deductions	103,594	133,481	387,423	562,324	281,286
Underwriting income(c)	154,044	30,887	408,127	91,207	277,743
<b><u>Talbot</u></b>					
Gross premiums written	\$ 229,548	\$ 152,662	\$ 919,906	\$ 708,996	\$ 286,539
Reinsurance premiums ceded	(37,694)	(5,825)	(204,186)	(95,510)	(1,368)
Net premiums written	191,854	146,837	715,720	613,486	285,171
Change in unearned premiums	(21,591)	4,826	(61,693)	(10,499)	13,879
Net premiums earned	170,263	151,663	654,027	602,987	299,050
Losses and loss expenses	88,886	95,604	337,053	351,509	108,455
Policy acquisition costs	37,555	33,560	139,932	135,017	63,954
General and administrative expenses	30,787	12,882	96,352	71,443	48,886
Share compensation expenses	1,367	1,436	7,171	4,702	1,709
Total underwriting deductions	158,595	143,482	580,508	562,671	223,004
Underwriting income(c)	11,668	8,181	73,519	40,316	76,046
<b><u>Corporate &amp; Eliminations</u></b>					
Gross premiums written	\$ (7,953)	\$ (4,799)	\$ (66,749)	\$ (34,283)	\$
Reinsurance premiums ceded	7,953	4,799	66,749	34,283	
Net premiums written					

## Change in unearned premiums

## Net premiums earned

## Losses and loss expenses

Policy acquisition costs	(1,800)	(164)	(4,399)	(309)	
General and administrative expenses	9,684	2,626	23,506	17,898	17,467
Share compensation expenses	4,232	3,646	12,290	15,566	10,467
Total underwriting deductions	12,116	6,108	31,397	33,155	27,934
Underwriting (loss)(c)	(12,116)	(6,108)	(31,397)	(33,155)	(27,934)
Total underwriting income(c)	\$ 153,596	\$ 32,960	\$ 450,249	\$ 98,368	\$ 325,855

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.
- (c) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income (loss) that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S.

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GAAP. A reconciliation of this measure to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

**Year ended December 31, 2009 compared to year ended December 31, 2008**

Net income for the year ended December 31, 2009 was \$897.4 million compared to net income of \$53.1 million for the year ended December 31, 2008, an increase of \$844.3 million. The primary factors driving the increase in net income were:

Increase in underwriting income of \$351.9 million due primarily to reduced losses and loss expenses of \$248.4 million and increased net premiums earned of \$193.1 million. For the year ended December 31, 2008, the Company incurred losses of \$260.6 million and \$22.1 million, respectively, as a result of Hurricanes Ike and Gustav;

Gain on bargain purchase, net of expenses of \$287.1 million on the IPC Acquisition;

Increase in net unrealized gains on investments of \$164.5 million due to improved market conditions for fixed income securities;

Decreased in foreign exchange (losses) of \$48.7 million was due to the increased value of assets denominated in foreign currencies relative to the U.S. dollar reporting currency for the year ended December 31, 2009, as compared to the year ended December 31, 2008. Foreign exchange (losses) for the year ended December 31, 2009 were (\$0.7) million, as compared to (\$49.4) million for the year ended December 31, 2008; and

Reduced finance expenses of \$13.2 million due to reduced FAL costs.

The items above were partially offset by the following factor:

Decrease in net investment income of \$20.8 million due to lower yields on cash and fixed income investments.

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The change in net income for the year ended December 31, 2009 of \$844.3 million is described in the following table:

(Dollars in thousands)	Year Ended December 31, 2009 Increase (decrease) over the Year Ended December 31, 2008(a)			
	Validus Re	Talbot	Corporate and Other Reconciling Items	Total
Hurricanes Ike and Gustav net losses and loss expenses	\$ 231,573	\$ 51,135	\$	\$ 282,708
Hurricanes Ike and Gustav net reinstatement premiums	(25,860)	(897)		(26,757)
Other underwriting income	111,207	(17,035)	1,758	95,930
Underwriting income	316,920	33,203	1,758	351,881
Net investment income	(7,021)	(11,406)	(2,328)	(20,755)
Other income	4,840	(39)	(5,431)	(630)
Finance expenses	(895)	12,626	1,457	13,188
	313,844	34,384	(4,544)	343,684
Taxes	(75)	14,622		14,547
	313,769	49,006	(4,544)	358,231
Gain on bargain purchase, net of expenses(b)			287,099	287,099
Realized gain on repurchase of debentures			(4,308)	(4,308)
Net realized gains (losses) on investments	4,290	(14,242)		(9,952)
Net unrealized gains on investments	159,923	4,580		164,503
Foreign exchange gains	15,295	33,372	56	48,723
<b>Change in net income</b>	<b>\$ 493,277</b>	<b>\$ 72,716</b>	<b>\$ 278,303</b>	<b>\$ 844,296</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) Hurricanes Ike and Gustav net losses and loss expenses and net reinstatement premiums recognized for the year ended December 31, 2008; therefore, figures exclude loss development in subsequent periods.
- (c) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income (loss) that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. A reconciliation of this measure to net income, the most comparable U.S. GAAP financial measure, is

presented in the section below entitled Underwriting Income.

### **Gross Premiums Written**

Gross premiums written for the year ended December 31, 2009 were \$1,621.2 million compared to \$1,362.5 million for the year ended December 31, 2008, an increase of \$258.8 million or 19.0%. The increase in gross premiums written was driven primarily by the property and specialty lines which increased by \$121.3 million and \$87.4 million, respectively. Both the Validus Re and Talbot segments saw increases in gross premiums written in all three lines. Details of gross premiums written by line of business are provided below.

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(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007(b)	
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)
Property	\$ 744,660	45.9%	\$ 623,386	45.8%	\$ 547,552	55.3%
Marine	446,962	27.6%	396,897	29.1%	250,732	25.4%
Specialty	429,619	26.5%	342,201	25.1%	190,353	19.3%
<b>Total</b>	<b>\$ 1,621,241</b>	<b>100.0%</b>	<b>\$ 1,362,484</b>	<b>100.0%</b>	<b>\$ 988,637</b>	<b>100.0%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

*Validus Re.* Validus Re gross premiums written for the year ended December 31, 2009 were \$768.1 million compared to \$687.8 million for the year ended December 31, 2008, an increase of \$80.3 million or 11.7%. Details of Validus Re gross premiums written by line of business are provided below.

(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007	
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)
Property	\$ 520,347	67.7%	\$ 492,967	71.7%	\$ 498,375	71.0%
Marine	152,853	19.9%	117,744	17.1%	136,710	19.5%
Specialty	94,884	12.4%	77,060	11.2%	67,013	9.5%
<b>Total</b>	<b>\$ 768,084</b>	<b>100.0%</b>	<b>\$ 687,771</b>	<b>100.0%</b>	<b>\$ 702,098</b>	<b>100.0%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

Validus Re gross premiums written increased across the property, marine and specialty lines by \$27.4 million, \$35.1 million and \$17.8 million, respectively. The increase in the property line was due primarily to gross premiums written on various new contracts where favorable changes in risk adjusted pricing met Validus Re's thresholds and rate increases on existing business, offset by a \$19.4 million decrease in reinstatement premiums relating to Hurricanes Ike and Gustav. The increase in the marine line was due primarily to additional gross premiums written on proportional contracts where underlying insurance coverage terms have become more favorable. The gross and net amount of



reinsurance limits exposed in the Gulf of Mexico have been reduced in 2009 despite the increased gross premiums written, due to more restrictive coverage terms and, in the case of gross limits, the non-renewal of the Company's collateralized quota share facility. The property, marine and specialty lines also benefited from \$23.9 million, \$5.6 million and \$3.0 million, respectively, of increased gross premiums written as a result of Talbot quota share, surplus treaty and excess of loss contracts. The quota share, surplus treaty and excess of loss contracts with Talbot are eliminated upon consolidation.

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*Talbot.* Talbot gross premiums written for the year ended December 31, 2009 were \$919.9 million compared to \$709.0 million for the year ended December 31, 2008, an increase of \$210.9 million or 29.7%. Details of Talbot gross premiums written are provided below:

(Dollars in thousands)	Year Ended December 31, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007(a)	
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)
Property	\$ 269,583	29.3%	\$ 152,143	21.5%	\$ 151,245	22.0%
Marine	307,385	33.4%	287,696	40.5%	264,008	38.4%
Specialty	342,938	37.3%	269,157	38.0%	272,472	39.6%
<b>Total</b>	<b>\$ 919,906</b>	<b>100.0%</b>	<b>\$ 708,996</b>	<b>100.0%</b>	<b>\$ 687,725</b>	<b>100.0%</b>

(a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

The increase in the property lines was due primarily to \$96.8 million of gross premiums written in the onshore energy lines and a \$24.0 million increase in premiums written by Validus Reaseguros, Inc., which acts as an approved Lloyd's coverholder for Syndicate 1183 targeting the Latin American and Caribbean markets, and commenced operations during 2008. The increase in the marine lines was primarily due to \$10.0 million in additional gross premiums written on the offshore energy lines and \$10.2 million in additional gross premiums written on marine treaty resulting from an increase in clients in new territories. The increase in the specialty lines was due primarily to \$55.0 million of additional gross premiums written by the new aviation team.

**Reinsurance Premiums Ceded**

Reinsurance premiums ceded for the year ended December 31, 2009 were \$232.9 million compared to \$124.2 million for the year ended December 31, 2008, an increase of \$108.7 million, or 87.6%. This was due primarily to an increase of \$103.6 million on the property lines retrocession as described below.

(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007(b)	
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)
Property	\$ 149,979	64.4%	\$ 46,360	37.4%	\$ 35,689	50.9%
Marine	31,140	13.4%	39,406	31.7%	32,808	46.7%
Specialty	51,764	22.2%	38,394	30.9%	1,713	2.4%
<b>Total</b>	<b>\$ 232,883</b>	<b>100.0%</b>	<b>\$ 124,160</b>	<b>100.0%</b>	<b>\$ 70,210</b>	<b>100.0%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

*Validus Re.* Validus Re reinsurance premiums ceded for the year ended December 31, 2009 were \$95.4 million compared to \$62.9 million for the year ended December 31, 2008, an increase of \$32.5 million, or 51.7%.

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(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007	
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)
	Property	\$ 80,475	84.3%	\$ 34,712	55.2%	\$ 34,609
Marine	13,120	13.7%	27,652	43.9%	31,768	46.1%
Specialty	1,851	2.0%	569	0.9%	2,465	3.6%
<b>Total</b>	<b>\$ 95,446</b>	<b>100.0%</b>	<b>\$ 62,933</b>	<b>100.0%</b>	<b>\$ 68,842</b>	<b>100.0%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

Reinsurance premiums ceded on the property lines increased by \$45.8 million, due primarily to the purchase of an additional \$34.0 million of catastrophe retrocessional coverage for IPC's U.S. property exposures. The \$14.5 million decrease in the marine line was due primarily to the nonrenewal during 2009 of a collateralized quota share retrocession treaty, pursuant to which Validus Re ceded \$27.7 million for the year ended December 31, 2008.

*Talbot.* Talbot reinsurance premiums ceded for the year ended December 31, 2009 were \$204.2 million compared to \$95.5 million for the year ended December 31, 2008, an increase of \$108.7 million.

(Dollars in thousands)	Year Ended December 31, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007(a)	
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)
	Property	\$ 114,774	56.2%	\$ 33,372	34.9%	\$ 24,497
Marine	31,296	15.3%	20,297	21.3%	21,001	23.4%
Specialty	58,116	28.5%	41,841	43.8%	44,369	49.4%
<b>Total</b>	<b>\$ 204,186</b>	<b>100.0%</b>	<b>\$ 95,510</b>	<b>100.0%</b>	<b>\$ 89,867</b>	<b>100.0%</b>

(a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

Property reinsurance premiums ceded on the onshore energy lines increased by \$58.0 million. Reinsurance ceded under the third party quota share, surplus treaty and excess of loss contracts on the property lines increased by \$59.4 million compared to the twelve months ended December 31, 2008. Reinsurance premiums ceded under the quota share, surplus treaty and excess of loss contracts with Validus Re for the twelve months ended December 31,

2009 were \$66.7 million compared to \$35.1 million for the twelve months ended December 31, 2008, an increase of \$31.6 million. The quota share, surplus treaty and excess of loss contracts with Validus Re are eliminated upon consolidation.

**Net Premiums Written**

Net premiums written for the year ended December 31, 2009 were \$1,388.4 million compared to \$1,238.3 million for the year ended December 31, 2008, an increase of \$150.0 million, or 12.1%. The ratios of net premiums written to gross premiums written for the year ended December 31, 2009 and 2008 were 85.6% and 90.9%, respectively. Details of net premiums written by line of business are provided below.

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(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007(b)	
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)
	Property	\$ 594,681	42.8%	\$ 577,026	46.6%	\$ 511,863
Marine	415,822	30.0%	357,491	28.9%	217,924	23.7%
Specialty	377,855	27.2%	303,807	24.5%	188,640	20.5%
<b>Total</b>	<b>\$ 1,388,358</b>	<b>100.0%</b>	<b>\$ 1,238,324</b>	<b>100.0%</b>	<b>\$ 918,427</b>	<b>100.0%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

Premium rates in most lines have increased during the year ended December 31, 2009 as compared to the same period in 2008. As a result of the Company's strategy to grow premiums written only when returns meet or exceed internal requirements, net premiums written have increased compared with the year ended December 31, 2008.

*Validus Re.* Validus Re net premiums written for the year ended December 31, 2009 were \$672.6 million compared to \$624.8 million for the year ended December 31, 2008, an increase of \$47.8 million or 7.6%. Details of net premiums written by line of business are provided below.

(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007	
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)
	Property	\$ 439,872	65.4%	\$ 458,255	73.4%	\$ 463,766
Marine	139,733	20.8%	90,092	14.4%	104,942	16.6%
Specialty	93,033	13.8%	76,491	12.2%	64,548	10.2%
<b>Total</b>	<b>\$ 672,638</b>	<b>100.0%</b>	<b>\$ 624,838</b>	<b>100.0%</b>	<b>\$ 633,256</b>	<b>100.0%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

The increase in Validus Re net premiums written was driven by an increase in the marine line of \$49.6 million. This increase was a result of increased gross premiums written and decreased reinsurance premium ceded in the marine

line, as discussed above. The ratios of net premiums written to gross premiums written were 87.6% and 90.8% for the year ended December 31, 2009 and 2008, respectively.

*Talbot.* Talbot net premiums written for the year ended December 31, 2009 were \$715.7 million compared to \$613.5 million for the year ended December 31, 2008, an increase of \$102.2 million or 16.7%. Details of net premiums written by line of business are provided below:

(Dollars in thousands)	Year Ended December 31, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007(a)	
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)
Property	\$ 154,809	21.6%	\$ 118,771	19.3%	\$ 126,748	21.2%
Marine	276,089	38.6%	267,399	43.6%	243,007	40.6%
Specialty	284,822	39.8%	227,316	37.1%	228,102	38.2%
<b>Total</b>	<b>\$ 715,720</b>	<b>100.0%</b>	<b>\$ 613,486</b>	<b>100.0%</b>	<b>\$ 597,857</b>	<b>100.0%</b>

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- (a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

The increase in net premiums written was driven by the factors highlighted above in respect of gross premiums written and reinsurance premiums ceded. The ratios of net premiums written to gross premiums written for the year ended December 31, 2009 and 2008 were 77.8% and 86.5%, respectively, reflecting the significant increase in reinsurance costs and quota share costs on the new onshore energy account.

**Change in Unearned Premiums**

Change in unearned premiums for the year ended December 31, 2009 was \$61.2 million compared to \$18.2 million for the year ended December 31, 2008, a change of \$43.0 million or 236.5%.

(Dollars in thousands)	Change in Unearned Premiums		
	Year Ended December 31, 2009(a)	Year Ended December 31, 2008	Year Ended December 31, 2007(b)
Change in gross unearned premium	\$ 2,258	\$ 7,164	\$ (23,657)
Change in prepaid reinsurance premium	58,961	11,030	(36,691)
<b>Net change in unearned premium</b>	<b>\$ 61,219</b>	<b>\$ 18,194</b>	<b>\$ (60,348)</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

*Validus Re.* Validus Re's change in unearned premiums for the year ended December 31, 2009 was \$122.9 million compared to \$28.7 million for the year ended December 31, 2008, a change of \$94.2 million, or 328.4%.

(Dollars in thousands)	Change in Unearned Premiums		
	Year Ended December 31, 2009(a)	Year Ended December 31, 2008	Year Ended December 31, 2007
Change in gross unearned premium	\$ 112,349	\$ 27,482	\$ (80,768)
Change in prepaid reinsurance premium	10,563	1,211	6,541
<b>Net change in unearned premium</b>	<b>\$ 122,912</b>	<b>\$ 28,693</b>	<b>\$ (74,227)</b>



- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

The change in unearned premiums was due primarily to \$130.2 million additional change in unearned premiums resulting from the acquisition of IPC. This was partially offset by the effect of non-recurring reinstatement premiums from notable loss events compared to the year ended December 31, 2008. The difference in gross unearned premiums also reflects the benefit of earning premiums on the increased gross premiums written of \$80.3 million, or 11.7%, from \$687.8 million for the year ended December 31, 2008 to \$768.1 million for the year ended December 31, 2009. In respect of prepaid reinsurance premiums, the change is a result primarily of the additional retrocessional coverage for the year ended December 31, 2009, as discussed above.

*Talbot.* The Talbot change in unearned premiums for the year ended December 31, 2009 was (\$61.7) million compared to (\$10.5) million for the year ended December 31, 2008, a change of \$51.2 million, or 487.6%.

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(Dollars in thousands)	Change in Unearned Premiums		
	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007(a)
Change in gross unearned premium	\$ (110,091)	\$ (20,318)	\$ 57,111
Change in prepaid reinsurance premium	48,398	9,819	(43,232)
<b>Net change in unearned premium</b>	<b>\$ (61,693)</b>	<b>\$ (10,499)</b>	<b>\$ 13,879</b>

(a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

The difference in gross unearned premiums arises principally from the increased gross premiums written in the property lines, specifically onshore energy exposures and premiums written by Validus Reaseguros, Inc. on the property treaty lines, for the year ended December 31, 2009, as compared to the year ended December 31, 2008. In addition, gross unearned premium increased as a result of the new aviation team. The increase in the change in prepaid reinsurance is reflective of the higher levels of ceded reinsurance, principally in the property line for the year ended December 31, 2009, as compared to the year ended December 31, 2008.

**Net Premiums Earned**

Net premiums earned for the year ended December 31, 2009 were \$1,449.6 million compared to \$1,256.5 million for the year ended December 31, 2008, an increase of \$193.1 million or 15.4%. The increase in net premiums earned was driven primarily by increased premiums earned at Validus Re of \$142.0 million. The increase in net premiums earned was due primarily to \$125.1 million of property net premiums earned resulting from the acquisition of IPC.

(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007(b)	
	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)
Property	\$ 712,662	49.2%	\$ 598,407	47.7%	\$ 488,591	56.9%
Marine	397,061	27.4%	367,449	29.2%	199,571	23.3%
Specialty	339,854	23.4%	290,662	23.1%	169,917	19.8%
<b>Total</b>	<b>\$ 1,449,577</b>	<b>100.0%</b>	<b>\$ 1,256,518</b>	<b>100.0%</b>	<b>\$ 858,079</b>	<b>100.0%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

*Validus Re.* Validus Re net premiums earned for the year ended December 31, 2009 were \$795.6 million compared to \$653.5 million for the year ended December 31, 2008, an increase of \$142.0 million or 21.7%.

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(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007	
	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)
	Property	\$ 578,452	72.7%	\$ 478,523	73.2%	\$ 423,977
Marine	123,273	15.5%	104,479	16.0%	78,684	14.1%
Specialty	93,825	11.8%	70,529	10.8%	56,368	10.1%
<b>Total</b>	<b>\$ 795,550</b>	<b>100.0%</b>	<b>\$ 653,531</b>	<b>100.0%</b>	<b>\$ 559,029</b>	<b>100.0%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

The increase in net premiums earned was due primarily to \$125.1 million of property net premiums earned resulting from the acquisition of IPC. The remaining increase in net premiums earned reflects the benefit of earning premiums on business written in 2008 and 2007. Contracts written on a risks-attaching basis are generally earned over twenty four months and therefore have less immediate effect on premiums earned than contracts written on a losses-occurring basis which are generally earned on a twelve month basis.

*Talbot.* Talbot net premiums earned for the year ended December 31, 2009 were \$654.0 million compared to \$603.0 million for the year ended December 31, 2008, an increase of \$51.0 million or 8.5%.

(Dollars in thousands)	Year Ended December 31, 2009		Year Ended December 31, 2008		Year Ended December 31, 2007(a)	
	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)
	Property	\$ 134,210	20.5%	\$ 119,884	19.9%	\$ 134,435
Marine	273,788	41.9%	262,970	43.6%	235,428	40.3%
Specialty	246,029	37.6%	220,133	36.5%	214,021	36.7%
<b>Total</b>	<b>\$ 654,027</b>	<b>100.0%</b>	<b>\$ 602,987</b>	<b>100.0%</b>	<b>\$ 583,884</b>	<b>100.0%</b>

(a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

The increase in net premiums earned is primarily due to the increased levels of net premiums written by the new onshore energy and aviation teams over the twelve months ended December 31, 2009, as compared with the twelve months ended December 31, 2008.

**Losses and Loss Expenses**

Losses and loss expenses for the year ended December 31, 2009 were \$523.8 million compared to \$772.2 million for the year ended December 31, 2008, a decrease of \$248.4 million or 32.2%. The loss ratios, defined as losses and loss expenses divided by net premiums earned, for the year ended December 31, 2009 and 2008 were 36.1% and 61.5%, respectively. Details of loss ratios by line of business are provided below.

	<b>Year Ended December 31, 2009(a)</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007(b)</b>
Property	15.9%	69.7%	31.0%
Marine	61.1%	68.7%	45.5%
Specialty	49.4%	35.2%	23.5%
<b>All lines</b>	36.1%	61.5%	33.1%

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- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

In each year ended December 31, 2009 and 2008, loss events impacting the worldwide insurance and reinsurance markets affected the Company's loss ratio. The frequency and severity of worldwide losses for the year ended December 31, 2009 that materially affected the Company's loss ratio were significantly lower than in the year ended December 31, 2008. The following table reflects losses and loss expenses, net of reinsurance, for each segment and includes the impact of catastrophe losses and other notable loss events, expressed as a percentage of net premiums earned ( NPE ), for the years ended December 31, 2009 and 2008:

Event (Dollars in thousands)	Description	Year Ended December 31,					
		Validus Re		Talbot		Total	
		Losses and Loss Expenses	% of NPE	Losses and Loss Expenses	% of NPE	Losses and Loss Expenses	% of NPE
<b>2009 losses and loss expenses</b>		\$ 186,704	23.5%	\$ 337,053	51.5%	\$ 523,757	36.1%
<b>2009 notable loss events</b>							
Windstorm Klaus	Windstorm	17,731	2.2%	316	0.0%	18,047	1.2%
Commercial flight loss	Aviation loss	2,056	0.3%	6,406	1.0%	8,462	0.6%
Dublin floods	Flood	5,732	0.7%			5,732	0.4%
Total		\$ 25,519	3.2%	\$ 6,722	1.0%	\$ 32,241	2.2%
<b>2008 losses and loss expenses</b>		\$ 420,645	64.4%	\$ 351,509	58.3%	\$ 772,154	61.5%
<b>2008 notable loss events</b>							
Hurricane Ike	Hurricane	216,127	33.1%	44,440	7.4%	260,567	20.7%
Hurricane Gustav	Hurricane	15,446	2.4%	6,695	1.1%	22,141	1.8%
ALON USA	Petroleum refinery explosion	12,500	1.9%			12,500	1.0%
NORSUL	Tug and barge grounded	341	0.1%	8,569	1.4%	8,910	0.7%
U.S. Tornado (Cat 42)	Tornado	8,549	1.3%	77		8,626	0.7%
Apache Varanus	Fire	713	0.1%	7,541	1.3%	8,254	0.7%
U.S. Tornado (Cat 27)	Tornado	6,000	0.9%	1,605	0.3%	7,605	0.6%
Total		\$ 259,676	39.8%	\$ 68,927	11.5%	\$ 328,603	26.2%



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The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the year ended December 31, 2009:

(Dollars in thousands)	Year Ended December 31, 2009			
	Validus	Talbot	Eliminations	Total
Gross reserves at period beginning	\$ 535,888	\$ 790,199	\$ (20,784)	\$ 1,305,303
Losses recoverable	(84,523)	(145,057)	20,784	(208,796)
Net reserves at period beginning	451,365	645,142		1,096,507
Net reserves acquired from IPC acquisition	304,957			304,957
Incurred losses - current year	239,676	386,134		625,810
Incurred losses - change in prior accident years	(52,972)	(49,081)		(102,053)
Incurred losses	186,704	337,053		523,757
Paid losses	(254,996)	(252,439)		(507,435)
Foreign exchange	4,672	17,911		22,583
Net reserves at period end	692,702	747,667		1,440,369
Losses recoverable	49,808	156,319	(24,362)	181,765
Gross reserves at period end	\$ 742,510	\$ 903,986	\$ (24,362)	\$ 1,622,134

The amount of recorded reserves represents management's best estimate of expected losses and loss expenses on premiums earned. Prior years favorable loss development totaled \$102.1 million. The Company's loss ratio benefited by 7.0 percentage points as a result of favorable loss development for the year ended December 31, 2009. For the year ended December 31, 2009, the Company incurred \$18.0 million, \$8.5 million and \$5.7 million of losses attributable to windstorm Klaus, a commercial flight loss, and the Dublin floods, which represent 1.2, 0.6 and 0.4 percentage points of the loss ratio, respectively. For the year ended December 31, 2008, the Company incurred \$260.6 million and \$22.1 million of losses attributable to Hurricanes Ike and Gustav, which represent 20.7 and 1.8 percentage points of the loss ratio, respectively. In addition, Item 2 of the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2008 discloses \$41.5 million of losses attributable to separately identified losses, which, for the year ended December 31, 2008, represented 3.3 percentage points of the loss ratio.

Management of insurance and reinsurance companies use significant judgment in the estimation of reserves for losses and loss expenses. Given the magnitude of recent loss events and other uncertainties inherent in loss estimation, meaningful uncertainty remains regarding the estimation of recent losses. The Company's actual ultimate net loss may vary materially from estimates.

At December 31, 2009 and 2008, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in the Critical Accounting Policies and Estimates section. The Company did not make any significant changes in the assumptions or methodology used in its reserving process for the year ended December 31, 2009.

**As at December 31, 2009**  
**Total Gross**



<b>(Dollars in thousands)</b>	<b>Gross Case Reserves</b>	<b>Gross IBNR</b>	<b>Reserve for Losses and Loss Expenses</b>
Property	\$ 365,858	\$ 338,795	\$ 704,653
Marine	321,844	254,056	575,900
Specialty	143,623	197,958	341,581
<b>Total</b>	<b>\$ 831,325</b>	<b>\$ 790,809</b>	<b>\$ 1,622,134</b>

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(Dollars in thousands)	As at December 31, 2009		
	Net Case Reserves	Net IBNR	Total Net Reserve for Losses and Loss Expenses
Property	\$ 359,657	\$ 306,745	\$ 666,402
Marine	259,617	232,105	491,722
Specialty	127,502	154,743	282,245
<b>Total</b>	<b>\$ 746,776</b>	<b>\$ 693,593</b>	<b>\$ 1,440,369</b>

During the year ended December 31, 2008, the Company incurred losses related to Hurricanes Ike and Gustav of \$260.6 million and \$22.1 million, respectively, as detailed in the table below.

(Dollars in thousands)	Net Losses and Loss Expenses(a)	Net Reinstatement Premiums	Net Effect on Net Income(b)
<b>Hurricane Ike</b>			
<i>Validus Re Hurricane Ike</i>			
Property	\$ 158,515	\$ (18,072)	\$ 140,443
Marine	57,612	(6,485)	51,127
All lines	216,127	(24,557)	191,570
<i>Talbot Hurricane Ike</i>			
Property	31,515	(675)	30,840
Marine	12,381	(222)	12,159
Specialty	544		544
All lines	44,440	(897)	43,543
<i>Total Hurricane Ike</i>			
Property	190,030	(18,747)	171,283
Marine	69,993	(6,707)	63,286
Specialty	544		544
All lines	\$ 260,567	\$ (25,454)	\$ 235,113
<b>Hurricane Gustav</b>			
<i>Validus Re Hurricane Gustav</i>			
Property	\$ 13,946	\$ (1,303)	\$ 12,643
Marine	1,500		1,500

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All lines	15,446	(1,303)	14,143
<i>Talbot Hurricane Gustav</i>			
Property	3,695		3,695
Marine	2,500		2,500
Specialty	500		500
All lines	6,695		6,695
<i>Total Hurricane Gustav</i>			
Property	17,641	(1,303)	16,338
Marine	4,000		4,000
Specialty	500		500
All lines	\$ 22,141	\$ (1,303)	\$ 20,838

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(Dollars in thousands)	Net Losses and Loss Expenses(a)	Net Reinstatement Premiums	Net Effect on Net Income(b)
<b>Hurricanes Ike and Gustav</b>			
Property	\$ 207,671	\$ (20,050)	\$ 187,621
Marine	73,993	(6,707)	67,286
Specialty	1,044		1,044
<b>All lines</b>	<b>\$ 282,708</b>	<b>\$ (26,757)</b>	<b>\$ 255,951</b>

(a) Net of reinsurance.

(b) Net effect on net income includes the sum of estimates of net claims and claim expenses incurred, and earned reinstatement premiums assumed and ceded.

*Validus Re.* Validus Re losses and loss expenses for the year ended December 31, 2009 were \$186.7 million compared to \$420.6 million for the year ended December 31, 2008, a decrease of \$233.9 million or 55.6%. The loss ratio, defined as losses and loss expenses divided by net premiums earned, was 23.5% and 64.4% for the year ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2009, Validus Re incurred \$17.7 million, \$2.1 million and \$5.7 million of losses attributable to windstorm Klaus, a commercial flight loss and the Dublin floods, which represent 2.2, 0.3 and 0.7 percentage points of the segment loss ratio, respectively. For the year ended December 31, 2008, Validus Re incurred \$216.1 million, and \$15.4 million of losses attributable to Hurricanes Ike and Gustav, which represented 33.1 and 2.4 percentage points of the segment loss ratio, respectively. In addition, Item 2 of the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2008 discloses \$30.2 million of Validus Re losses attributable to separately identified losses, which, for the year ended December 31, 2008, represented 4.6 percentage points of the loss ratio.

		Year Ended December 31,		
		2009(a)	2008	2007
Property	current year	24.0%	65.8%	32.6%
Property	change in prior accident years	(11.3)%	(3.7)%	(3.2)%
Property	loss ratio	12.7%	62.1%	29.4%
Marine	current year	49.1%	90.5%	36.0%
Marine	change in prior accident years	15.9%	3.9%	(2.6)%
Marine	loss ratio	65.0%	94.4%	33.4%
Specialty	current year	43.2%	37.1%	46.9%
Specialty	change in prior accident years	(8.0)%	(2.3)%	(3.5)%

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Specialty	loss ratio	35.2%	34.8%	43.4%
All lines	current year	30.2%	66.7%	34.5%
All lines	change in prior accident years	(6.7)%	(2.3)%	(3.1)%
<b>All lines</b>	<b>loss ratio</b>	23.5%	64.4%	31.4%

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

For the year ended December 31, 2009, the property lines include \$138.6 million related to current year losses and \$65.1 million of favorable development relating to prior accident years. The favorable development is attributable principally to the reclassification of losses from onshore energy exposures during the 2007 California wildfires to the marine line and reduced loss estimates for Hurricane Ike, the June 2008 Midwest flood event and October 2007 Peruvian mining loss, as well as lower than expected claim development in the property class. For the year ended December 31, 2009, Validus Re s property lines incurred \$17.7 million and \$5.7 million of losses

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attributable to windstorm Klaus and the Dublin floods, which represented 3.1 and 1.0 percentage points of the property lines loss ratio, respectively. For the year ended December 31, 2008, Validus Re's property lines incurred \$158.5 million and \$13.9 million of losses attributable to Hurricanes Ike and Gustav which represented 33.1 and 2.9 percentage points of the property lines loss ratio, respectively. In addition, Item 2 of the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2008 discloses \$30.2 million of Validus Re's property lines losses attributable to separately identified losses, which, for the year ended December 31, 2008, represented 6.3 percentage points of the property lines loss ratio. Validus Re property lines loss ratios, excluding prior year development and loss events identified above, for the year ended December 31, 2009 and 2008 were 19.9% and 24.0%, respectively.

For the year ended December 31, 2009, the marine lines include \$60.5 million related to current year losses and \$19.6 million of adverse development relating to prior accident years due primarily to the reclassification of losses from the property line and increased loss estimates for Hurricanes Ike and Gustav. For the year ended December 31, 2008, Validus Re marine lines incurred \$57.6 million and \$1.5 million of losses attributable to Hurricanes Ike and Gustav, which represented 55.1 and 1.4 percentage points of the marine lines loss ratio, respectively. Validus Re marine lines loss ratios, excluding prior year development and loss events identified above, for the year ended December 31, 2009 and 2008 were 49.1% and 33.3%, respectively.

For the year ended December 31, 2009, the specialty lines include \$40.5 million related to current year losses and \$7.5 million of favorable development relating to prior accident years. For the year ended December 31, 2009, Validus Re's specialty lines incurred \$2.1 million of losses attributable to a commercial flight loss, which represented 2.2 percentage points of the specialty lines loss ratio. Validus Re specialty lines loss ratios, excluding prior year development and loss events identified above, for the year ended December 31, 2009 and 2008 were 41.0% and 37.1%, respectively.

*Talbot.* Talbot losses and loss expenses for the year ended December 31, 2009 were \$337.1 million compared to \$351.5 million for the year ended December 31, 2008, a decrease of \$14.5 million, or 4.1%. The loss ratio was 51.5% and 58.3% for the year ended December 31, 2009 and 2008, respectively. For the year ended December 31, 2009, Talbot incurred \$14.8 million or 2.3% of the loss ratio attributable to four default claims on the political risks line. For the year ended December 31, 2009, \$386.1 million of losses and loss expenses related to current year losses and \$49.1 million related to favorable development of prior accident years. Details of loss ratios by line of business and calendar period are provided below. Favorable loss reserve development benefitted the segment loss ratio by 7.5 percentage points for the year ended December 31, 2009. For the year ended December 31, 2009, Talbot incurred \$6.4 million of losses attributable to a commercial flight loss, which represented 1.0 percentage point of the segment loss ratio. For the year ended December 31, 2008, Talbot incurred \$44.4 million and \$6.7 million of losses attributable to Hurricanes Ike and Gustav, which represented 7.4 and 1.1 percentage points of the segment loss ratio, respectively. In addition, Item 2 of the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2008 discloses \$11.3 million of losses attributable to separately identified losses, which, for the year ended December 31, 2008, represented 1.9 percentage points of the segment loss ratio. Details of loss ratios by line of business and calendar period are provided below.

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		<b>Year Ended December 31,</b>		
		<b>2009</b>	<b>2008</b>	<b>2007(a)</b>
Property	current year	50.0%	104.9%	49.5%
Property	change in prior accident years	(20.6)%	(4.9)%	(4.4)%
Property	loss ratio	29.4%	100.0%	45.1%
Marine	current year	65.0%	64.8%	58.1%
Marine	change in prior accident years	(5.6)%	(6.3)%	(3.1)%
Marine	loss ratio	59.4%	58.5%	55.0%
Specialty	current year	57.4%	50.0%	46.0%
Specialty	change in prior accident years	(2.5)%	(14.6)%	(17.5)%
Specialty	loss ratio	54.9%	35.4%	28.5%
All lines	current year	59.0%	67.4%	51.6%
All lines	change in prior accident years	(7.5)%	(9.1)%	(8.7)%
<b>All lines</b>	<b>loss ratio</b>	<b>51.5%</b>	<b>58.3%</b>	<b>42.9%</b>

(a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

For the year ended December 31, 2009, the property lines include \$67.1 million related to current year losses and \$27.6 million of favorable loss development relating to prior accident years. This favorable development is primarily attributable to lower than expected claims development. For the year ended December 31, 2008, the property lines incurred \$31.5 million and \$3.7 million of losses attributable to Hurricanes Ike and Gustav, which represented 26.3 and 3.1 percentage points of the loss ratio, respectively. In addition, Item 2 of the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2008 discloses \$11.3 million of losses attributable to separately identified losses, which, for the year ended December 31, 2008, represented 9.4 percentage points of Talbot's property lines loss ratio. Talbot property line loss ratio, excluding prior year development and the loss events identified above, for the year ended December 31, 2009 and 2008 were 50.0% and 68.7%, respectively.

For the year ended December 31, 2009, the marine lines include \$177.9 million related to current year losses and \$15.3 million of favorable development relating to prior accident years. For the year ended December 31, 2008, the marine lines incurred \$12.4 million and \$2.5 million of losses attributable to Hurricanes Ike and Gustav, which represented 4.7 and 1.0 percentage points of the marine lines' loss ratio, respectively. Talbot marine lines' loss ratios, excluding prior year development and the loss events identified above, for the year ended December 31, 2009 and 2008 were 65.0% and 55.5%, respectively.

For the year ended December 31, 2009, the specialty lines include \$141.1 million relating to current year losses and \$6.1 million of favorable development on prior accident years. This favorable development is primarily due to further favorable development on the Financial Institutions line. For the year ended December 31, 2009, Talbot incurred \$6.4 million of losses attributable to a commercial flight loss, which represents 2.6 percentage points of the specialty lines' loss ratio. For the year ended December 31, 2008, the specialty lines incurred \$0.5 million and \$0.5 million of losses attributable to Hurricanes Ike and Gustav, which represented 0.2 and 0.2 percentage points of the specialty lines' loss ratio.

loss ratio, respectively. Talbot specialty lines loss ratios, excluding prior year development and the loss events identified above, for the year ended December 31, 2009 and 2008 were 54.8% and 49.5%, respectively.

**Policy Acquisition Costs**

Policy acquisition costs for the year ended December 31, 2009 were \$263.0 million compared to \$235.0 million for the year ended December 31, 2008, an increase of \$28.0 million or 11.9%. Policy acquisition costs as a percent of net premiums earned for the year ended December 31, 2009 and 2008 were 18.1% and 18.7%, respectively.



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	Year Ended December 31, 2009(a)			Year Ended December 31, 2008			Year Ended December 31, 2007(b)		
	Policy Acquisition	Policy Acquisition Cost	Acquisition Cost Ratio	Policy Acquisition Cost	Policy Acquisition Cost	Acquisition Cost Ratio	Policy Acquisition Cost	Policy Acquisition Cost	Acquisition Cost Ratio
	Cost	(%)		Cost	(%)		Cost	(%)	
(dollars in thousands)									
Property	\$ 104,912	39.9%	14.7%	\$ 97,345	41.4%	16.3%	\$ 68,645	51.1%	14.0%
Marine	86,295	32.8%	21.7%	74,372	31.7%	20.2%	33,391	24.9%	16.7%
Specialty	71,759	27.3%	21.1%	63,234	26.9%	21.8%	32,241	24.0%	19.0%
<b>Total</b>	<b>\$ 262,966</b>	<b>100.0%</b>	<b>18.1%</b>	<b>\$ 234,951</b>	<b>100.0%</b>	<b>18.7%</b>	<b>\$ 134,277</b>	<b>100.0%</b>	<b>15.6%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

(b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

*Validus Re.* Validus Re policy acquisition costs for the year ended December 31, 2009 were \$127.4 million compared to \$100.2 million for the year ended December 31, 2008, an increase of \$27.2 million or 27.1%.

	Year Ended December 31, 2009(a)			Year Ended December 31, 2008			Year Ended December 31, 2007		
	Policy Acquisition	Policy Acquisition Cost	Acquisition Cost Ratio	Policy Acquisition Cost	Policy Acquisition Cost	Acquisition Cost Ratio	Policy Acquisition Cost	Policy Acquisition Cost	Acquisition Cost Ratio
	Cost	(%)		Cost	(%)		Cost	(%)	
(dollars in thousands)									
Property	\$ 88,589	69.5%	15.3%	\$ 75,717	75.5%	15.8%	\$ 55,472	78.9%	13.1%
Marine	25,311	19.9%	20.5%	14,718	14.7%	14.1%	7,410	10.5%	9.4%
Specialty	13,533	10.6%	14.4%	9,808	9.8%	13.9%	7,441	10.6%	13.2%
<b>Total</b>	<b>\$ 127,433</b>	<b>100.0%</b>	<b>16.0%</b>	<b>\$ 100,243</b>	<b>100.0%</b>	<b>15.3%</b>	<b>\$ 70,323</b>	<b>100.0%</b>	<b>12.6%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

Policy acquisition costs include brokerage, commission and excise tax and are generally driven by contract terms and are normally a set percentage of premiums and are also net of ceding commission income on retrocessions. Policy acquisition costs as a percent of net premiums earned for the year ended December 31, 2009 and 2008 were 16.0% and 15.3%, respectively. The policy acquisition ratio increased largely due to a 6.4 percentage point increase on the marine policy acquisition ratio. The increase in the marine policy acquisition ratio was due to an increased portion of

gross premiums written being earned on proportional contracts, which generally experience higher acquisition costs.

*Talbot.* Talbot policy acquisition costs for the year ended December 31, 2009 were \$139.9 million compared to \$135.0 million for the year ended December 31, 2008, an increase of \$4.9 million or 3.6%.

	Year Ended December 31, 2009			Year Ended December 31, 2008			Year Ended December 31, 2007(a)		
	Policy Acquisition Cost	Policy Acquisition Cost (%)	Acquisition Cost Ratio	Policy Acquisition Cost	Policy Acquisition Cost (%)	Acquisition Cost Ratio	Policy Acquisition Cost	Policy Acquisition Cost (%)	Acquisition Cost Ratio
(dollars in thousands)									
Property	\$ 20,722	14.8%	15.4%	\$ 21,937	16.2%	18.3%	\$ 25,356	20.2%	18.9%
Line	60,984	43.6%	22.3%	59,654	44.2%	22.7%	51,387	41.0%	21.8%
Specialty	58,226	41.6%	23.7%	53,426	39.6%	24.3%	48,676	38.8%	22.7%
<b>Total</b>	<b>\$ 139,932</b>	<b>100.0%</b>	<b>21.4%</b>	<b>\$ 135,017</b>	<b>100.0%</b>	<b>22.4%</b>	<b>\$ 125,419</b>	<b>100.0%</b>	<b>21.4%</b>

(a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

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Policy acquisition costs as a percent of net premiums earned were 21.4% and 22.4%, respectively, for the year ended December 31, 2009 and 2008.

**General and Administrative Expenses**

General and administrative expenses for the year ended December 31, 2009 were \$185.6 million compared to \$123.9 million for the year ended December 31, 2008, an increase of \$61.6 million or 49.7%. The increase was primarily a result of increased Validus Re expenses in addition to increases in the Talbot and Corporate segments.

(Dollars in thousands)	General and Administrative Expenses					
	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007(b)	
	General and Administrative Expenses	General and Administrative Expenses (%)	General and Administrative Expenses	General and Administrative Expenses (%)	General and Administrative Expenses	General and Administrative Expenses (%)
Validus Re	\$ 65,710	35.4%	\$ 34,607	28.0%	\$ 31,412	32.1%
Talbot	96,352	51.9%	71,443	57.6%	48,886	50.0%
Corporate & Eliminations	23,506	12.7%	17,898	14.4%	17,467	17.9%
<b>Total</b>	<b>\$ 185,568</b>	<b>100.0%</b>	<b>\$ 123,948</b>	<b>100.0%</b>	<b>\$ 97,765</b>	<b>100.0%</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

General and administrative expense ratios for the year ended December 31, 2009 and 2008 were 14.7% and 12.0%, respectively. General and administrative expense ratio is the sum of general and administrative expenses and share compensation expense divided by net premiums earned.

(Dollars in thousands)	Year Ended December 31, 2009(a)		Year Ended December 31, 2008		Year Ended December 31, 2007(b)	
	Expenses	as % of Net Earned Premiums	Expenses	as % of Net Earned Premiums	Expenses	as % of Net Earned Premiums
General and Administrative	\$ 185,568	12.8%	\$ 123,948	9.8%	\$ 97,765	11.4%
Share Compensation	27,037	1.9%	27,097	2.2%	16,189	1.9%

<b>Total</b>	\$ 212,605	14.7%	\$ 151,045	12.0%	\$ 113,954	13.3%
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- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

General and administrative expenses of \$185.6 million in the year ended December 31, 2009 represents 12.8 percentage points of the expense ratio. Share compensation expense is discussed in the following section.

*Validus Re.* Validus Re general and administrative expenses for the year ended December 31, 2009 were \$65.7 million compared to \$34.6 million for the year ended December 31, 2008, an increase of \$31.1 million or 89.9%. General and administrative expenses have increased primarily as a result of the increase in staff to 133 at December 31, 2009 from 91 at December 31, 2008. In addition to the increased headcount, due in part to the IPC acquisition, there were also additional rent and other office expenses. General and administrative expenses are

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generally comprised of salaries and benefits, professional fees, rent and office expenses. Validus Re's general and administrative expenses as a percent of net premiums earned for the year ended December 31, 2009 and 2008 were 8.3% and 5.3%, respectively.

*Talbot.* Talbot general and administrative expenses for the year ended December 31, 2009 were \$96.4 million compared to \$71.4 million for the year ended December 31, 2008, an increase of \$24.9 million or 34.9%. General and administrative expenses have increased primarily as a result of the increase in staff to 238 at December 31, 2009 from 182 at December 31, 2008 and expenses related to the new onshore energy and aviation underwriting teams. In addition to increased staff costs, Talbot rent and office expenses increased by \$6.6 million for year ended December 31, 2009, due to a 2009 office move, including a \$4.2 million provision for the deficiency between the expected costs incurred up to the expiry of the previous office lease and any recoveries under potential sub-leases. Talbot's general and administrative expenses as a percent of net premiums earned for the year ended December 31, 2009 and 2008 were 14.7% and 11.8%, respectively.

*Corporate & Eliminations.* Corporate general and administrative expenses for the year ended December 31, 2009 were \$23.5 million compared to \$17.9 million for the year ended December 31, 2008, an increase of \$5.6 million or 31.3%. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses and other costs relating to the Company as a whole.

**Share Compensation Expense**

Share compensation expense for the year ended December 31, 2009 was \$27.0 million compared to \$27.1 million for the year ended December 31, 2008, a decrease of \$0.1 million or 0.2%. This expense is non-cash and has no net effect on total shareholders' equity, as it is balanced by an increase in additional paid-in capital.

(Dollars in thousands)	Share Compensation Expense					
	Year Ended		Year Ended		Year Ended	
	December 31, 2009(a)		December 31, 2008		December 31, 2007(b)	
	Share	Share	Share	Share	Share	Share
Compensation	Compensation	Compensation	Compensation	Compensation	Compensation	
Expense	Expense	Expense	Expense	Expense	Expense	
Expense	(%)	Expense	(%)	Expense	(%)	
Validus Re	\$ 7,576	28.0%	\$ 6,829	25.2%	\$ 4,013	24.7%
Talbot	7,171	26.5%	4,702	17.4%	1,709	10.6%
Corporate & Eliminations	12,290	45.5%	15,566	57.4%	10,467	64.7%
<b>Total</b>	<b>\$ 27,037</b>	<b>100.0%</b>	<b>\$ 27,097</b>	<b>100.0%</b>	<b>\$ 16,189</b>	<b>100.0%</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

(b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

Share compensation expense of \$27.0 million in the year ended December 31, 2009 represents 1.9 percentage points of the general and administrative expense ratio.

*Validus Re.* Validus Re share compensation expense for the year ended December 31, 2009 was \$7.6 million compared to \$6.8 million for the year ended December 31, 2008, an increase of \$0.7 million or 10.9%. The increase was due to the impact of grants made during 2008. Share compensation expense as a percent of net premiums earned for the year ended December 31, 2009 and 2008 were 1.0% and 1.0%, respectively.

*Talbot.* Talbot share compensation expense for the year ended December 31, 2009 was \$7.2 million compared to \$4.7 million for the year ended December 31, 2008. The increase was due to additional grants for the year ended December 31, 2009, accelerated vesting and increased staff. Share compensation expense as a percent of net premiums earned for the year ended December 31, 2009 and 2008 were 1.1% and 0.8%, respectively.

*Corporate & Eliminations.* Corporate share compensation expense for the year ended December 31, 2009 was \$12.3 million compared to \$15.6 million for the year ended December 31, 2008, a decrease of \$3.3 million or

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21.0%. This decrease was due primarily to several share award issuances with vesting periods greater than one year that vested during the year ended December 31, 2008 and therefore had no further amortization expense during the year ended December 31, 2009.

**Selected Ratios**

The underwriting results of an insurance or reinsurance company are often measured by reference to its combined ratio, which is the sum of the loss ratio and the expense ratio. The net loss ratio is calculated by dividing losses and loss expenses incurred (including estimates for incurred but not reported losses) by net premiums earned. The expense ratio is calculated by dividing acquisition costs combined with general and administrative expenses by net premiums earned. The following table presents the losses and loss expenses ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the year ended December 31, 2009, 2008 and 2007.

	<b>Year Ended December 31, 2009(b)</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007(c)</b>
Losses and loss expenses ratio	36.1%	61.5%	33.1%
Policy acquisition cost ratio	18.1%	18.7%	15.6%
General and administrative expense ratio(a)	14.7%	12.0%	13.3%
Expense ratio	32.8%	30.7%	28.9%
<b>Combined ratio</b>	<b>68.9%</b>	<b>92.2%</b>	<b>62.0%</b>

<b>Validus Re</b>	<b>Year Ended December 31, 2009(b)</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007</b>
Losses and loss expenses ratio	23.5%	64.4%	31.4%
Policy acquisition cost ratio	16.0%	15.3%	12.6%
General and administrative expense ratio(a)	9.2%	6.3%	6.3%
Expense ratio	25.2%	21.6%	18.9%
<b>Combined ratio</b>	<b>48.7%</b>	<b>86.0%</b>	<b>50.3%</b>

<b>Talbot</b>	<b>Year Ended December 31, 2009</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007(c)</b>
Losses and loss expenses ratio	51.5%	58.3%	43.0%
Policy acquisition cost ratio	21.4%	22.4%	21.4%
General and administrative expense ratio(a)	15.8%	12.6%	16.9%

Expense ratio	37.2%	35.0%	38.3%
<b>Combined ratio</b>	<b>88.7%</b>	<b>93.3%</b>	<b>81.3%</b>

- (a) Includes general and administrative expense and share compensation expense.
- (b) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (c) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

### **Underwriting Income**

Underwriting income for the year ended December 31, 2009 was \$450.2 million compared to \$98.4 million for the year ended December 31, 2008, an increase of \$351.9 million or 357.7%.



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(Dollars in thousands)	Year Ended December 31,					
	2009(a)	% of Sub total	2008	% of Sub total	2007(b)	% of Sub total
Validus Re	\$ 408,127	84.7%	\$ 91,207	69.3%	\$ 277,743	78.5%
Talbot	73,519	15.3%	40,316	30.7%	76,046	21.5%
Sub total	481,646	100.0%	131,523	100.0%	353,789	100.0%
Corporate & Eliminations	(31,397)		(33,155)		(27,934)	
<b>Total</b>	<b>\$ 450,249</b>		<b>\$ 98,368</b>		<b>\$ 325,855</b>	

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above. For segmental reporting purposes, the results of IPC's operations since the acquisition date have been included within the Validus Re segment in the consolidated financial statements.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

The underwriting results of an insurance or reinsurance company are also often measured by reference to its underwriting income, which is a non-GAAP measure as previously defined. Underwriting income, as set out in the table below, is reconciled to net income (the most directly comparable GAAP financial measure) by the addition or subtraction of certain Consolidated Statement of Operations and Comprehensive Income line items, as described below.

(Dollars in thousands)	Year Ended December 31, 2009(a)	Year Ended December 31, 2008	Year Ended December 31, 2007(b)
<b>Underwriting income (loss)</b>	\$ 450,249	\$ 98,368	\$ 325,855
Net investment income	118,773	139,528	112,324
Other income	4,634	5,264	3,301
Finance expenses	(44,130)	(57,318)	(51,754)
Gain on bargain purchase, net of expenses	287,099		
Realized gain on repurchase of debentures	4,444	8,752	
Net realized (losses) gains on investments	(11,543)	(1,591)	1,608
Net unrealized gains (losses) on investments	84,796	(79,707)	12,364
Foreign exchange (losses) gains	(674)	(49,397)	6,696
Fair value of warrants issued			(2,893)
Aquiline termination fee			(3,000)
<b>Net income before taxes</b>	<b>\$ 893,648</b>	<b>\$ 63,899</b>	<b>\$ 404,501</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

Underwriting income indicates the performance of the Company's core underwriting function, excluding revenues and expenses such as the reconciling items in the table above. The Company believes the reporting of underwriting income enhances the understanding of our results by highlighting the underlying profitability of the Company's core insurance and reinsurance business. Underwriting profitability is influenced significantly by earned premium growth, adequacy of the Company's pricing and loss frequency and severity. Underwriting profitability over time is also influenced by the Company's underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of

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reinsurance and its ability to manage its expense ratio, which it accomplishes through its management of acquisition costs and other underwriting expenses. The Company believes that underwriting income provides investors with a valuable measure of profitability derived from underwriting activities.

The Company excludes the U.S. GAAP measures noted above, in particular net realized and unrealized gains and losses on investments, from its calculation of underwriting income because the amount of these gains and losses is heavily influenced by, and fluctuates in part, according to availability of investment market opportunities. The Company believes these amounts are largely independent of its underwriting business and including them distorts the analysis of trends in its operations. In addition to presenting net income determined in accordance with U.S. GAAP, the Company believes that showing underwriting income enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the Company's results of operations in a manner similar to how management analyzes the Company's underlying business performance. The Company uses underwriting income as a primary measure of underwriting results in its analysis of historical financial information and when performing its budgeting and forecasting processes. Analysts, investors and rating agencies who follow the Company request this non-GAAP financial information on a regular basis. In addition, underwriting income is one of the factors considered by the compensation committee of our Board of Directors in determining the bonus component of the total annual incentive compensation.

Underwriting income should not be viewed as a substitute for U.S. GAAP net income as there are inherent material limitations associated with the use of underwriting income as compared to using net income, which is the most directly comparable U.S. GAAP financial measure. The most significant limitation is the ability of users of the financial information to make comparable assessments of underwriting income with other companies, particularly as underwriting income may be defined or calculated differently by other companies. Therefore, the Company provides more prominence in this filing to the use of the most comparable U.S. GAAP financial measure, net income, which includes the reconciling items in the table above. The Company compensates for these limitations by providing both clear and transparent disclosure of net income and reconciliation of underwriting income to net income.

**Net Investment Income**

Net investment income for the year ended December 31, 2009 was \$118.8 million compared to \$139.5 million for the year ended December 31, 2008, a decrease of \$20.8 million or 14.9%. Net investment income decreased as a result of reduced market yields and higher quarterly average cash balances. Net investment income is comprised of accretion of premium or discount on fixed maturities, interest on coupon-paying bonds, short-term investments and cash and cash equivalents, partially offset by investment management fees. The components of net investment income are presented below.

<b>(Dollars in thousands)</b>	<b>Year Ended December 31, 2009(a)</b>	<b>Year Ended December 31, 2008</b>	<b>Year Ended December 31, 2007(b)</b>
Fixed maturities and short-term investments	\$ 117,631	\$ 127,689	\$ 98,559
Cash and cash equivalents	3,374	13,416	16,111
Securities lending income	772	1,775	242
Total investment income	121,777	142,880	114,912
Investment expenses	(3,004)	(3,352)	(2,588)
<b>Net investment income</b>	<b>\$ 118,773</b>	<b>\$ 139,528</b>	<b>\$ 112,324</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

Investment management fees incurred relate to BlackRock Financial Management, Inc. ( BlackRock ) and Goldman Sachs Asset Management L.P. and its affiliates ( GSAM ). Each of Merrill Lynch & Co, Inc. ( Merrill

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Lynch ), a wholly owned subsidiary of Bank of America Corp., and Goldman Sachs are major shareholders of the Company. BlackRock is considered a related party due to its merger in February 2006 with Merrill Lynch Investment Managers. Investment management fees earned by BlackRock for the year ended December 31, 2009 and 2008 were \$1.4 million and \$1.7 million, respectively. Investment management fees earned by GSAM for the year ended December 31, 2009 and 2008 were \$1.3 million and \$1.4 million, respectively. The Company entered into investment management agreements during the year ended December 31, 2009 with each of Conning, Inc. ( Conning ) and Pinebridge Investments Europe Ltd. On June 16, 2009, Aquiline, a major shareholder of the Company, acquired Conning. Management believes that the fees charged were consistent with those that would have been charged in arm s-length transactions with unrelated third parties.

Annualized effective investment yield is based on the weighted average investments held calculated on a simple period average and excludes net unrealized gains (losses), foreign exchange gains (losses) on investments and the foreign exchange effect of insurance balances. The Company s annualized effective investment yield was 2.73% and 4.37% for the year ended December 31, 2009 and 2008, respectively, and the average duration at December 31, 2009 was 2.2 years (December 31, 2008 1.8 years).

**Other Income**

Other income for the year ended December 31, 2009 was \$4.6 million compared to \$5.3 million for the year ended December 31, 2008, a decrease of \$0.6 million or 12.0%.

**Finance Expenses**

Finance expenses for the year ended December 31, 2009 were \$44.1 million compared to \$57.3 million for the year ended December 31, 2008, a decrease of \$13.2 million or 23.0%. The decrease was primarily a result of an \$13.1 million decrease on Talbot third party FAL facility.

Finance expenses also include the amortization of debt offering costs and discounts and fees related to our credit facilities.

(Dollars in thousands)	Year Ended December 31,		
	2009(a)	2008	2007(b)
9.069% Junior Subordinated Deferrable Debentures	\$ 14,354	\$ 14,354	14,398
8.480% Junior Subordinated Deferrable Debentures	12,732	14,704	8,938
Credit facilities	2,319	910	2,332
Talbot FAL facilities	542	255	658
Talbot other interest		(186)	620
Talbot third party FAL facility	14,183	27,281	24,808
<b>Finance expenses</b>	<b>\$ 44,130</b>	<b>\$ 57,318</b>	<b>51,754</b>

(a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.

(b)

The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

Capital in Lloyd's entities, whether personal or corporate, is required to be set annually for the prospective year and held by Lloyd's in trust (Funds at Lloyd's or FAL). In underwriting years up to and including 2007, Talbot's FAL has been provided both by Talbot and by third parties, thereafter Talbot's FAL has been provided exclusively by the Company. Because the third party FAL providers remain on risk until each year of account that their support closes (normally after three years), Talbot must retain third party FAL even if a third party FAL provider has ceased to support the active underwriting year. This is achieved by placing such FAL in escrow outside Lloyd's. Thus the total FAL facility available to the Company is the total FAL for active and prior underwriting years, although the Company can only apply specific FAL against losses incurred by an underwriting year that such FAL is contracted to support.

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For each year of account up to and including the 2007 year of account, between 30% and 40% of an amount equivalent to each underwriting years' profit is payable to Talbot third party FAL providers. However, some of these costs are fixed. There are no FAL finance charges related to the 2008 and 2009 years of account as there were no third party FAL providers in those periods.

The FAL finance charges relate to total syndicate profit (underwriting income, investment income and realized and unrealized capital gains and losses). FAL finance charges and total syndicate profits are analyzed by underwriting year of account as follows:

Underwriting Year of Account (in thousands)	Year Ended December 31,						FAL Finance Charges as % of Total Syndicate Profit		
	FAL Finance Charges			Total Syndicate Profit			2009	2008	2007
	2009	2008	2007(a)	2009	2008	2007(a)			
(b)	\$	\$	\$ 16,335	\$	\$	\$ 76,677	NM	NM	2
(b)		18,160	19,202		54,845	54,484	NM	33.1%	33
	12,000	9,121	6,299	38,913	35,986	20,864	30.8%	25.3%	30
				33,532	(28,724)		NM	NM	N
				23,472			NM	NM	N
capital agreement	2,183						NM	NM	N
	\$ 14,183	\$ 27,281	\$ 41,836	\$ 95,917	62,107	\$ 152,025	14.8%	43.9%	27
percentage excluding years in t							14.8%	30.0%	27

NM Not meaningful

(a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only.

(b) The earliest year of account includes the run-off of prior (closed) years of account.

FAL finance charges are based on syndicate profit but include fixed elements. FAL finance charges for the year ended December 31, 2009 were \$14.2 million compared to \$27.3 million for the year ended December 31, 2008, a decrease of \$13.1 million. This decrease was due to the absence of FAL finance charges related to the 2006 year of account, which has now closed. The Talbot group has entered into an agreement with National Indemnity Corporation (NIC) whereby NIC, in the past, provided letters of credit to support the group's underwriting. Part of that agreement stipulates that part of the reinsurance to close premium in respect of the 2006 year of account will be made available to NIC, at NIC's option, as a limited quota share agreement. The portion that shall be offered is the amount of support provided by NIC for the 2006 year of account divided by the overall support provided for that year.

Total syndicate profit, as set out in the table below, is reconciled to the Talbot segment net income by the addition or subtraction of items noted below.

(Dollars in thousands)	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007(a)
<b>Total syndicate profit</b>	\$ 95,917	\$ 62,108	\$ 152,025
FAL Finance expenses	(14,183)	(27,281)	(41,836)
Managing agent's fee(b)	9,657	9,019	9,750
Managing agent's profit commission(c)	11,888	22,286	23,625
Investment income(d)	14,205	7,433	13,512
Other segment operating expenses, net	(7,870)	(24,515)	(30,692)
Share compensation expenses	(7,171)	(4,702)	(1,469)
Intangible amortization expenses	(4,162)	(4,161)	(2,081)
Income tax benefit expense	3,922	(10,700)	(2,638)
<b>Talbot segment net income</b>	\$ 102,203	\$ 29,487	\$ 120,196



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- (a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pre-acquisition and post-acquisition results of operations for Talbot are presented on a combined basis for the year ended December 31, 2007 for comparative purposes only
- (b) 1.5% of syndicate capacity; corresponding syndicate expense reflected in total syndicate profit, above.
- (c) 15.0% of syndicate profit; corresponding syndicate expense reflected in total syndicate profit, above.
- (d) On FAL and on non-syndicate cash balances.

## **Tax Benefit (Expense)**

Tax benefit for the year ended December 31, 2009 was \$3.8 million compared to an (expense) of (\$10.8) million for the year ended December 31, 2008, a change of \$14.5 million. The tax benefit was due primarily to an \$8.7 million adjustment relating to a change in the functional currency of the U.K. statutory accounts of a subsidiary which resulted in unearned premiums and deferred acquisition costs being valued at historic rates, and the associated foreign exchange movements through its profit and loss account being subject to U.K. tax. This was offset by a current year tax expense of \$5.0 million as a result of items arising in the current year also falling subject to U.K. tax under the new functional currency.

## **Gain on Bargain Purchase, Net of Expenses**

On September 4, 2009, the Company acquired all of the outstanding shares of IPC from a group of institutional and other investors. Pursuant to the Amalgamation Agreement, the Company acquired all of IPC's outstanding common shares in exchange for the Company's common shares and cash. The purchase price paid by the Company was \$1,746.2 million for net assets acquired of \$2,076.9 million. The Company expensed as incurred \$29.4 million of transaction expenses, \$21.7 million for amortization of intangibles and \$14.1 million of termination expenses related to the acquisition for the year ended December 31, 2009, resulting in a gain on bargain purchase of \$287.1 million for the year ended December 31, 2009. Transaction expenses are comprised of primarily legal, corporate advisory, IPC employee termination benefits and audit related services.

## **Realized Gain on Repurchase of Debentures**

On December 1, 2009, the Company repurchased from an unaffiliated financial institution \$14.5 million principal amount of its 8.480% Junior Subordinated Deferrable Debentures due 2037 at an aggregate price of \$9.9 million plus accrued and unpaid interest of \$0.3 million. The repurchase resulted in the recognition of a realized gain of \$4.4 million for the year ended December 31, 2009.

## **Net Realized (Losses) on Investments**

Net realized (losses) on investments for the year ended December 31, 2009 were (\$11.5) million compared to (losses) of (\$1.6) million for the year ended December 31, 2008. Net realized losses resulted primarily from the sale of \$98.6 million of CMBS with relatively long weighted average lives, resulting in realized losses of \$19.5 million, which resulted in a corresponding offset in net unrealized gains (losses). The decision to reduce the Company's exposure to CMBS was made in light of deteriorating fundamentals in the sector.

On August 28, 2009, the Company sold short equity index futures contracts with a goal of hedging IPC's mutual fund equity portfolio exposure. The contracts were closed when the equity positions were fully redeemed on September 9,

2009. The Company experienced a \$3.3 million realized investment loss as a result of the futures contracts.

**Net Unrealized Gains (Losses) on Investments**

Net unrealized gains on investments for the year ended December 31, 2009 were \$84.8 million compared to losses of (\$79.7) million for the year ended December 31, 2008. The net unrealized gains in the year ended December 31, 2009 resulted from improved market conditions for fixed income securities.

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The net unrealized gains on investments for the year ended December 31, 2009 included a \$0.7 million unrealized gain on the fund of hedge funds purchased in the IPC Acquisition. The fund of hedge funds was included in other investments on the balance sheet as at December 31, 2009.

Net unrealized gains on investments are recorded as a component of net income. The Company has adopted all authoritative guidance on U.S. GAAP fair value measurements in effect as of the balance sheet date. Consistent with these statements, certain market conditions allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable. Certain non-Agency RMBS securities were identified as trading in inactive markets. The change in fair value for the identified non-Agency RMBS securities was a \$6.4 million increase in net unrealized loss on investments for the year ended December 31, 2009. Further details are provided in the Investments section below.

### **Foreign Exchange (Losses)**

Foreign exchange (losses) for the year ended December 31, 2009 were (\$0.7) million compared to (losses) of (\$49.4) million for the year ended December 31, 2008, a decrease of \$48.7 million. The decrease in foreign exchange (losses) was due primarily to the increased value of assets denominated in foreign currencies relative to the U.S. Dollar reporting currency for the year ended December 31, 2009 as compared to the year ended December 31, 2008. The British pound sterling to U.S. Dollar exchange rates were 1.44 and 1.59 at December 31, 2008 and December 31, 2009, respectively. Certain premiums receivable and liabilities for losses incurred in currencies other than the U.S. dollar are exposed to the risk of changes in value resulting from fluctuations in foreign exchange rates and may affect financial results in the future.

At December 31, 2009, Talbot's balance sheet includes net unearned premiums and deferred acquisition costs denominated in foreign currencies of approximately \$81.4 million and \$17.5 million, respectively. This net balance of \$63.9 million consisted of British pounds sterling and Canadian dollars of \$56.8 million and \$7.1 million, respectively. Net unearned premiums and deferred acquisition costs are classified as non-monetary items and are translated at historic exchange rates. All of Talbot's other balance sheet items are classified as monetary items and are translated at period end exchange rates. Additional foreign exchange (losses) gains may be incurred on the translation of net unearned premiums and deferred acquisition costs arising from insurance and reinsurance premiums written in future periods.

### **Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

Net income for the year ended December 31, 2008 was \$53.1 million compared to net income of \$403.0 million for the year ended December 31, 2007, a decrease of \$349.9 million or 86.8%. The primary factors driving the change in net income were:

Decrease in underwriting income of \$227.5 million due primarily to losses and loss expense, as a result of Hurricanes Ike and Gustav, of \$260.6 million and \$22.1 million, respectively. These losses were offset by increased earned reinstatement premiums of \$26.8 million as a result of Hurricanes Ike and Gustav and \$28.7 million of other income items including the benefit of earning premiums on business written in 2007 and 2006;

Decrease in net unrealized (losses) gains on investments of \$92.1 million as a result of market value declines due to interest rate movements and widening credit spreads resulting from the extreme volatility in the financial markets;

Decrease in foreign exchange (losses) gains of \$56.1 million due principally to third quarter declines in the value of assets denominated in foreign currencies relative to the U.S. dollar reporting currency; and

Increased finance expenses of \$5.6 million, resulting primarily from an increase of \$5.8 million in finance expense on the 8.480% Junior Subordinated Deferrable Debentures and \$2.5 million of Talbot Funds at Lloyd's ( FAL ) finance expense.

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The changes noted above were partially offset by increased net investment income of \$27.2 million as a result of growth in the Validus Re investment portfolio and the addition of the Talbot portfolio.

The decrease in net income for the year ended December 31, 2008 of \$349.9 million is described in the following table:

(Dollars in thousands)	<b>Year Ended December 31, 2008</b>			
	<b>Increase (Decrease) over The Year Ended December 31, 2007(a)</b>			
	<b>Validus Re</b>	<b>Talbot</b>	<b>Corporate and Other Reconciling Items</b>	<b>Total</b>
Hurricanes Ike and Gustav net losses and loss expenses	\$ (231,573)	\$ (51,135)	\$	\$ (282,708)
Hurricanes Ike and Gustav net reinstatement premiums	25,860	897		26,757
Other underwriting income	19,177	14,508	(5,221)	28,464
Underwriting income	(186,536)	(35,730)	(5,221)	(227,487)
Net investment income	16,013	15,715	(4,524)	27,204
Other income	309	1,963	(309)	1,963
Finance expenses	499	(1,265)	(4,798)	(5,564)
	(169,715)	(19,317)	(14,852)	(203,884)
Taxes	(27)	(9,256)		(9,283)
	(169,742)	(28,573)	(14,852)	(213,167)
Realized gain on repurchase of debentures			8,752	8,752
Net realized (losses) gains on investments	(10,161)	6,962		(3,199)
Net unrealized (losses) gains on investments	(93,270)	1,199		(92,071)
Foreign exchange (losses)	(24,196)	(31,897)		(56,093)
Fair value of warrants issued			2,893	2,893
Aquiline termination fee			3,000	3,000
<b>Net income</b>	<b>\$ (297,369)</b>	<b>\$ (52,309)</b>	<b>\$ (207)</b>	<b>\$ (349,885)</b>

(a) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

**Other Non-GAAP Financial Measures**

In presenting the Company's results, management has included and discussed certain schedules containing net operating income (loss), underwriting income, annualized return on average equity and diluted book value per

common share that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. The calculation of annualized return on average equity is discussed in the section above entitled Financial Measures. A reconciliation of underwriting income to net income, the most comparable U.S. GAAP financial measure, is presented above in the section entitled Underwriting Income. A reconciliation of diluted book value per share to book value per share, the most comparable U.S. GAAP financial measure, is presented below. Operating income is calculated based on net income (loss) excluding net realized gains (losses), net unrealized gains (losses) on investments, gains (losses) arising from translation of non-US\$ denominated balances and non-recurring items. A reconciliation of operating income to net income, the most comparable U.S. GAAP financial measure, is embedded in the table presenting results of operations for the three months and years ended December 31, 2009 and 2008 in the section above entitled Results of Operations. Realized gains (losses) from the sale of investments are driven by the timing of the disposition of investments, not by our operating performance. Gains (losses) arising from translation of non-US\$ denominated balances are unrelated to our underlying business.

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The following tables present reconciliations of diluted book value per share to book value per share, the most comparable U.S. GAAP financial measure, at December 31, 2009 and 2008.

	As at December 31, 2009			Book Value Per Share
	Equity Amount	Shares	Exercise Price	
<b>Book value per common share</b>				
Total shareholders equity	\$ 4,031,120	128,459,478		\$ 31.38
<b>Diluted book value per common share</b>				
Total shareholders equity	4,031,120	128,459,478		
Assumed exercise of outstanding warrants	139,576	7,952,138	\$ 17.55	
Assumed exercise of outstanding stock options	65,159	3,278,015	\$ 19.88	
Unvested restricted shares		3,020,651		
<b>Diluted book value per common share</b>	<b>\$ 4,235,855</b>	<b>142,710,282</b>		<b>\$ 29.68</b>

	As at December 31, 2008			Book Value Per Share
	Equity Amount	Shares	Exercise Price	
<b>Book value per common share</b>				
Total shareholders equity	\$ 1,938,734	75,624,697		\$ 25.64
<b>Diluted book value per common share</b>				
Total shareholders equity	1,938,734	75,624,697		
Assumed exercise of outstanding warrants	152,316	8,680,149	\$ 17.55	
Assumed exercise of outstanding stock options	51,043	2,799,938	\$ 18.23	
Unvested restricted shares		2,986,619		
<b>Diluted book value per common share</b>	<b>\$ 2,142,093</b>	<b>90,091,403</b>		<b>\$ 23.78</b>

**Financial Condition and Liquidity**

Validus Holdings, Ltd. is a holding company and conducts no operations of its own. The Company relies primarily on cash dividends and other permitted payments from Validus Re and Talbot to pay finance expenses and other holding company expenses. There are restrictions on the payment of dividends from Validus Re and Talbot to the Company. Please refer to Part II, Item 5, Market for Registrants, Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities for further discussion of the Company's dividend policy.

*Three main sources provide cash flows for the Company:* operating activities, investing activities and financing activities. Cash flow from operating activities is derived primarily from the net receipt of premiums less claims and expenses related to underwriting activities. Cash flow from investing activities is derived primarily from the receipt of net proceeds on the Company's total investment portfolio. Cash flow from financing activities is derived primarily from the issuance of common shares and notes and debentures payable. The movement in net cash provided by operating activities, net cash (used in) provided by investing activities, net cash (used in) provided by



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financing activities and the effect of foreign currency rate changes on cash and cash equivalents is described in the following table:

(Dollars in thousands)	Year Ended December 31,				
	2009(a)	% Change	2008	% Change	2007(b)
Net cash provided by operating activities	\$ 555,116	14.2%	\$ 485,983	(13.7)%	\$ 563,378
Net cash (used in) investing activities	(442,633)	(64.1)%	(269,810)	68.6%	(860,522)
Net cash (used in) provided by financing activities	(187,067)	(15.2)%	(162,334)	(124.2)%	670,246
Effect of foreign currency rate changes on cash and cash equivalents	12,321	125.3%	(48,689)	(712.2)%	7,953
<b>Net (decrease) increase in cash</b>	<b>\$ (62,263)</b>		<b>\$ 5,150</b>		<b>\$ 381,055</b>

- (a) The results of operations for IPC are consolidated only from the September 4, 2009 date of acquisition. No pre-acquisition results of operations for IPC are presented in the analysis above.
- (b) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. No pre-acquisition results of operations for Talbot are presented in the analysis above.

During the year ended December 31, 2009, net cash provided by operating activities was driven primarily by net income of \$897.4 million. Cash provided by operating activities, as compared to the year ended December 31, 2008, was affected by the relative movement in change in reserves for losses and loss expenses for the year ended December 31, 2009, due primarily to the settlement of 2008 loss reserves. Net cash used in investing activities was driven primarily by the proceeds on sales of investments to finance the IPC acquisition and the investment of operating surpluses. Net cash used in financing activities was driven primarily by share repurchases of \$84.2 million and aggregate quarterly dividend payments of \$78.5 million. The decrease in the effect of foreign currency rate changes in cash and cash equivalents is due to relatively stable major currency exchange rates for the year ended December 31, 2009 compared to the year ended December 31, 2008.

On September 4, 2009, pursuant to an Amalgamation Agreement, the Company acquired all of IPC's outstanding common shares in exchange for 0.9727 Company common shares and \$7.50 cash per IPC common share. The IPC Acquisition resulted in the payment of \$420.8 million in cash to IPC shareholders.

During the year ended December 31, 2008, net cash provided by operating activities was driven primarily by an increase in reserves for losses and loss expenses of \$444.1 million as a result of the high frequency and severity of worldwide losses, net cash used in investing activities was driven primarily by steady growth in the investment portfolio, net cash used in financing activities was driven primarily by aggregate quarterly dividend payments of \$67.9 million and the \$36.9 million paid to repurchase debentures. The effect of foreign currency rate changes on cash and cash equivalents was driven primarily by the devaluation of the British pound sterling relative to the U.S. dollar and the related effects on the translation of the Talbot segment on consolidation.

As at December 31, 2009, the Company's portfolio was composed of fixed income investments including: cash, short-term investments, agency securities and sovereign securities amounting to \$4,013.5 million or 69.5% of total cash and investments. Details of the Company's debt and financing arrangements at December 31, 2009 are provided below.

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<b>(Dollars in thousands)</b>	<b>Maturity Date / Term</b>	<b>In Use/ Outstanding</b>
9.069% Junior Subordinated Deferrable Debentures	June 15, 2036	\$ 150,000
8.480% Junior Subordinated Deferrable Debentures	June 15, 2037	139,800
\$500,000 secured letter of credit facility	March 12, 2012	225,823
Talbot FAL facility	April 13, 2011	25,000
\$250,000 IPC Syndicated Facility	April 13, 2011	16,537
\$350,000 IPC Bi-Lateral Facility	December 31, 2010	96,047
<b>Total</b>		<b>\$ 653,207</b>

The capital and credit markets have been experiencing extreme volatility and disruption for more than one year. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity for certain issuers. However, management believes that liquidity is not a key constraint for the Company due to its highly liquid investment portfolio and the maturity dates of debt and facilities reflected in the table above. Management's belief is based on the following considerations:

The Talbot third party FAL facility represents cash, investments and undrawn letters of credit provided by various third parties for the 2007 year of account. These third party funds have been replaced by the Company effective January 1, 2008;

The Talbot FAL facility is a facility currently secured by assets of Validus Reinsurance, Ltd. and the Company could choose to provide FAL in the form of cash should the Talbot FAL facility not be renewed;

The \$200 million unsecured letter of credit facility is not utilized by the Company currently and has been used in the past only as part of the Talbot acquisition.

**Capital Resources**

Shareholders' equity at December 31, 2009 was \$4,031.1 million.

On February 17, 2010, the company announced that its Board of Directors had increased the Company's annual dividend by 10% from \$0.80 to \$0.88 per common share and common share equivalent for which each outstanding warrant is exercisable. On February 17, 2010, the Company announced a quarterly cash dividend of \$0.22 per each common share and \$0.22 per common share equivalent for which each outstanding warrant is exercisable, payable on March 31, 2010 to holders of record on March 15, 2010. During 2009, the Company paid quarterly cash dividends of \$0.20 per each common share and \$0.20 per common share equivalent, for which each outstanding warrant is then exercisable, on March 31, June 30, September 30 and December 31 to holders of record on March 16, June 15, August 20 and December 15, 2009, respectively. The timing and amount of any future cash dividends, however, will be at the discretion of our Board of Directors and will depend upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that our Board of Directors deems relevant.

The Company may from time to time repurchase its securities, including common shares and Junior Subordinated Deferrable Debentures. On February 17, 2010, the Board of Directors of the Company authorized the Company to return up to \$750.0 million to shareholders. To this end, the Board expanded the Company's share repurchase program

authorizing the Company to repurchase up to \$750.0 million of common shares. This amount is in addition to, and in excess of, the \$135.5 million of common shares repurchased by the Company through February 17, 2010 under its previously authorized \$400.0 million share repurchase program announced in November 2009. The Company expects the purchases to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. For the period November 4, 2009 through February 26, 2010 the Company repurchased 5,715,071 shares at a cost of \$152.4 million under the share repurchase program.

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On August 7, 2008, the Company filed a shelf registration statement on Form S-3 (No. 333-152856) with the U.S. Securities Exchange Committee in which we may offer from time to time common shares, preference shares, depository shares representing common shares or preference shares, senior or subordinated debt securities, warrants to purchase common shares, preference shares and debt securities, share purchase contracts, share purchase units and units which may consist of any combination of the securities listed above. In addition, the shelf registration statement will provide for secondary sales of common shares sold by the Company's shareholders. The registration statement is intended to provide the Company with additional flexibility to access capital markets for general corporate purposes, subject to market conditions and the Company's capital needs.

The Company's contractual obligations and commitments as at December 31, 2009 are set out below:

(Dollars in thousands)	Total	Payment Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
Reserve for losses and loss expenses(1) Junior Subordinated Deferrable Debentures (including interest payments)(2)	\$ 1,622,134	\$ 784,735	\$ 564,885	\$ 188,389	84,125
Operating lease obligations	43,761	2,787	5,013	7,452	28,509
<b>Total</b>	<b>\$ 2,005,738</b>	<b>\$ 812,981</b>	<b>\$ 884,282</b>	<b>\$ 195,841</b>	<b>\$ 112,634</b>

- (1) The reserve for losses and loss expenses represents an estimate, including actuarial and statistical projections at a given point in time, of an insurer's or reinsurer's expectations of the ultimate settlement and administration costs of claims incurred. As a result, it is likely that the ultimate liability will differ from such estimates, perhaps significantly. Such estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends in loss severity and frequency and other variable factors such as inflation, litigation and tort reform. This uncertainty is heightened by the short time in which the Company has operated, thereby providing limited claims loss emergence patterns specifically for the Company. The lack of historical information for the Company has necessitated the use of industry loss emergence patterns in deriving IBNR. Further, expected losses and loss ratios are typically developed using vendor and proprietary computer models and these expected loss ratios are a material component in the calculation deriving IBNR. Actual loss ratios will deviate from expected loss ratios and ultimate loss ratios will be greater or less than expected loss ratios. During the loss settlement period, it often becomes necessary to refine and adjust the estimates of liability on a claim either upward or downward. Even after such adjustments, ultimate liability will exceed or be less than the revised estimates. The actual payment of the reserve for losses and loss expenses will differ from estimated payouts.
- (2) The 9.069% Junior Subordinated Deferrable Debentures and the 8.480% Junior Subordinated Deferrable Debentures mature on June 15, 2036 and June 15, 2037, respectively.

The following table details the capital resources of the Company's more significant subsidiaries on an unconsolidated basis:

<b>(Dollars in thousands)</b>	<b>Capital at December 31, 2009</b>
Validus Reinsurance, Ltd. (consolidated), excluding IPCRe Limited	\$ 1,829,018
IPCRe Limited	1,885,496
<b>Total Validus Reinsurance, Ltd. (consolidated)</b>	<b>3,714,514</b>
Talbot Holdings, Ltd	606,406
<b>Total consolidated capitalization</b>	<b>4,320,920</b>
Debentures payable	(289,800)
<b>Total shareholders equity</b>	<b>\$ 4,031,120</b>

**Table of Contents****Recent Accounting Pronouncements**

Please refer to Note 4 to the consolidated financial statements (Part II, Item 8) for further discussion of relevant recent accounting pronouncements.

**Debt and Financing Arrangements**

The following table details the Company's borrowings and credit facilities as at December 31, 2009:

<b>(Dollars in thousands)</b>	<b>Commitments</b>	<b>Outstanding</b>
9.069% Junior Subordinated Deferrable Debentures	\$ 150,000	\$ 150,000
8.480% Junior Subordinated Deferrable Debentures	200,000	139,800
\$200,000 unsecured letter of credit facility	200,000	
\$500,000 secured letter of credit facility	500,000	225,823
Talbot FAL facility	25,000	25,000
\$250,000 IPC Syndicated Facility	16,537	16,537
\$350,000 IPC Bi-Lateral Facility	350,000	96,047
<b>Total</b>	<b>\$ 1,441,537</b>	<b>\$ 653,207</b>

Please refer to Note 15 to the Consolidated Financial Statements (Part II, Item 8) for further discussion of the Company's debt and financing arrangements.

On July 24, 2009, the Company announced that it has entered into the Second Amendment to each of its \$500.0 million five-year secured letter of credit facility, \$200.0 million three-year unsecured facility and the First Amendment to its \$100.0 million Talbot FAL facility to amend a specific investment restriction clause to permit the completion of the IPC Acquisition. The amendment also modifies and updates certain pricing and covenant terms.

The Company is currently in the process of renewing the \$200.0 million unsecured letter of credit facility and expects to complete the process in March 2010.

IPCR Limited obtains letters of credit through a \$250.0 million Credit Agreement between IPC Holdings, Ltd., IPCRe Limited, the Lenders party thereto and Wachovia Bank, National Association (the IPC Syndicated Facility) and a \$350.0 million Letters of Credit Master Agreement between Citibank N.A. and IPCRe Limited (the IPC Bi-Lateral Facility). In July, 2009, certain terms of these credit facilities were amended including suspending IPCRe's ability to increase existing letters of credit or to issue new letters of credit. With respect of the IPC Syndicated Facility, IPCRe Limited provides the banks security by depositing cash in the amount of 103% of the aggregate letters of credit outstanding. Effective December 31, 2009 and December 31, 2008, there were outstanding letters of credit of \$112.8 million and \$166.3 million, respectively, of which \$16.8 million and \$65.9 million were issued from the IPC Syndicated Facility with \$96.0 million and \$100.4 million issued from the IPC Bi-Lateral Facility.

On January 21, 2010, the Company offered and sold \$250.0 million of Senior Notes due 2040 (the 8.875% Senior Notes) in a registered public offering. The 8.875% Senior Notes mature on January 26, 2040, and are redeemable at the Company's option in whole any time or in part from time to time at a make-whole redemption price. Interest on the 8.875% Senior Notes is payable at 8.875% per annum through January 26, 2040. Interest on the Notes is payable semi-annually in arrears on January 26 and July 26 of each year, commencing on July 26, 2010. The net proceeds of

\$244.3 million from the sale of the 8.875% Senior Notes, after the deduction of commissions paid to the underwriters in the transaction and other expenses, will be used by the Company for general corporate purposes, which may include the repurchase of our outstanding capital stock, dividends to our shareholders and/or potential acquisitions.

### **Regulation**

Validus Re, IPCRe Limited and a Talbot subsidiary (the Bermuda registered companies ) are registered under the Insurance Act 1978 of Bermuda ( the Act ). Under the Act, the Bermuda registered companies are required annually to prepare and file Statutory Financial Statements and a Statutory Financial Return. The Act also requires



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the Bermuda registered companies to meet minimum solvency requirements. For the year ended December 31, 2009, the Bermuda registered companies satisfied these requirements. Please refer to the Notes to the Consolidated Financial Statements (Part II, Item 8) for further discussion of statutory and regulatory requirements.

Bermuda law limits the maximum amount of annual dividends or distributions payable by Bermuda registered companies to the Company and in certain cases requires the prior notification to, or the approval of, the Bermuda Monetary Authority. Subject to such laws, the directors of the Bermuda registered companies have the unilateral authority to declare or not declare dividends to the Company. There is no assurance that dividends will be declared or paid in the future.

Talbot's underwriting activities are regulated by the FSA. The FSA has substantial powers of intervention in relation to the Lloyd's managing agents which it regulates including the power to remove their authorization to manage Lloyd's syndicates. In addition, Talbot's managing agent operates under the Lloyd's franchise. Lloyd's approves annually Syndicate 1183's business plan and any subsequent material changes, and the amount of capital required to support that plan. Lloyd's may require changes to any business plan presented to it or additional capital to be provided to support the underwriting (known as Funds at Lloyd's).

**Ratings**

**Validus Reinsurance, Ltd.**

*A.M. Best.* On September 9, 2009, following the completion of the IPC acquisition, A.M. Best removed from under review and affirmed the financial strength rating of A- (Excellent) for Validus Reinsurance, Ltd. IPCRe Limited, and IPCRe Europe. The outlook on these ratings is stable. A.M. Best also removed from under review and affirmed the Company's bbb- issuer credit and indicative senior debt ratings as well as the bb+ subordinated debt and bb preferred stock ratings. The outlook on these ratings is stable.

*Standard & Poor's.* On July 10, 2009, Standard & Poor's (S&P) revised its outlook on the Company to positive from stable and affirmed the counterparty credit rating of BBB-. According to S&P, the Company's ratings are based on the group's good and expanding competitive position; strong capitalization; strong risk controls around exposure management, underwriting and modeling; and very strong operating performance since its inception, partially offset by the potential integration risk related to the expected IPC transaction.

*Moody's Investors Service.* On September 9, 2009, Moody's affirmed the Company's ratings and changed the ratings outlook to stable from negative. The Baa2 long-term issuer rating was affirmed for Validus Holdings, Ltd. and the A3 insurance financial strength rating was affirmed for Validus Reinsurance, Ltd.

**Talbot Underwriting, Ltd.**

Talbot's subsidiary, Talbot Underwriting Ltd., which manages Syndicate 1183 at Lloyd's, relies on the ratings assigned to Lloyd's insurance market.

Lloyd's as a market is rated as follows:

AM Best	A	Excellent	Stable Outlook
Fitch Ratings	A+	Strong	Stable Outlook
S&P	A+	Strong	Stable Outlook

The syndicate benefits from these ratings and the Company believes that ratings impairments below A- would materially impair the syndicate's ability to write business.

**Off-Balance Sheet Arrangements**

The Company is not party to any off-balance sheet transaction, agreement or other contractual arrangement as defined by Item 303(a) (4) of Regulation S-K to which an entity unconsolidated with the Company is a party that management believes is reasonably likely to have a current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that the Company believes is material to investors.

**Table of Contents****Investments**

A significant portion of contracts written provide short-tail reinsurance coverage for losses resulting mainly from natural and man-made catastrophes, which could result in a significant amount of losses on short notice. Accordingly, the Company's investment portfolio is structured to provide significant liquidity and preserve capital, which means the investment portfolio contains a significant amount of relatively short-term fixed maturity investments, such as U.S. government securities, U.S. government-sponsored enterprises securities, corporate debt securities and mortgage-backed and asset-backed securities.

Substantially all of the fixed maturity investments held at December 31, 2009 were publicly traded. At December 31, 2009, the average duration of the Company's fixed maturity portfolio was 2.24 years (December 31, 2008: 1.82 years) and the average rating of the portfolio was AA+ (December 31, 2008: AAA). At December 31, 2009, the total fixed maturity portfolio was \$4,869.4 million (December 31, 2008: \$2,454.5 million), of which \$3,287.9 million (December 31, 2008: \$1,941.3 million) were rated AAA. At December 31, 2009, fair value measurements of certain non-Agency RMBS securities, representing 1.2% of the Company's total assets, have primarily unobservable inputs (December 31, 2008: 2.6%).

On September 4, 2009, as part of the acquisition of IPC, the Company assumed IPC's investment portfolio containing \$1,820.9 million of corporate bonds, \$112.9 million of agency residential mortgage-backed securities, \$234.7 million of equity mutual funds, \$114.8 million fund of hedge funds and \$11.0 million of equity mutual funds contained within a deferred compensation trust. On September 9, 2009, the Company realized a gain of \$4.5 million on the disposition of \$234.7 million of equity mutual funds. A redemption request for the fund of hedge funds was submitted for value as at October 31, 2009. The redemption amounted to \$89.4 million. As of December 31, 2009 the Company had received \$59.6 million and accordingly, a receivable exists for the remaining \$29.8 million. Subsequent to year-end, an additional \$20.9 million was received, leaving \$8.9 million receivable with ultimate collection expected upon the funds' 2009 audit completion deadline of June 30, 2010. As of December 31, 2009, the Company held a fund of hedge fund side pocket of \$25.7 million. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is indeterminable. During the fourth quarter of 2009, the Company received distribution proceeds of \$2.6 million from the side pocket. Subsequent to year-end, an additional \$4.4 million was received from the side pocket.

On August 28, 2009, the Company sold short equity index futures contracts with a goal of hedging until closing of the IPC Acquisition and liquidation of IPC's mutual fund equity portfolio exposure. The contracts were closed when the equity positions were fully redeemed on September 9, 2009. The Company experienced a \$3.3 million realized investment loss as a result of the futures contracts.

The Company's investment guidelines require that investments be rated A- or higher at the time of purchase. During the year ended December 31, 2009, Moody's downgraded a substantial number of non-agency mortgage backed securities issues, including several securities held by the Company. The Company reports the ratings of its investment portfolio securities at the lower of Moody's or Standard & Poor's rating for each investment security and, as a result, the Company's investment portfolio now has \$89.8 million of non-agency mortgage backed securities rated less than investment grade. The other components of less than investment grade securities held by the Company at December 31, 2009 were \$52.4 million of catastrophe bonds and \$12.1 million of corporate bonds.

Cash and cash equivalents and investments in Talbot of \$1,408.1 million at December 31, 2009 were held in trust for the benefit of cedants and policyholders, and to facilitate the accreditation as an alien insurer/reinsurer by certain regulators (December 31, 2008: \$1,032.3 million). Total cash and cash equivalents and investments in Talbot were \$1,420.4 million at December 31, 2009 (December 31, 2008: \$1,142.0 million).

As of December 31, 2009, the Company had approximately \$4.2 million of asset-backed securities with sub-prime collateral (December 31, 2008: \$6.4 million) and \$82.3 million of Alt-A RMBS (December 31, 2008: \$103.8 million).

As described more fully under the Critical Accounting Policies and Estimates in Item 7, *Management's Discussion and Analysis of Results of Operations and Financial Condition*, the Company identified certain non-Agency RMBS securities trading in inactive markets. During the three months ended December 31, 2009, the change in fair value for the identified RMBS securities resulted in a \$6.4 million increase in net unrealized loss on

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investments. This increase in net unrealized losses on investments resulted in a \$6.4 million decrease in shareholders equity as at December 31, 2009.

### **Goodwill and Intangible Assets**

The Company has performed an impairment analysis of its carried goodwill and indefinite lived intangible assets as required by U.S. GAAP. The analysis included a comparison of the Company's market capitalization to book value ratio. Management has also evaluated the fair value of Talbot relative to its book value on the following basis:

- 1) Gross premium written for 2008 and 2009;
- 2) Internal demand for and valuation of syndicate capacity, and utilization of Lloyd's licenses; and
- 3) External demand for syndicate capacity.

Reporting units are consistent with the segmental basis. Based on its analysis, management has concluded that an impairment valuation is not required against the carried goodwill and indefinite lived intangible assets.

### **Cash Flows**

During the three months ended December 31, 2009 and 2008, the Company generated net cash from operating activities of \$206.7 million and \$88.6 million, respectively. During the year ended December 31, 2009 and 2008, the Company generated net cash from operating activities of \$555.1 million and \$486.0 million, respectively. Cash flows from operations generally represent premiums collected, investment earnings realized and investment gains realized less losses and loss expenses paid and underwriting and other expenses paid. Cash flows from operations may differ substantially, however, from net income.

Pursuant to an Amalgamation Agreement dated July 9, 2009 among IPC, Validus Holdings, Ltd. and Validus, Ltd., on September 4, 2009, the Company acquired all of IPC's outstanding common shares in exchange for a combination of the Company's common shares and cash (the IPC Acquisition). Each outstanding IPC common share (including any shares held by IPC shareholders that did not vote in favor of the amalgamation, but excluding shares owned by the Company), have been cancelled and converted into the right to receive 0.9727 of the Company's common shares, \$7.50 in cash (less any applicable withholding tax and without interest) and cash in lieu of fractional shares. The IPC Acquisition resulted in the issuance by the Company of 54,556,762 common shares valued at \$24.10 per share and the payment of \$420.8 million in cash to IPC shareholders. IPC's operations are focused on short-tail lines of reinsurance. The primary lines in which IPC conducted business were property catastrophe reinsurance and, to a limited extent, property-per-risk excess, aviation (including satellite) and other short-tail reinsurance on a worldwide basis. The acquisition of IPC was undertaken to gain a strategic advantage in the current reinsurance market and increase the Company's capital base. Sources of funds consist primarily of the receipt of premiums written, investment income and proceeds from sales and redemptions of investments. In addition, cash will also be received from financing activities. Cash is used to pay primarily losses and loss expenses, brokerage commissions, excise taxes, general and administrative expenses, purchase new investments, payment of premiums retroceded and payment of dividends. The Company has had sufficient resources to meet its liquidity requirements.

As of December 31, 2009 and December 31, 2008, the Company had cash and cash equivalents of \$387.6 million and \$449.8 million, respectively.

The Company has written certain business that has loss experience generally characterized as having low frequency and high severity. This results in volatility in both results and operational cash flows. The potential for large claims or

a series of claims under one or more reinsurance contracts means that substantial and unpredictable payments may be required within relatively short periods of time. As a result, cash flows from operating activities may fluctuate, perhaps significantly, between individual quarters and years. Management believes the Company's unused credit facility amounts and highly liquid investment portfolio are sufficient to support any potential operating cash flow deficiencies. Please refer to the table detailing the Company's borrowings and credit facilities as at December 31, 2009, presented above.

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In addition to relying on premiums received and investment income from the investment portfolio, the Company intends to meet these cash flow demands by carrying a substantial amount of short and medium term investments that would mature, or possibly be sold, prior to the settlement of expected liabilities. The Company cannot provide assurance, however, that it will successfully match the structure of its investments with its liabilities due to uncertainty related to the timing and severity of loss events.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 ( PSLRA ) provides a safe harbor for forward-looking statements. Any prospectus, prospectus supplement, the Company s Annual Report to shareholders, any proxy statement, any other Form 10-K, Form 10-Q or Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements that reflect the Company s current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to the Company in general, and to the insurance and reinsurance sectors in particular. Statements that include the words expect , intend , plan , believe , project , anticipate , will , may , and similar statements of a future or forward nature identify forward-looking statements for purposes of the PSLRA or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements and, therefore, you should not place undue reliance on any such statement.

We believe that these factors include, but are not limited to, the following:

- unpredictability and severity of catastrophic events;
- our ability to obtain and maintain ratings, which may be affected by our ability to raise additional equity or debt financings, as well as other factors described herein;
- adequacy of the Company s and IPC s risk management and loss limitation methods;
- cyclicality of demand and pricing in the insurance and reinsurance markets;
- the Company s limited operating history;
- the Company s ability to implement its business strategy during soft as well as hard markets;
- adequacy of the Company s loss reserves;
- continued availability of capital and financing;
- the Company s ability to identify, hire and retain, on a timely and unimpeded basis and on anticipated economic and other terms, experienced and capable senior management, as well as underwriters, claims professionals and support staff;
- acceptance of our business strategy, security and financial condition by rating agencies and regulators, as well as by brokers and (re)insureds;
- competition, including increased competition, on the basis of pricing, capacity, coverage terms or other factors;
- potential loss of business from one or more major insurance or reinsurance brokers;

the Company's ability to implement, successfully and on a timely basis, complex infrastructure, distribution capabilities, systems, procedures and internal controls, and to develop accurate actuarial data to support the business and regulatory and reporting requirements;

general economic and market conditions (including inflation, volatility in the credit and capital markets, interest rates and foreign currency exchange rates) and conditions specific to the insurance and reinsurance markets in which we expect to operate;

the integration of businesses we may acquire or new business ventures, including overseas offices, we may start;



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accuracy of those estimates and judgments used in the preparation of our financial statements, including those related to revenue recognition, insurance and other reserves, reinsurance recoverables, investment valuations, intangible assets, bad debts, taxes, contingencies, litigation and any determination to use the deposit method of accounting, which, for a relatively new insurance and reinsurance company like our company, are even more difficult to make than those made in a mature company because of limited historical information;

the effect on the Company's or IPC's investment portfolio of changing financial market conditions including inflation, interest rates, liquidity and other factors;

acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;

availability and cost of reinsurance and retrocession coverage;

the failure of reinsurers, retrocessionaires, producers or others to meet their obligations to us;

the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;

changes in domestic or foreign laws or regulations, or their interpretations;

changes in accounting principles or the application of such principles by regulators;

statutory or regulatory or rating agency developments, including as to tax policy and matters and reinsurance and other regulatory matters such as the adoption of proposed legislation that would affect Bermuda-headquartered companies and/or Bermuda-based insurers or reinsurers; and

the other factors set forth herein under Part I Item 1A "Risk Factors" and under Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other sections of this Annual Report on Form 10-K for the year ended December 31, 2009, as well as the risk and other factors set forth in the Company's other filings with the SEC, as well as management's response to any of the aforementioned factors.

In addition, other general factors could affect our results, including: (a) developments in the world's financial and capital markets and our access to such markets; (b) changes in regulations or tax laws applicable to us, including, without limitation, any such changes resulting from the recent investigations relating to the insurance industry and any attendant litigation; and (c) the effects of business disruption or economic contraction due to terrorism or other hostilities.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein or elsewhere. Any forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations. We undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

**Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

We believe we are principally exposed to five types of market risk:

interest rate risk;

foreign currency risk;

credit risk;

liquidity risk; and

effects of inflation.

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*Interest Rate Risk:* The Company's primary market risk exposure is to changes in interest rates. The Company's fixed maturity portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these investments. As interest rates rise, the market value of the Company's fixed maturity portfolio falls and the Company has the risk that cash outflows will have to be funded by selling assets, which will be trading at depreciated values. As interest rates decline, the market value of the Company's fixed income portfolio increases and the Company has reinvestment risk, as funds reinvested will earn less than is necessary to match anticipated liabilities. We manage interest rate risk by selecting investments with characteristics such as duration, yield, currency and liquidity tailored to the anticipated cash outflow characteristics of the insurance and reinsurance liabilities the Company assumes.

As at December 31, 2009, the impact on the Company's fixed maturity and short-term investments from an immediate 100 basis point increase in market interest rates (based on U.S. treasury yield) would have resulted in an estimated decrease in market value of 2.3%, or approximately \$123.8 million. As at December 31, 2009, the impact on the Company's fixed maturity portfolio from an immediate 100 basis point decrease in market interest rates would have resulted in an estimated increase in market value of 2.1% or approximately \$111.9 million.

As at December 31, 2008, the impact on the Company's fixed maturity and short-term investments from an immediate 100 basis point increase in market interest rates would have resulted in an estimated decrease in market value of 1.9%, or approximately \$54.6 million. As at December 31, 2008, the impact on the Company's fixed maturity portfolio from an immediate 100 basis point decrease in market interest rates would have resulted in an estimated increase in market value of 1.7% or approximately \$49.2 million.

As at December 31, 2009, the Company held \$768.6 million (December 31, 2008: \$994.1 million), or 15.8% (December 31, 2008: 40.5%), of the Company's fixed maturity portfolio in asset-backed and mortgage-backed securities. These assets are exposed to prepayment risk, which occurs when holders of underlying loans increase the frequency with which they prepay the outstanding principal before the maturity date and refinance at a lower interest rate cost. The adverse impact of prepayment is more evident in a declining interest rate environment. As a result, the Company will be exposed to reinvestment risk, as cash flows received by the Company will be accelerated and will be reinvested at the prevailing interest rates.

*Foreign Currency Risk:* Certain of the Company's reinsurance contracts provide that ultimate losses may be payable in foreign currencies depending on the country of original loss. Foreign currency exchange rate risk exists to the extent that there is an increase in the exchange rate of the foreign currency in which losses are ultimately owed. Therefore, we attempt to manage our foreign currency risk by seeking to match our liabilities under insurance and reinsurance policies that are payable in foreign currencies with cash and investments that are denominated in such currencies. As of December 31, 2009, \$405.4 million, or 5.8% of our total assets and \$413.9 million, or 13.9% of our total liabilities was held in foreign currencies. As of December 31, 2009, \$81.2 million, or 2.7% of our total liabilities held in foreign currencies was non-monetary items which do not require revaluation at each reporting date. As of December 31, 2008, \$303.2 million, or 7.0% of our total assets and \$308.3 million, or 12.9% of our total liabilities was held in foreign currencies. As of December 31, 2008, \$62.3 million, or 2.6% of our total liabilities held in foreign currencies was non-monetary items which do not require revaluation at each reporting date. The Company does not transact in foreign exchange markets to hedge its foreign currency exposure. To the extent foreign currency exposure is not hedged, the Company may experience exchange losses, which in turn would adversely affect the results of operations and financial condition.

*Credit Risk:* We are exposed to credit risk primarily from the possibility that counterparties may default on their obligations to us. We attempt to limit our credit exposure by purchasing high quality fixed income investments to maintain an average portfolio credit quality of AA- or higher with mortgage and commercial mortgage-backed issues

having an aggregate weighted average credit quality of AAA. In addition, we have limited our exposure to any single issuer to 3.0% or less of total investments, excluding treasury and agency securities. The minimum credit rating of any security purchased is A-/A3 and where investments are downgraded below A-/A3, we permit our investment managers to hold up to 2.0% in aggregate market value, or up to 10.0% with written authorization of the Company. At December 31, 2009, 3.2% of the portfolio was below A-/A3 and we did not have an aggregate exposure to any single issuer of more than 1.5% of total investments, other than with respect to government securities.

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The amount of the maximum exposure to credit risk is indicated by the carrying value of the Company's financial assets. The Company's primary credit risks reside in investment in U.S. corporate bonds and recoverables from reinsurers at the Talbot segment. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better rated by S & P or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At December 31, 2009, 99.3% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A-, (December 31, 2008 rated A- or better) or from reinsurers posting full collateral. Validus Re does not have any reinsurance recoverable balances that are not fully collateralized.

*Liquidity risk:* Certain of the Company's investments may become illiquid. The current disruption in the credit markets may materially affect the liquidity of the Company's investments, including residential mortgage-backed securities which at December 31, 2009 represent 11.9% (December 31, 2008: 20.3%) of total cash and investments. If the Company requires significant amounts of cash on short notice in excess of normal cash requirements (which could include claims on a major catastrophic event) in a period of market illiquidity, the investments may be difficult to sell in a timely manner and may have to be disposed of for less than what may otherwise have been possible under other conditions. At December 31, 2009, the Company had \$2,636.8 million of unrestricted, liquid assets, defined as unpledged cash and cash equivalents, short term investments, government and government agency securities. Details of the Company's debt and financing arrangements at December 31, 2009 are provided below.

On September 4, 2009, as part of the acquisition of IPC the Company assumed IPC's investment portfolio containing \$1,820.9 million of corporate bonds, \$112.9 million of agency residential mortgage-backed securities, \$234.7 million of equity mutual funds, \$114.8 million fund of hedge funds and \$11.0 million of equity mutual funds contained within a deferred compensation trust. On September 9, 2009, the Company realized a gain of \$4.5 million on the disposition of \$234.7 million of equity mutual funds. A redemption request for the fund of hedge funds was submitted for value as at October 31, 2009. The redemption amounted to \$89.4 million. As of December 31, 2009 the Company had received \$59.6 million and accordingly, a receivable exists for the remaining \$29.8 million. Subsequent to year-end, an additional \$20.9 million was received, leaving \$8.9 million receivable with ultimate collection expected upon the funds' 2009 audit completion deadline of June 30, 2010. As of December 31, 2009, the Company held a fund of hedge fund side pocket of \$25.7 million. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is indeterminable. During the fourth quarter, the Company received distribution proceeds of \$2.6 million from the side pocket. Subsequent to year end, an additional \$4.4 million was received from the side pocket.

<b>(Dollars in thousands)</b>	<b>Maturity Date/ Term</b>	<b>In Use/ Outstanding</b>
9.069% Junior Subordinated Deferrable Debentures	June 15, 2036	\$ 150,000
8.480% Junior Subordinated Deferrable Debentures	June 15, 2037	139,800
\$500,000 secured letter of credit facility	March 12, 2012	225,823
Talbot FAL facility	April 13, 2011	25,000
\$250,000 IPC Syndicated Facility	April 13, 2011	16,537
\$350,000 IPC Bi-Lateral Facility	December 31, 2010	96,047
<b>Total</b>		<b>\$ 653,207</b>

*Effects of Inflation:* We do not believe that inflation has had or will have a material effect on our combined results of operations, except insofar as (a) inflation may affect interest rates, and (b) losses and loss expenses may be affected by inflation.

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### **Item 8. *Financial Statements and Supplementary Data***

Reference is made to Item 15 (a) of this Report for the Consolidated Financial Statements of Validus Holdings, Ltd. and the Notes thereto, as well as the Schedules to the Consolidated Financial Statements.

### **Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

### **Item 9A. *Controls and Procedures***

#### **Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that all material information relating to the Company required to be filed in this report has been made known to them in a timely fashion.

#### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended.

The Company's internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (the Framework). Based on its assessment, management concluded that, as of December 31, 2009, the Company's internal control over financial reporting was effective based on the Framework criteria.

The Company acquired all of the outstanding shares of IPC on September 4, 2009. IPC's assets represented approximately 8.0% of total revenue and 33.0% of the Company's total assets as at December 31, 2009. Consistent with the SEC's general guidance, IPC has been omitted from the Company's assessment scope for the effectiveness of internal control over financial reporting in the year of acquisition.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report included in this filing.

#### **Changes in Internal Control Over Financial Reporting**

There have been no changes in internal control over financial reporting identified in connection with the Company's evaluation required pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as

amended, that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**Table of Contents****Item 9B. *Other Information***

None.

**PART III****Item 10. *Directors, Executive Officers and Corporate Governance***

Certain of the information required by this item relating to the executive officers of the Company may be found at page 38. The balance of the information required by this item is omitted because a definitive proxy statement that involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which proxy statement is incorporated herein by reference.

**Item 11. *Executive Compensation***

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which proxy statement is incorporated herein by reference.

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters******Equity Compensation Plan Information***

The following table displays certain information regarding our equity compensation plan at December 31, 2009:

<b>(Dollars in thousands)</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options and Restricted Stock</b>	<b>Weighted-Average Exercise Price of Outstanding Options</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans</b>
2005 Amended and Restated Long-Term Incentive Plan	5,280,169	\$ 17.83	\$ 7,846,727
Share Sale Agreement	410,667		
Director Stock Compensation Plan	4,577		52,566
IPC Holdings Ltd. 2007 Incentive Plan	603,253	28.16	621,747

The balance of the information required by this item is omitted because a definitive proxy statement that involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which proxy statement is incorporated herein by reference.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence***

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which proxy statement is incorporated herein by reference.

**Item 14. *Principal Accountant Fees and Services***

This item is omitted because a definitive proxy statement that involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A, which proxy statement is incorporated herein by reference.

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**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules***

Financial Statements, Financial Statement Schedules and Exhibits.

a) Financial Statements and Financial Statement Schedules are included as pages F-1 to F-62.

b) The exhibits numbers followed by an asterisk (\*) indicate exhibits physically filed with this Annual Report on Form 10-K. All other exhibit numbers indicate exhibits filed by incorporation by reference.

**Table of Contents****EXHIBITS**

<b>Exhibit Number</b>	<b>Description of Document</b>
3.1	Memorandum of Association dated October 10, 2005 (Incorporated by Reference from S-1 SEC File No. 333-139989)
3.2	Amended and Restated Bye-laws (Incorporated by Reference from S-1 SEC File No. 333-139989)
4.1	Specimen Common Share Certificate (Incorporated by Reference from S-1 SEC File No. 333-139989)
4.2	Certificate of Deposit of Memorandum of Increase of Share Capital dated October 28, 2005 (Incorporated by Reference from S-1 SEC File No. 333-139989)
4.3	9.069% Junior Subordinated Deferrable Debentures Indenture dated as of June 15, 2006 (Incorporated by Reference from S-1 SEC File No. 333-139989)
4.4	Form of 9.069% Junior Subordinated Deferrable Debentures (Included in Exhibit 10.8 hereto) (Incorporated by Reference from S-1 SEC File No. 333-139989)
4.5	First Supplemental Indenture to the above Indenture dated as of September 15, 2006 (Incorporated by Reference from S-1 SEC File No. 333-139989)
4.6	8.480% Junior Subordinated Deferrable Debentures Indenture dated as of June 29, 2007 (Incorporated by Reference from S-1 SEC File No. 333-139989)
4.7	Form 8.480% Junior Subordinated Deferrable Debentures (Included in Exhibit 10.8 hereto) (Incorporated by Reference from S-1 SEC File No. 333-139989)
4.8	Senior Note Indenture, by and between Validus Holdings, Ltd. and The Bank of New York Mellon, dated January 26, 2010 (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 26, 2010)
4.9	8.875% Senior Notes Supplemental Indenture, by and between Validus Holdings, Ltd. and The Bank of New York Mellon, dated January 26, 2010 (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 26, 2010)
4.10	Form of 8.875% Senior Note (Included in Exhibit 4.9 hereto) (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 26, 2010)
10.1	Shareholders' Agreement dated as of December 12, 2005 among Validus Holdings, Ltd. and the Shareholders Named Therein (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.2	Advisory Agreement with Aquiline Capital Partners LLC dated December 7, 2005 (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.3	Form of Warrant (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.4	Form of Amendment to Warrants dated as of December 21, 2007 (Incorporated by Reference from 8-K filed with the SEC on December 1, 2007)
10.5	Five-Year Secured Letter of Credit Facility Agreement (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.6	Three-Year Unsecured Letter of Credit Facility Agreement (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.7	First Amendment to each of the Three-Year Unsecured Letter of Credit Facility Agreement and the Five-Year Secured Letter of Credit Facility Agreement (Incorporated by Reference from 8-K filed with the SEC on October 26, 2007)
10.8	Second Amendment, dated as of July 24, 2009, to each of the Three-Year Unsecured Letter of Credit Facility Agreement dated as of March 12, 2007, as amended by the First Amendment dated October 25, 2007, and the Five-Year Secured Letter of Credit Facility Agreement dated as of March 12, 2007, as amended by the First Amendment dated October 25, 2007, among Validus Holdings, Ltd., Validus Reinsurance, Ltd., the Lenders party thereto and JPMorgan Chase Bank, National Association, as

administrative agent for the Lenders (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 23, 2009).

10.9 Talbot Standby Letter of Credit Facility dated as of November 28, 2007 (Incorporated by Reference from 8-K filed with the SEC on December 4, 2007)

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<b>Exhibit Number</b>	<b>Description of Document</b>
10.10	Amendment No. 1, dated as of July 23, 2009, to the \$100 million Standby Letter of Credit Facility dated as of 28 November 2007, among Talbot Holdings Ltd., Validus Holdings, Ltd., the Lenders party thereto and Lloyds TSB Bank plc, as Agent (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on July 23, 2009)
10.11	Amendment and Restatement Agreement dated as of November 19, 2009 relating to a \$100 million Standby Letter of Credit Facility dated as of 28 November 2007, among Talbot Holdings Ltd., as Borrower, Validus Holdings, Ltd., as Guarantor, Lloyds TSB Bank plc, as joint Mandated Lead Arranger, Agent, and Security Trustee, and ING Bank N.V., London Branch, as joint Mandated Lead Arranger (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on November 20, 2009)
10.12	Amended and Restated Employment Agreement between Validus Holdings, Ltd. and Edward J. Noonan (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.12.1	Amendment to Amended and Restated Employment Agreement between Validus Holdings, Ltd. and Edward J. Noonan (Incorporated by Reference from Quarterly Report on Form 10-Q for the period ended September 30, 2008, filed with the SEC on November 13, 2008)
10.13	Amended and Restated Employment Agreement between Validus Holdings, Ltd. and George P. Reeth (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.13.1	Amendment to Amended and Restated Employment Agreement between Validus Holdings, Ltd. and George P. Reeth (Incorporated by Reference from Quarterly Report on Form 10-Q for the period ended September 30, 2008, filed with the SEC on November 13, 2008)
10.14	Amended and Restated Employment Agreement between Validus Holdings, Ltd. and Joseph E. (Jeff) Consolino (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.14.1	Amendment to Amended and Restated Employment Agreement between Validus Holdings, Ltd. and Joseph E. (Jeff) Consolino (Incorporated by Reference from Quarterly Report on Form 10-Q for the period ended September 30, 2008, filed with the SEC on November 13, 2008)
10.15	Amended and Restated Employment Agreement between Validus Holdings, Ltd. and Stuart W. Mercer (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.15.1	Amendment to Amended and Restated Employment Agreement between Validus Holdings, Ltd. and Stuart W. Mercer (Incorporated by Reference from Quarterly Report on Form 10-Q for the period ended September 30, 2008, filed with the SEC on November 13, 2008)
10.16	Amended and Restated Employment Agreement between Validus Reinsurance, Ltd. and Conan M. Ward (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.16.1	Amendment to Amended and Restated Employment Agreement between Validus Reinsurance, Ltd. and Conan M. Ward (Incorporated by Reference from Quarterly Report on Form 10-Q for the period ended September 30, 2008, filed with the SEC on November 13, 2008)
10.17	Employment Agreement between Validus Holdings, Ltd. and Jerome Dill (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.18	Amended and Restated Employment Agreement between Validus Holdings, Ltd. and Michael J. Belfatti (Incorporated by Reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 6, 2008.)
10.18.1	Amendment to Amended and Restated Employment Agreement between Validus Holdings, Ltd. and Michael J. Belfatti (Incorporated by Reference from Quarterly Report on Form 10-Q for the period ended September 30, 2008, filed with the SEC on November 13, 2008)
10.19	Service Agreement between Talbot Underwriting Services, Ltd. and Charles Neville Rupert Atkin (Incorporated by Reference from the Company's Annual Report on Form 10-K for the year ended

- 10.20 December 31, 2007, filed with the SEC on March 6, 2008.)  
Service Agreement between Talbot Underwriting Services, Ltd. and Gilles Alex Maxime Bonvarlet  
(Incorporated by Reference from the Company's Annual Report on Form 10-K for the year ended  
December 31, 2007, filed with the SEC on March 6, 2008.)

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<b>Exhibit Number</b>	<b>Description of Document</b>
10.21	Service Agreement between Talbot Underwriting Services, Ltd. and Michael Edward Arscott Carpenter (Incorporated by Reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 6, 2008.)
10.21.1	Amendment No. 1 to Service Agreement between Talbot Underwriting Services, Ltd. and Michael Edward Arscott Carpenter (Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2008, filed with the SEC on August 13, 2008.)
10.22	Investment Manager Agreement with BlackRock Financial Management, Inc. (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.23	Risk Reporting & Investment Accounting Services Agreement with BlackRock Financial Management, Inc. (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.24	Discretionary Advisory Agreement with Goldman Sachs Asset Management (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.25	Validus Holdings, Ltd. 2005 Amended & Restated Long-Term Incentive Plan (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.26	Form of Pre-IPO Restricted Share Agreement for Executive Officers (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.27.1	Form of Post-IPO Restricted Share Agreement for Executive Officers (bonus shares) (Incorporated by Reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 6, 2008.)
10.27.2	Form of Post-IPO Restricted Share Agreement for Executive Officers (LTIP grant) (Incorporated by Reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 6, 2008.)
10.28	Form of Restricted Share Agreement at Talbot Acquisition Date for Messrs. Atkin, Bonvarlet and Carpenter (Incorporated by Reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 6, 2008.)
10.29	Amended and Restated Restricted Share Agreement between Validus Holdings, Ltd. and Edward J. Noonan (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.30	Amended and Restated Restricted Share Agreement between Validus Holdings, Ltd. and George P. Reeth (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.31	Stock Option Agreement between Validus Holdings, Ltd. and Edward J. Noonan (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.32	Stock Option Agreement between Validus Holdings, Ltd. and George P. Reeth (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.33	Form of Stock Option Agreement for Executive Officers prior to 2008 (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.34	Form of Stock Option Agreement for Executive Officers commencing in 2008 (Incorporated by Reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2007, filed with the SEC on March 6, 2008.)
10.35	Nonqualified Supplemental Deferred Compensation Plan (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.36	Director Stock Compensation Plan (Incorporated by Reference from S-1 SEC File No. 333-139989)
10.36.1	Amendment No. 1 to Validus Holdings, Ltd. Directors Stock Compensation Plan dated as of January 5, 2009 (Incorporated by Reference from the Company's Annual Report on Form 10-K for year ended December 31, 2008 filed with the SEC on February 27, 2009)
10.37	



Share Sale Agreement between Validus Holdings, Ltd. and the Shareholders of Talbot Holdings Ltd.  
(Incorporated by Reference from S-1 SEC File No. 333-139989)

10.38 Agreement to Provide Information between Validus Holdings, Ltd. and Talbot Holdings Ltd.  
(Incorporated by Reference from S-1 SEC File No. 333-139989)

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<b>Exhibit Number</b>	<b>Description of Document</b>
10.39	Form of Restricted Share Agreement for Talbot Executive Officers (Incorporated by Reference from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2008, filed with the SEC on August 13, 2008.)
10.40	Agreement and Plan of Amalgamation, dated as of July 9, 2009, among IPC Holdings, Ltd., Validus Holdings, Ltd. and Validus Ltd. (Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on July 9, 2009)
21*	Subsidiaries of the Registrant
23*	Consent of PricewaterhouseCoopers
24	Power of attorney (Incorporated by Reference from signature page)
31*	Rule 13a-14(a)/15d-14(a) Certifications
32*	Section 1350 Certification

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Hamilton, Bermuda, on March 1, 2010.

Validus Holdings, Ltd.

By: /s/ Edward J. Noonan

Name: Edward J. Noonan

Title: Chief Executive Officer

**POWER OF ATTORNEY**

We, the undersigned directors and executive officers of Validus Holdings, Ltd. hereby severally constitute Edward J. Noonan and Joseph E. (Jeff) Consolino, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, and in our names in the capacities indicated below, any and all amendments to the Annual Report on Form 10-K filed with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys to any and all amendments to said Annual Report on Form 10-K.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Edward J. Noonan Name: Edward J. Noonan	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	March 1, 2010
/s/ Joseph E. (Jeff) Consolino Name: Joseph E. (Jeff) Consolino	Chief Financial Officer and Executive Vice President (Principal Financial Officer and Principal Accounting Officer)	March 1, 2010
/s/ George P. Reeth Name: George P. Reeth	Director and President	March 1, 2010
/s/ Matthew J. Grayson Name: Matthew J. Grayson	Director	March 1, 2010
/s/ Jeffrey W. Greenberg	Director	March 1, 2010

Name: Jeffrey W. Greenberg

/s/ John J. Hendrickson

Director

March 1, 2010

Name: John J. Hendrickson

/s/ Jean-Marie Nessi

Director

March 1, 2010

Name: Jean-Marie Nessi

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<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Sumit Rajpal Name: Sumit Rajpal	Director	March 1, 2010
/s/ Alok Singh Name: Alok Singh	Director	March 1, 2010
/s/ Christopher E. Watson Name: Christopher E. Watson	Director	March 1, 2010

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AND FINANCIAL STATEMENT SCHEDULES**

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Schedules other than those listed are omitted for the reason that they are not required, are not applicable or that equivalent information has been included in the financial statements, notes thereto, or elsewhere herein.

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**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Shareholders of  
Validus Holdings, Ltd.**

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Validus Holdings, Ltd. and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company’s internal control over financial reporting based on our audits (which were integrated audits in 2008 and 2009). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with such generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded IPC from its assessment of internal control over financial reporting as of December 31, 2009 because it was acquired by the Company in a business combination during 2009. We have also excluded IPC from our audit of internal control over financial reporting. IPC is a wholly-owned subsidiary whose total assets and total revenues represent 33% and 8%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2009.

/s/ PricewaterhouseCoopers  
PricewaterhouseCoopers  
Hamilton, Bermuda  
March 1, 2010



**Table of Contents****Validus Holdings, Ltd.****Consolidated Balance Sheets  
As at December 31, 2009 and 2008**

(Expressed in thousands of U.S. dollars, except share and per share information)

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>ASSETS</b>		
Fixed maturities, at fair value (amortized cost: 2009 \$4,870,395; 2008 \$2,553,018)	\$ 4,869,378	\$ 2,454,501
Short-term investments, at fair value (amortized cost: 2009 \$482,632; 2008 \$379,537)	481,766	377,036
Other investments, at fair value (amortized cost: 2009 \$35,941; 2008 \$nil)	37,615	
Cash and cash equivalents	387,585	449,848
<b>Total investments and cash</b>	<b>5,776,344</b>	<b>3,281,385</b>
Premiums receivable	551,616	408,259
Deferred acquisition costs	112,329	108,156
Prepaid reinsurance premiums	73,164	22,459
Securities lending collateral	90,350	98,954
Loss reserves recoverable	181,765	208,796
Paid losses recoverable	14,782	1,388
Net receivable for investments sold		490
Income taxes recoverable	2,043	1,365
Intangible assets	123,055	127,217
Goodwill	20,393	20,393
Accrued investment income	38,077	20,433
Other assets	35,222	23,185
<b>Total assets</b>	<b>\$ 7,019,140</b>	<b>\$ 4,322,480</b>
<b>LIABILITIES</b>		
Reserve for losses and loss expenses	\$ 1,622,134	\$ 1,305,303
Unearned premiums	724,104	539,450
Reinsurance balances payable	65,414	33,042
Securities lending payable	90,106	105,688
Deferred income taxes	24,508	21,779
Net payable for investments purchased	44,145	
Accounts payable and accrued expenses	127,809	74,184
Debentures payable	289,800	304,300
<b>Total liabilities</b>	<b>2,988,020</b>	<b>2,383,746</b>
<b>Shareholders equity</b>		

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Common shares, 571,428,571 authorized, par value \$0.175 Issued and outstanding (2009 128,459,478; 2008 75,624,697)	23,033	13,235
Treasury shares	(553)	
Additional paid-in-capital	2,675,680	1,412,635
Accumulated other comprehensive (loss)	(4,851)	(7,858)
Retained earnings	1,337,811	520,722
<b>Total shareholders equity</b>	4,031,120	1,938,734
<b>Total liabilities and shareholders equity</b>	\$ 7,019,140	\$ 4,322,480

The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****Validus Holdings, Ltd.****Consolidated Statements of Operations and Comprehensive Income (Loss)****For the Years Ended December 31, 2009, 2008 and 2007**

(Expressed in thousands of U.S. dollars, except share and per share information)

	<b>December 31, 2009</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
<b>Revenues</b>			
Gross premiums written	\$ 1,621,241	\$ 1,362,484	\$ 988,637
Reinsurance premiums ceded	(232,883)	(124,160)	(70,210)
Net premiums written	1,388,358	1,238,324	918,427
Change in unearned premiums	61,219	18,194	(60,348)
Net premiums earned	1,449,577	1,256,518	858,079
Gain on bargain purchase, net of expenses	287,099		
Net investment income	118,773	139,528	112,324
Realized gain on repurchase of debentures	4,444	8,752	
Net realized (losses) gains on investments	(11,543)	(1,591)	1,608
Net unrealized gains (losses) on investments	84,796	(79,707)	12,364
Other income	4,634	5,264	3,301
Foreign exchange (losses) gains	(674)	(49,397)	6,696
<b>Total revenues</b>	<b>1,937,106</b>	<b>1,279,367</b>	<b>994,372</b>
<b>Expenses</b>			
Losses and loss expenses	523,757	772,154	283,993
Policy acquisition costs	262,966	234,951	134,277
General and administrative expenses	185,568	123,948	100,765
Share compensation expenses	27,037	27,097	16,189
Finance expenses	44,130	57,318	51,754
Fair value of warrants issued			2,893
<b>Total expenses</b>	<b>1,043,458</b>	<b>1,215,468</b>	<b>589,871</b>
<b>Net income before taxes</b>	<b>893,648</b>	<b>63,899</b>	<b>404,501</b>
Tax benefit (expense)	3,759	(10,788)	(1,505)
<b>Net income</b>	<b>\$ 897,407</b>	<b>\$ 53,111</b>	<b>\$ 402,996</b>
<b>Comprehensive income</b>			
Foreign currency translation adjustments	3,007	(7,809)	(49)
<b>Comprehensive income</b>	<b>\$ 900,414</b>	<b>\$ 45,302</b>	<b>\$ 402,947</b>

**Earnings per share**

Weighted average number of common shares and common share equivalents outstanding

Basic	93,697,194	74,677,903	65,068,093
Diluted	97,168,409	75,819,413	67,786,673
<b>Basic earnings per share</b>	\$ 9.51	\$ 0.62	\$ 6.19
<b>Diluted earnings per share</b>	\$ 9.24	\$ 0.61	\$ 5.95
<b>Cash dividends declared per share</b>	\$ 0.80	\$ 0.80	\$

The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****Validus Holdings, Ltd.****Consolidated Statements of Shareholders' Equity  
For the Years Ended December 31, 2009, 2008 and 2007**

(Expressed in thousands of U.S. dollars, except share and per share information)

	December 31, 2009	December 31, 2008	December 31, 2007
<b>Common shares</b>			
Balance Beginning of period	\$ 13,235	\$ 12,985	\$ 10,234
Issue of common shares	9,798	250	2,751
Balance End of period	\$ 23,033	\$ 13,235	\$ 12,985
<b>Treasury shares</b>			
Balance Beginning of period	\$	\$	\$
Repurchase of common shares	(553)		
Balance End of period	\$ (553)	\$	\$
<b>Additional paid-in capital</b>			
Balance Beginning of period	\$ 1,412,635	\$ 1,384,604	\$ 1,048,025
Issue of common shares, net of expenses	1,314,188	934	317,497
Repurchase of common shares	(83,611)		
Fair value of warrants qualifying as equity			2,893
Share compensation expenses	32,468	27,097	16,189
Balance End of period	\$ 2,675,680	\$ 1,412,635	\$ 1,384,604
<b>Accumulated other comprehensive (loss) income</b>			
Balance Beginning of period	\$ (7,858)	\$ (49)	\$ 875
Foreign currency translation adjustments	3,007	(7,809)	(49)
Cumulative effect of adoption of fair value option			(875)
Balance End of period	\$ (4,851)	\$ (7,858)	\$ (49)
<b>Retained earnings</b>			
Balance Beginning of period	\$ 520,722	\$ 537,260	\$ 133,389
Cumulative effect of adoption of fair value option			875
Dividends	(80,318)	(69,649)	
Net income	897,407	53,111	402,996
Balance End of period	\$ 1,337,811	\$ 520,722	\$ 537,260
<b>Total shareholders' equity</b>	<b>\$ 4,031,120</b>	<b>\$ 1,938,734</b>	<b>\$ 1,934,800</b>

The accompanying notes are an integral part of these consolidated financial statements.

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**Table of Contents****Validus Holdings, Ltd.****Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2009, 2008 and 2007**

(Expressed in thousands of U.S. dollars, except share and per share information)

	December 31, 2009	December 31, 2008	December 31, 2007
<b>Cash flows provided by (used in) operating activities</b>			
Net income	\$ 897,407	\$ 53,111	\$ 402,996
Adjustments to reconcile net income to cash provided by (used in) operating activities:			
Share compensation expenses	32,468	27,097	16,189
Realized gain on repurchase of debentures	(4,444)	(8,752)	
Bargain purchase gain	(352,349)		
Net realized losses (gains) on investments	11,543	1,591	(1,608)
Net unrealized (gains) losses on investments	(84,796)	79,707	(12,364)
Fair value of warrants expensed			2,893
Amortization of intangible assets	25,833	4,162	2,081
Foreign exchange (gains) losses on cash and cash equivalents included in net income	(9,579)	40,474	(5,975)
Amortization of premium on fixed maturities	16,277	3,710	(10,739)
Change in:			
Premiums receivable	37,163	(23,833)	(7,035)
Deferred acquisition costs	17,914	(2,790)	(10,900)
Prepaid reinsurance premiums	(47,070)	(1,162)	36,690
Loss reserves recoverable	32,922	(82,685)	32,519
Paid losses recoverable	(13,424)	6,281	16,820
Income taxes recoverable	(546)	1,845	2,438
Accrued investment income	5,176	(473)	(5,812)
Other assets	(3,622)	12,908	3,955
Reserve for losses and loss expenses	(10,238)	444,149	94,313
Unearned premiums	(20,846)	(17,032)	23,657
Reinsurance balances payable	28,733	(1,401)	(37,665)
Deferred income taxes	3,089	11,921	(1,027)
Accounts payable and accrued expenses	(6,495)	(62,845)	21,952
<b>Net cash provided by operating activities</b>	<b>555,116</b>	<b>485,983</b>	<b>563,378</b>
<b>Cash flows provided by (used in) investing activities</b>			
Proceeds on sales of investments	3,481,772	2,266,000	1,346,874
Proceeds on maturities of investments	568,030	799,775	67,650
Purchases of fixed maturities	(4,421,787)	(3,284,971)	(2,545,787)
Sales (purchases) of short-term investments, net	200,253	(109,250)	441,548
Sales of other investments, net	90,395		
Decrease (increase) in securities lending collateral	15,582	58,636	(151,998)

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Purchase of subsidiary, net of cash acquired	(376,878)		(18,809)
<b>Net cash (used in) investing activities</b>	<b>(442,633)</b>	<b>(269,810)</b>	<b>(860,522)</b>
<b>Cash flows provided by (used in) financing activities</b>			
Net proceeds on issuance of debentures payable			198,000
Repurchase of debentures	(10,056)	(36,948)	
Issue of common shares, net of expenses	1,250	1,184	320,248
Purchases of common shares under share repurchase program	(84,164)		
Dividends paid	(78,515)	(67,934)	
(Decrease) increase in securities lending payable	(15,582)	(58,636)	151,998
<b>Net cash (used in) provided by financing activities</b>	<b>(187,067)</b>	<b>(162,334)</b>	<b>670,246</b>
<b>Effect of foreign currency rate changes on cash and cash equivalents</b>			
	12,321	(48,689)	7,953
<b>Net (decrease) increase in cash</b>	<b>(62,263)</b>	<b>5,150</b>	<b>381,055</b>
<b>Cash and cash equivalents beginning of period</b>	<b>\$ 449,848</b>	<b>\$ 444,698</b>	<b>\$ 63,643</b>
<b>Cash and cash equivalents end of period</b>	<b>\$ 387,585</b>	<b>\$ 449,848</b>	<b>\$ 444,698</b>
<b>Taxes paid (recovered) during the period</b>	<b>\$ 1,673</b>	<b>\$ (2,510)</b>	<b>\$ 57</b>
<b>Interest paid during the period</b>	<b>\$ 26,575</b>	<b>\$ 27,474</b>	<b>\$ 22,577</b>

The accompanying notes are an integral part of these consolidated financial statements.



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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

**1. Nature of the business**

Validus Holdings, Ltd. (the Company) was incorporated under the laws of Bermuda on October 19, 2005. The Company conducts its operations worldwide through two wholly-owned subsidiaries, Validus Reinsurance, Ltd. (Validus Re) and Talbot Holdings Ltd. (Talbot). Validus Re is registered as a Class 4 insurer under The Insurance Act 1978 of Bermuda, amendments thereto and related regulations (The Act). On July 2, 2007, the Company acquired all of the outstanding shares of Talbot from a group of institutional and other investors, and Talbot employees, management, former employees and trusts on behalf of certain employees and their families. Talbot is the Bermuda parent of a specialty insurance group primarily operating within the Lloyd's of London (Lloyd's) insurance market through Syndicate 1183. The Company, through its subsidiaries, provides reinsurance coverage in the Property, Marine and Specialty lines markets, effective January 1, 2006, and insurance coverage in the same markets effective July 2, 2007.

On July 30, 2007, the Company completed its initial public offering (IPO), selling 15,244,888 common shares at a price of \$22.00 per share. The net proceeds to the Company from the IPO were approximately \$310,731, after deducting the underwriters' discount and fees. On August 27, 2007, the Company issued an additional 453,933 common shares at a price of \$22.00 per share pursuant to the underwriters' option to purchase additional common shares; the net proceeds to the Company were approximately \$9,349 and total IPO proceeds inclusive of the underwriters' option to purchase additional common shares were \$320,080.

On September 4, 2009, pursuant to an Amalgamation Agreement, the Company acquired all of IPC Holdings Ltd.'s (IPC) outstanding common shares in exchange for 0.9727 Company common shares and \$7.50 cash per IPC common share. IPC's operations were focused on short-tail lines of reinsurance. The primary lines in which IPC conducted business were property catastrophe reinsurance and, to a limited extent, property-per-risk excess, aviation (including satellite) and other short-tail reinsurance on a worldwide basis. The acquisition of IPC was undertaken to gain a strategic advantage in the current reinsurance market and increase the Company's capital base.

**2. Basis of preparation and consolidation**

These consolidated financial statements include the Company and its wholly and majority owned subsidiaries (together, the Company) and have been prepared in accordance with accounting principles generally accepted in the United States of America. Certain amounts in prior periods have been reclassified to conform to current period presentation. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The major estimates reflected in the Company's consolidated financial statements include the reserve for losses and loss expenses, premium estimates for business written on a line slip or proportional basis, the valuation of goodwill and intangible assets, and reinsurance recoverable balances including the provision for unrecoverable reinsurance and investment valuation. The term FASB used in these notes refer to United States Financial Accounting Standards Board. The consolidated financial statements include the results of operations and cash flows of Talbot, since the date of acquisition of July 2, 2007; and IPC, since the date of acquisition of

September 4, 2009 and not any prior periods (including for comparative purposes), except with respect to Supplemental Pro Forma Information included within Note 5.

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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

**3. Significant accounting policies**

The following is a summary of significant accounting policies adopted by the Company.

***a) Premiums***

Insurance premiums written are recorded in accordance with the terms of underlying policies. Reinsurance premiums written are recorded at the inception of the policy and are estimated based on information received from brokers, ceding companies and reinsureds, and any subsequent differences arising on such estimates will be recorded in the periods in which they are determined. Premiums written are earned on a pro-rata basis over the term of the policy. For contracts and policies written on a losses occurring basis, the risk period is generally the same as the contract or policy terms. For contracts written on a policies attaching basis, the risk period is based on the terms of the underlying contracts and policies and is generally assumed to be 24 months. The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies in force are recorded as unearned premiums. Mandatory reinstatement premiums are recorded at the time a loss event occurs.

***b) Policy acquisition costs***

Policy acquisition costs are costs that vary with, and are directly related to, the production of new and renewal business, and consist principally of commissions and brokerage expenses. Acquisition costs are shown net of commissions earned on reinsurance ceded. These costs are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums and anticipated claims expenses. The realizable value of the Company's deferred acquisition costs is determined without consideration of investment income. Policy acquisition costs also include profit commission. Profit commissions are recognized when earned.

***c) Reserve for losses and loss expenses***

The reserve for losses and loss expenses includes reserves for unpaid reported losses and for losses incurred but not reported (IBNR). The reserve for unpaid reported losses and loss expenses is established by management based on reports from brokers, ceding companies and insureds and represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by the Company. The reserve for incurred but not reported losses and loss expenses is established by management based on actuarially determined estimates of ultimate losses and loss expenses. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in earnings in the period in which they become known. Prior period development arises from changes to loss estimates recognized in the current year that relate to loss reserves incurred in previous calendar years.

***d) Reinsurance***

In the normal course of business, the Company seeks to reduce the potential amount of loss arising from claims events by reinsuring certain levels of risk assumed in various areas of exposure with other insurers or reinsurers. The accounting for reinsurance ceded depends on the method of reinsurance. If the policy is on a losses occurring during basis, reinsurance premiums ceded are expensed (and any commissions thereon are earned) on a pro-rata basis over the period the reinsurance coverage is provided. If the policy is a risks attaching during policy, reinsurance premiums ceded are expensed (and any commissions thereon are earned) in line with the gross premiums earned to which the risk attaching policy relates. Prepaid reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of policies in force. Mandatory reinstatement premiums ceded are

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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

recorded and expensed at the time a loss event occurs. Reinsurance recoverables are based on contracts in force. The method for determining the reinsurance recoverable on unpaid loss and loss expenses involves actuarial estimates of unpaid losses and loss expenses as well as a determination of the Company's ability to cede unpaid losses and loss expenses under its reinsurance treaties. The use of different assumptions could have a material effect on the provision for uncollectible reinsurance. To the extent the creditworthiness of the Company's reinsurers was to deteriorate due to adverse event affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the Company's provision. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

***e) Investments***

During the first quarter of 2007, the Company adopted authoritative guidance on *Fair Value Measurements and Disclosures* and *Financial Instruments*. The guidance defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date reflecting the highest and best use valuation concepts. The guidance provides a framework for measuring fair value by creating a hierarchy of fair value measurements that distinguishes market data between observable independent market inputs and unobservable market assumptions by the reporting entity. The guidance further expands disclosures about such fair value measurements. The guidance applies broadly to most existing accounting pronouncements that require or permit fair value measurements (including both financial and non-financial assets and liabilities) but does not require any new fair value measurements. The Company has adopted all authoritative guidance in effect as of the balance sheet date regarding certain market conditions that allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable.

Short-term investments comprise investments with a remaining maturity of less than one year at time of purchase and money market funds held at the Company's investment managers.

All investment transactions are recorded on a first-in-first-out basis and realized gains and losses on the sale of investments are determined on the basis of amortized cost. Interest on fixed maturity securities is recorded in net investment income when earned and is adjusted for any amortization of premium or discount.

For mortgage-backed securities, and any other holdings for which there is a prepayment risk, prepayment assumptions are evaluated and revised as necessary. Any adjustments required due to the resultant change in effective yields and maturities are recognized retrospectively. Prepayment fees or call premiums that are only payable to the Company when a security is called prior to its maturity, are earned when received and reflected in net investment income.

The Company participates in a securities lending program whereby certain securities from its portfolio are loaned to third parties for short periods of time through a lending agent. The Company retains all economic interest in the securities it lends and receives a fee from the borrower for the temporary use of the securities. Collateral in the form of cash, government securities and letters of credit is required at a rate of 102% of the market value of the loaned securities and is held by a third party.

Other investments consist of an investment in a fund of hedge funds and a deferred compensation trust. All investment transactions are recorded on a first-in-first-out basis and realized gains and losses on the sale of investments are

determined on the basis of amortized cost. Other investments are carried at fair value with interest and dividend income, income distributions and realized and unrealized gains and losses included in net investment income. The fair value of other investments is generally established on the basis of the net valuation criteria established by the managers of the investments. These net valuations are determined based upon the valuation criteria established by the governing documents of such investments. In addition, due to a lag in reporting, some of the Company's fund managers, fund administrators, or both, are unable to provide final fund valuations as of the

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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

Company's current reporting date. In these circumstances, the Company estimates the fair value of these funds by starting with the prior month's fund valuation, adjusting these valuations for capital calls, redemptions or distributions and the impact of changes in foreign currency exchange rates, and then estimating the return for the current period. In circumstances in which the Company estimates the return for the current period, it uses all credible information available. This principally includes preliminary estimates reported by its fund managers, obtaining the valuation of underlying portfolio investments where such underlying investments are publicly traded and therefore have a readily observable price, using information that is available to the Company with respect to the underlying investments, reviewing various indices for similar investments or asset classes, as well as estimating returns based on the results of similar types of investments for which the Company has reported results, or other valuation methods, as necessary. Actual final fund valuations may differ, perhaps materially so, from the Company's estimates and these differences are recorded in the period they become known as a change in estimate.

***f) Cash and cash equivalents***

The Company considers time deposits and money market funds with an original maturity of 30 days or less as equivalent to cash.

***g) Foreign exchange***

The U.S. Dollar is the functional currency of the Company and the majority of the subsidiaries. For these companies, monetary assets and liabilities denominated in foreign currencies are revalued at the exchange rates in effect at the balance sheet date and revenues and expenses denominated in foreign currencies are translated at the prevailing exchange rate on the transaction date with the resulting foreign exchange gains and losses included in earnings.

Assets and liabilities of subsidiaries whose functional currency is not the U.S. dollar are translated at prevailing year end exchange rates. Revenue and expenses of such foreign operations are translated at average exchange rates during the year. The net effect of translation differences between functional and reporting currencies in foreign operations, net of applicable deferred income taxes, are included in accumulated other comprehensive income (loss).

***h) Stock plans***

The Company accounts for its share plans in accordance with the U.S. GAAP fair value recognition provisions for *Stock Compensation*. Accordingly, the Company recognizes the compensation expense for stock option grants and restricted share grants based on the fair value of the award on the date of grant over the requisite service period.

***i) Warrants***

The Company has accounted for certain warrant contracts issued to our sponsoring investors in conjunction with the capitalization of the Company, and which may be settled by the Company using either the physical settlement or net-share settlement methods, in accordance with U.S. GAAP guidance for *Derivatives and Hedging*. Accordingly, the fair value of these warrants has been recorded in equity as an addition to additional paid-in capital.

***j) Earnings per share***

Basic earnings per common share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted earnings per common share are based on the weighted average number of common shares and share equivalents excluding any anti-dilutive effects of warrants and options.

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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

***k) Income taxes and uncertain tax provisions***

Deferred tax assets and liabilities are recorded in accordance with U.S. GAAP *Income Taxes* guidance. Consistent with this guidance, the Company records deferred income taxes which reflect the tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

The Company is not subject to any income, withholding or capital gains taxes under current Bermuda law. The Company has operations in subsidiary form in various other jurisdictions around the world, including but not limited to the U.K. and Canada that are subject to relevant taxes in those jurisdictions. One of the Company's subsidiaries is deemed to be engaged in business in the United States and is therefore subject to U.S. corporate tax.

During the first quarter of 2007, the Company adopted authoritative guidance which requires the Company to recognize the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. The Company did not recognize any resulting liabilities for unrecognized tax benefits.

***l) Business combinations***

On July 2, 2007, the Company acquired all of the outstanding shares of Talbot. The transaction was accounted for as a purchase method business combination in accordance with existing U.S. GAAP guidance for *Business Combinations*. Certain amounts in Talbot's financial statements have been changed to conform to the Company's accounting policies.

On September 4, 2009, the Company acquired all of the outstanding shares of IPC. The transaction was accounted for as an acquisition method business combination. Accordingly, the purchase price was allocated to assets and liabilities based on their estimated fair value at the acquisition date. The consideration for the net assets acquired was concluded upon prior to the assessment of the fair value of the net assets at the acquisition date. Therefore, the excess of the value of the net assets acquired over the purchase price was recorded as gain on bargain purchase and is shown as a separate component of revenues in the Company's Consolidated Statements of Operations and Comprehensive Income for year ended December 31, 2009. IPC's accounting policies have been conformed to those of the Company.

***m) Goodwill and other intangible assets***

The Company accounts for goodwill and other intangible assets recognized in business combinations in accordance with U.S. GAAP guidance. A purchase price paid that is in excess of net assets ( goodwill ) arising from a business combination is recorded as an asset, and is not amortized. Goodwill is deemed to have an indefinite life and is not amortized, but tested at least annually for impairment. Where the total fair value of net assets acquired exceeds consideration paid ( negative goodwill ), the acquirer will record a gain as a result of the bargain purchase, to be recognized through the income statement at the close of the transaction.

Intangible assets with a finite life are amortized over the estimated useful life of the asset. Intangible assets with an indefinite useful life are not amortized. Syndicate capacity is deemed to have an indefinite life. Intangible assets with definite lives are amortized on a straight line basis over the estimated useful lives. Trademark and Distribution

Network are deemed to have definite lives and are therefore amortized. Refer also to Note 5 Business combinations.

Goodwill and intangible assets are tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. Such events or circumstances may include an economic downturn in a geographic market or change in the assessment of future operations. The goodwill impairment test has two steps. The first step identifies potential impairments by comparing the fair value

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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

of a reporting unit with its book value, including goodwill. Reporting units are consistent with the segmental basis. If the carrying value exceeds the fair value, the second step calculates the possible impairment loss by comparing the implied fair value of goodwill with the carrying amount. If the implied goodwill is less than the carrying amount, a write-down would be recorded. The measurement of fair values in reporting units is determined on a number of factors and assumptions including ranges of future discounted earnings, forecast revenue and operating expenses and effective tax rates.

If the goodwill or intangible asset is impaired, it is written down to its realizable value with a corresponding expense reflected in the consolidated statements of operations.

**4. Recent accounting pronouncements**

In December 2007, the FASB issued authoritative guidance on *Business Combinations* and *Consolidation* which are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. In April 2009, the FASB issued further authoritative guidance on business combinations that amended previous guidance on the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets acquired and liabilities assumed in a business combination that arise from contingencies. Significant changes arising from this update, which impact current and future acquisitions include the determination of the purchase price and treatment of transaction expenses, restructuring charges and negative goodwill as follows;

**Purchase Price** The purchase price is determined as of the acquisition date, which is the date that the acquirer obtains control. Under previous guidance, the date the business combination was announced was used as the effective date in determining the purchase price;

**Transaction Expenses** All costs associated with purchase transactions must be expensed as incurred. Under previous guidance, all such costs could be capitalized and included as part of transaction purchase price, adding to the amount of goodwill recognized;

**Restructuring Costs** Expected restructuring costs are not recorded at the closing date, but rather after the transaction. The only costs to be included as a liability at the closing date are those for which an acquirer is obligated at the time of the closing. Under previous guidance, restructuring costs that were planned to occur after the closing of the transaction were recognized and recorded at the closing date as a liability;

**Negative Goodwill/Bargain Purchases** Where total fair value of net assets acquired exceeds consideration paid (creating negative goodwill), the acquirer will record a gain as a result of the bargain purchase, to be recognized through the income statement at the close of the transaction. Under previous guidance, negative goodwill was recognized as a pro rata reduction of the assets assumed to allow the net assets acquired to equal the consideration paid; and

As a result of the adoption of this update the Company has expensed as incurred the transaction costs related to the definitive Amalgamation Agreement dated July 9, 2009 among IPC, Validus Holdings, Ltd and Validus, Ltd (the Amalgamation Agreement) with IPC, as described in Note 5. The adoption of this update on business combinations

and consolidation materially impacts the consolidated financial statement recognition and measurement of current and future acquisitions.

In June 2008, the FASB issued authoritative guidance on the *Balance Sheet* presentation of instruments granted in Share-based Payment transactions. This update addresses whether instruments granted in share-based payment transactions may be participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing basic earnings per share ( EPS ) pursuant to the two-class method. This update is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this update has not had a material impact on the Company's consolidated financial statements.

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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

In January 2009, the FASB issued authoritative guidance on *Investments Other* and the beneficial interests in securitized financial assets that amends certain recognition aspects of other-than-temporary impairments ( OTTI ). This update is effective prospectively for interim and annual periods ending after December 15, 2008. Retrospective application of this update to a prior interim or annual period is prohibited. As the Company's investment portfolio is classified as trading, the adoption of this guidance has not had a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued authoritative guidance on *Fair Value Measurements and Disclosures* and the recognition and presentation of OTTI. The fair value measurement update includes guidance on; (1) estimating the fair value of an asset or liability (financial and nonfinancial) when the volume and level of activity for the asset or liability have significantly decreased; and (2) identifying transactions that are not orderly. The primary change to the OTTI model for debt securities is the change in focus from an entity's intent and ability to hold a security until recovery. Instead, an OTTI is triggered if; (1) an entity has the intent to sell the security; (2) it is more likely than not that it will be required to sell the security before recovery; or (3) it does not expect to recover the entire amortized cost basis of the security. Both updates are effective for interim and annual periods ending after June 15, 2009. The adoption of these updates has not had a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued authoritative guidance on interim disclosures about fair value of *Financial Instruments*. This update expands the fair value disclosures required for specified financial instruments for interim periods of publicly traded entities. This update also requires entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments in financial statements on an interim basis and to highlight any changes of the methods and significant assumptions from prior periods. This update is effective for interim and annual periods ending after June 15, 2009. As this update only expands certain disclosure requirements it has not had a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued authoritative guidance on management's assessment of *Subsequent Events*. This update clarifies that management must evaluate, as of each reporting period, events or transactions that occur after the balance sheet date through the date that the financial statements are issued or are available to be issued. This update is effective prospectively for interim and annual periods ending after June 15, 2009. The adoption of this update has not had a material impact on management's existing processes for assessing subsequent events, and consequently the Company's consolidated financial statements.

In June 2009, the FASB issued authoritative guidance on accounting for *Transfers and Servicing* of financial assets which amends previous derecognition guidance. This update addresses practices that have developed that are not consistent with the original intent and key requirements and concerns that derecognized financial assets and related obligations should continue to be reported in the transferors' financial statements. This update is effective for financial asset transfers in the interim and annual periods beginning after November 15, 2009. Early adoption is prohibited. The adoption of this update is not expected to have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued authoritative guidance which amends the *Consolidation* guidance that applies to Variable Interest Entities ( VIEs ). This update amends the guidance for the identification of VIEs and their primary beneficiaries and the financial statement disclosures required. This update is effective for interim and annual periods beginning after November 15, 2009. On December 4, 2009, the FASB issued a proposed update that would

indefinitely defer the effective date of the above noted authoritative guidance for a reporting enterprise's interest in entities that have certain attributes for which it is industry practice to issue financial statements in accordance with *Financial Services Investment Companies* guidance. The adoption of this update it is not expected to have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued authoritative guidance which prescribes the use of the FASB Accounting Standards Codification (the Codification) as the authoritative source of U.S. *Generally Accepted Accounting*

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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

*Principles* ( GAAP ). All of its content carries the same level of authority, effectively superseding previous guidance to include only two levels of U.S. GAAP: authoritative and nonauthoritative. This update is effective for interim and annual periods ending after September 15, 2009. The adoption of this update has not had a material impact on the Company's consolidated financial statements.

In August 2009, the FASB updated guidance on *Fair Value Measurements and Disclosures* of liabilities. This update clarifies that the quoted price for the identical liability, when traded as an asset in an active market, is also a Level 1 measurement for that liability when no adjustment to the quoted price is required. In the absence of a Level 1 measurement, an entity must use one or more prescribed valuation techniques to estimate fair value. This update is effective for the first interim or annual reporting period beginning after August 28, 2009. The adoption of this update has not had a material impact on the Company's consolidated financial statements and affected disclosures only.

In August 2009, the FASB proposed updated guidance on improving *Fair Value Measurements and Disclosures*. The proposed update would clarify existing requirements regarding disclosures of inputs and valuation techniques and levels of disaggregation. In addition, the proposed update would require new disclosures on (1) sensitivity disclosures regarding the effect of changing Level 3 inputs if the change in the fair value measurement would change significantly, (2) significant transfers in and out of Levels 1 and 2 and the reasons that such transfers were made, and (3) additional disclosure in the reconciliation of Level 3 activity, including information on a gross basis for purchases, sales, issuances, and settlements. An effective date has not been established. As this update only expands certain disclosure requirements it is not expected to have a material impact on the Company's consolidated financial statements.

In September 2009, the FASB updated guidance on *Fair Value Measurements and Disclosures* of certain alternative investments. This guidance offers investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value per share. This guidance is effective for interim and annual reporting periods ending after December 15, 2009. The adoption of this update has not had a material impact on the Company's consolidated financial statements.

In December 2009, the FASB issued a proposed update regarding the recognition of costs associated with acquiring or renewing insurance contracts. The proposed update would limit the costs an entity can include in deferred acquisition costs to those that are directly related to the acquisition of new and renewal insurance contracts. The proposed update would also clarify that direct costs include only those that result in a successful acquisition of a policy and exclude all costs incurred for unsuccessful efforts. In addition, the proposed update also would require that an entity include only actual costs, not costs expected to be incurred, in deferred acquisition costs. The proposed update would be effective for interim and annual reporting periods beginning on or after December 15, 2010, and would be applied prospectively; however, there would be an option for retrospective application. Early adoption would be permitted. The Company will continue to evaluate the potential impact of this proposed guidance.

**5. Business combinations**

On September 4, 2009, pursuant to an Amalgamation Agreement, the Company acquired all of IPC's outstanding common shares in exchange for 0.9727 Company common shares and \$7.50 cash per IPC common share. IPC's operations are focused on short-tail lines of reinsurance. The primary lines in which IPC conducted business were

property catastrophe reinsurance and, to a limited extent, property-per-risk excess, aviation (including satellite) and other short-tail reinsurance on a worldwide basis. The acquisition of IPC was undertaken to gain a strategic advantage in the then current reinsurance market and increase the Company's capital base.

The aggregate purchase price paid by the Company was \$1,746,224 for adjusted tangible net assets acquired of \$2,076,902. The global financial crisis and related market illiquidity have led to several publicly traded companies



**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

trading at substantial discounts. This was the primary factor responsible for a purchase price less than the book value of IPC's net assets, and the recognition of a bargain purchase gain on acquisition.

The estimates of fair values for tangible assets acquired and liabilities assumed are determined by management based on various market and income analyses and recent asset appraisals. Significant judgment is required to arrive at these estimates of fair value and changes to assumptions used could lead to materially different results.

An adjustment of \$50,000 was made to IPC's net assets acquired in respect of the termination fee (the Max Termination Fee) paid under the Agreement and Plan of Amalgamation among Max Capital Group Ltd., IPC and IPC Limited. This Max Termination Fee was advanced to IPC by the Company on July 9, 2009, but was repayable in certain circumstances.

In addition, the Company at closing recorded a \$21,671 intangible asset for the acquired IPC customer relationships. This intangible asset relates to the acquired broker distribution network and is fair valued using a variation of the income approach. Under this approach, the Company estimated the present value of expected future cash flows to an assumed hypothetical market participant resulting from the existing IPC customer relationships, considering attrition, and discounting at a weighted average cost of capital. The composition of purchase price and fair value of net assets acquired is summarized as follows:

<b>Total allocable purchase price</b>		
IPC shares outstanding at September 4, 2009(a)	56,110,096	
Exchange ratio	0.9727	
Validus common shares issued(a)	54,578,268	
Validus closing share price on September 4, 2009	\$ 24.10	
Total value of Validus shares to be issued		\$ 1,315,337
Total cash consideration paid at \$7.50 per IPC share		420,826
Share compensation awards issued to IPC employees pursuant to the Amalgamation Agreement and earned prior to the Amalgamation		10,061
<b>Total allocable purchase price</b>		<b>1,746,224</b>
<b>Tangible Assets Acquired</b>		
Cash and investments	\$ 2,463,374	
Premiums Receivable(b)	202,278	
<b>Tangible Assets Acquired</b>		<b>2,665,652</b>
<b>Liabilities Acquired</b>		
Net loss reserves and paid losses recoverable	\$ 304,957	
Unearned premiums, net of expenses	180,370	
Other liabilities	53,423	
<b>Liabilities acquired</b>		<b>538,750</b>



**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

<b>Net tangible assets acquired, at fair value</b>	2,126,902
Max Termination Fee	(50,000)
<b>Net tangible assets acquired, at fair value, adjusted</b>	<b>2,076,902</b>
<b>Bargain purchase gain before establishment of intangible assets</b>	<b>330,678</b>
Intangible asset – customer relationships	21,671
<b>Bargain purchase gain on acquisition of IPC</b>	<b>\$ 352,349</b>

- (a) The number of shares include restricted stock in IPC.
- (b) The fair value of receivables approximates the gross contractual amounts receivable and includes other assets.

The Company also incurred transaction and termination expenses related to the IPC acquisition. Transaction expenses are primarily comprised of legal, corporate advisory, and audit related services. Termination expenses are primarily comprised of severance costs and accelerated share compensation costs in connection with certain IPC employment contracts that have been terminated. As of December 31, 2009, the customer relationships intangible asset has been fully amortized as it not expected to significantly contribute to the Company's future cash flows beyond the balance sheet date. The gain on bargain purchase, net of expenses has been presented as a separate line item in the Company's Consolidated Statements of Operations and Comprehensive Income, and is composed of the following:

	<b>December 31, 2009</b>
Bargain purchase gain on acquisition of IPC	\$ 352,349
Transaction expenses	(29,448)
Termination expenses	(14,131)
Amortization of intangible asset – customer relationships	(21,671)
Gain on bargain purchase, net of expenses	<b>\$ 287,099</b>

The following selected audited information has been provided to present a summary of the results of IPC since the acquisition date, that have been included within the Validus Re segment in the consolidated financial statements.

**From Acquisition Date to  
December 31, 2009**

Net premiums written	\$	(4,974)
Total revenue		161,188
Total expenses		33,370
Net income	\$	127,818

**Supplemental Pro Forma Information**

Operating results of IPC have been included in the consolidated financial statements from the September 4, 2009 acquisition date. The following selected unaudited pro forma information has been provided to present a summary of the combined results of the Company and IPC, assuming the transaction had been effected on

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

January 1, 2008. The unaudited pro forma data is for informational purposes only and does not necessarily represent results that would have occurred if the transaction had taken place on the basis assumed above.

	<b>December 31, 2009 (Unaudited)</b>	<b>December 31, 2008 (Unaudited)</b>
<b>Revenues</b>		
Gross premiums written	\$ 2,008,578	\$ 1,765,628
Reinsurance premiums ceded	(239,412)	(130,031)
Net premiums written	1,769,166	1,635,597
Change in unearned premiums	(57,338)	8,288
Net premiums earned	1,711,828	1,643,885
Net investment income	163,944	213,430
Net realized (losses) on investments	(4,717)	(169,799)
Net unrealized gains (losses) on investments	189,789	(79,707)
Other income	4,603	5,329
Realized gain on repurchase of debentures	4,444	8,752
Foreign exchange gains (losses)	4,294	(51,245)
<b>Total revenues</b>	<b>2,074,185</b>	<b>1,570,645</b>
<b>Expenses</b>		
Losses and loss expenses	556,550	927,786
Policy acquisition costs	289,600	271,380
General and administrative expenses	209,510	144,637
Share compensation expenses	33,751	32,722
Finance expenses	44,513	59,977
<b>Total expenses</b>	<b>1,133,924</b>	<b>1,436,502</b>
<b>Net income before taxes</b>	<b>940,261</b>	<b>134,143</b>
Tax benefit (expense)	3,759	(10,788)
<b>Net income</b>	<b>\$ 944,020</b>	<b>123,355</b>
<b>Basic earnings per share</b>	<b>\$ 10.01</b>	<b>\$ 1.56</b>
<b>Diluted earnings per share</b>	<b>\$ 9.72</b>	<b>\$ 1.63</b>

## **6. Goodwill and other intangible assets**

Following the acquisition of IPC on September 4, 2009, the Company recorded intangible assets (including certain amortization thereon) and negative goodwill. Intangible assets of \$21,671 were recognized as a result of the acquisition of IPC (relating to customer relationships). As of December 31, 2009, the customer relationships intangible asset has been fully amortized.

Following the acquisition of Talbot Holdings Ltd. on July 2, 2007, the Company recorded intangible assets in the name of Syndicate Capacity, Trademark and Distribution Network (including certain amortization thereon) and goodwill. Syndicate capacity represents Talbot's authorized premium income limit to write insurance business in the Lloyd's market. Talbot has owned 100% of Syndicate 1183's capacity since 2002 and there are no third party tenure rights. The capacity is renewed annually at no cost to Talbot, but may be freely purchased or sold, subject to

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

Lloyd's approval. The ability to write insurance business under the syndicate capacity is indefinite with the premium income limit being set yearly by Talbot, subject to Lloyd's approval. Trademark and Distribution Network are estimated to have finite useful lives of 10 years and are amortized on a straight line basis over such periods. Syndicate capacity and goodwill are estimated to have indefinite useful lives. Goodwill includes amounts related to the value of the workforce. The goodwill and intangibles are recorded entirely in the Company's Talbot segment. The following table shows an analysis of goodwill and other intangible assets included in the Talbot segment:

	<b>Goodwill</b>	<b>Intangible Assets With an Indefinite Life</b>	<b>Intangible Assets with a Finite Life</b>	<b>Total</b>
Balance at December 31, 2008	\$ 20,393	\$ 91,843	\$ 35,374	\$ 147,610
Accumulated amortization			(4,162)	(4,162)
Balance at December 31, 2009	\$ 20,393	\$ 91,843	\$ 31,212	\$ 143,448
Balance at December 31, 2007	\$ 20,393	\$ 91,843	\$ 39,536	\$ 151,772
Accumulated amortization			(4,162)	(4,162)
Balance at December 31, 2008	\$ 20,393	\$ 91,843	\$ 35,374	\$ 147,610

The estimated remaining amortization expense for the Trademark and Distribution network is as follows:

2010	\$ 4,162
2011	4,162
2012	4,162
2013	4,162
2014 and there after	14,564
	\$ 31,212

As described in Significant accounting policies, the annual impairment test was performed and neither goodwill nor the intangible assets were deemed to be impaired.

**7. Investments**

During the first quarter of 2007, the Company adopted authoritative guidance on fair value measurements and disclosures and financial instruments. Beginning on January 1, 2007, the Company's investments in fixed maturities

were classified as trading and carried at fair value, with related net unrealized gains or losses included in earnings. The Company has adopted all authoritative guidance in effect as of the balance sheet date regarding certain market conditions that allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable.

*(a) Classification within the fair value hierarchy*

Under U.S. GAAP, a company must determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. A significant adjustment to a



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**Validus Holdings, Ltd.**

**Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement. Level 3 inputs are unobservable inputs for the asset or liability.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices or alternative indices but for which the Company typically obtained independent external valuation information including U.S. and U.K. Treasuries, overnight repos and commercial paper. Level 2 includes financial instruments that are valued through independent external sources using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Sustainably all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. The Company performs internal procedures on the valuations received from independent external sources. Financial instruments in this category include U.S. Treasuries, sovereign debt, corporate debt, catastrophe bonds and U.S. agency and non-agency mortgage and asset-backed securities. Level 3 includes financial instruments that are valued using market approach and income approach valuation techniques. These models incorporate both observable and unobservable inputs. Financial instruments in this category include certain residential mortgage-backed securities.

The Company's external investment advisors have noted illiquidity and dislocation in the non-Agency RMBS market during 2009 and 2008. During the years ended December 31, 2009 and 2008, the Company identified certain non-Agency RMBS securities in its portfolio trading in inactive markets ( identified RMBS securities ). In order to gauge market activity for the identified RMBS securities, management, with assistance from external investment advisors, reviewed the pricing sources for each security in the portfolio. Pricing services were the primary sources for the prices.

Consistent with U.S. GAAP, market approach fair value measurements for securities trading in inactive markets are not determinative. In weighing the fair value measurements resulting from market approach and income approach valuation techniques, the Company has placed less reliance on the market approach fair value measurements. The income approach valuation technique determines the fair value of each security on the basis of contractual cash flows, discounted using a risk-adjusted discount rate. As the proposed valuation technique incorporates both observable and significant unobservable inputs, these securities are included as Level 3 assets with respect to the fair value hierarchy. The foundation for the income approach is the amount and timing of future cash flows.

Other investments consist of an investment in a fund of hedge funds and a deferred compensation trust. During the fourth quarter of 2009, a majority of the fund of hedge funds was redeemed. The remaining portion is a side pocket of \$25,670 at December 31, 2009. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is unavailable. The fund investment manager provides monthly reported net asset values ( NAV ) with a one-month delay in its valuation. As a result, the fund investment manager's November 30, 2009 NAV was used as a partial basis for fair value measurement in the Company's December 31, 2009 balance sheet. The fund investment manager's NAV relies on an estimate of the performance of the fund based on the month end positions from the underlying third-party funds. The Company utilizes the fund investment manager's primary market approach estimated NAV that incorporates relevant valuation sources on a timely basis. As this valuation technique incorporates both observable and significant unobservable inputs, the fund of hedge funds is classified as a Level 3 asset. To determine

the reasonableness of the estimated NAV, the Company assesses the variance between the estimated NAV and the one-month delayed fund investment manager's NAV. These variances are recorded in the following reporting period.

On August 28, 2009, the Company sold short equity index futures contracts with the goal of hedging until the closing of the IPC acquisition and liquidation of IPC's mutual fund equity portfolio exposure. The contracts were

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Table of Contents**Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

closed when the equity positions were fully redeemed on September 9, 2009. The Company experienced a \$3,273 realized investment loss as a result of the futures contracts.

At December 31, 2009, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Government and Government Agency	\$	\$ 1,918,811	\$	\$ 1,918,811
Non-U.S. Government and Government Agency States, municipalities, political subdivision		673,680		673,680
Agency residential mortgage-backed securities		19,359		19,359
Non-Agency residential mortgage-backed securities		551,610		551,610
U.S. corporate		52,233	85,336	137,569
Non-U.S. corporate		1,027,225		1,027,225
Catastrophe bonds		409,398		409,398
Asset-backed securities		52,351		52,351
Commercial mortgage-backed securities		36,712		36,712
		42,663		42,663
<b>Total fixed maturities</b>		<b>4,784,042</b>	<b>85,336</b>	<b>4,869,378</b>
<b>Total short-term investments</b>	<b>479,552</b>	<b>2,214</b>		<b>481,766</b>
<b>Total other investments</b>		<b>11,945</b>	<b>25,670</b>	<b>37,615</b>
<b>Total</b>	<b>\$ 479,552</b>	<b>\$ 4,798,201</b>	<b>\$ 111,006</b>	<b>\$ 5,388,759</b>

At December 31, 2008, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Government and Government Agency	\$	\$ 768,344	\$	\$ 768,344
Non-U.S. Government and Government Agency States, municipalities, political subdivision		96,073		96,073
Agency residential mortgage-backed securities		15,516		15,516
Non-Agency residential mortgage-backed securities		433,736		433,736
U.S. corporate		119,813	111,318	231,131
Non-U.S. corporate		443,847		443,847
Catastrophe bonds		125,700		125,700
Asset-backed securities		10,872		10,872
Commercial mortgage-backed securities		137,023		137,023
		192,259		192,259
<b>Total fixed maturities</b>		<b>2,343,183</b>	<b>111,318</b>	<b>2,454,501</b>

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Total short-term investments	365,357	11,679		377,036
Total other investments				
<b>Total</b>	<b>\$ 365,357</b>	<b>\$ 2,354,862</b>	<b>\$ 111,318</b>	<b>\$ 2,831,537</b>

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

At December 31, 2009, Level 3 investments totaled \$111,006, representing 2.1% of total investments measured at fair value on a recurring basis. At December 31, 2008, Level 3 investments totaled \$111,318, representing 3.9% of total investments measured at fair value on a recurring basis.

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs as at December 31, 2009 and 2008:

		Year Ended December 31, 2009		
		Fixed Maturity	Other	Total Fair Market
		Investments	Investments	Value
Level 3 investments	Beginning of period	\$ 111,318	\$	\$ 111,318
	Payments and purchases		115,351	115,351
	Sales and maturities	(822)	(92,004)	(92,826)
	Realized losses	(1,284)	1,609	325
	Unrealized losses	(7,329)	714	(6,615)
	Amortization	(16,547)		(16,547)
	Transfers in			
Level 3 investments	End of period	\$ 85,336	\$ 25,670	\$ 111,006

		Year Ended December 31, 2008		
		Fixed Maturity	Other	Total Fair Market
		Investments	Investments	Value
Level 3 investments	Beginning of period	\$	\$	\$
	Payments and purchases			
	Sales and maturities	(59)		(59)
	Realized losses			
	Unrealized losses	(14,603)		(14,603)
	Amortization	(4,048)		(4,048)
	Transfers in	130,028		130,028
Level 3 investments	End of period	\$ 111,318	\$	\$ 111,318

*(b) Net investment income*

Net investment income was derived from the following sources:

	<b>December 31, 2009</b>	<b>Years Ended December 31, 2008</b>	<b>December 31, 2007</b>
Fixed maturities and short-term investments	\$ 117,631	\$ 127,689	\$ 98,559
Cash and cash equivalents	3,374	13,416	16,111
Securities lending income	772	1,775	242
Total gross investment income	121,777	142,880	114,912
Investment expenses	(3,004)	(3,352)	(2,588)
Net investment income	\$ 118,773	\$ 139,528	\$ 112,324

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)****(c) Fixed maturity and short-term investments**

The following represents an analysis of net realized (losses) gains and the change in unrealized gains (losses) on investments:

	<b>December 31, 2009</b>	<b>Years Ended December 31, 2008</b>	<b>December 31, 2007</b>
Fixed maturities, short-term and other investments and cash equivalents			
Gross realized gains	\$ 33,063	\$ 24,520	\$ 6,055
Gross realized losses	(44,606)	(26,111)	(4,447)
Net realized (losses) gains on investments	(11,543)	(1,591)	1,608
Change in unrealized (losses) of securities lending	(24,186)	(6,734)	
Change in unrealized gains (losses) of investments	108,982	(72,973)	12,364
<b>Total net realized (losses) gains and change in unrealized gains (losses) of investments</b>	<b>\$ 73,253</b>	<b>\$ (81,298)</b>	<b>\$ 13,972</b>

The amortized cost, gross unrealized gains and losses and estimated fair value of investments at December 31, 2009 were as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Government and Government Agency	\$ 1,912,081	\$ 12,308	\$ (5,578)	\$ 1,918,811
Non-U.S. Government and Government Agency	678,555	7,552	(12,427)	673,680
States, municipalities, political subdivision	19,310	105	(56)	19,359
Agency residential mortgage-backed securities	537,876	14,643	(909)	551,610
Non-Agency residential mortgage-backed securities	176,853	481	(39,765)	137,569
U.S. corporate	1,004,464	23,895	(1,134)	1,027,225
Non-U.S. corporate	411,499	4,781	(6,882)	409,398
Catastrophe bonds	51,236	1,244	(129)	52,351

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Asset-backed securities	36,828	411	(527)	36,712
Commercial mortgage-backed securities	41,693	971	(1)	42,663
Total fixed maturities	4,870,395	66,391	(67,408)	4,869,378
Total short-term investments	482,632	33	(899)	481,766
Total other investments	35,941	1,674		37,615
<b>Total</b>	<b>\$ 5,388,968</b>	<b>\$ 68,098</b>	<b>\$ (68,307)</b>	<b>\$ 5,388,759</b>

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Table of Contents**Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

The amortized cost, gross unrealized gains and losses and estimated fair value of investments at December 31, 2008 were as follows:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Estimated Fair Value</b>
U.S. Government and Government Agency	\$ 732,155	\$ 36,189	\$	\$ 768,344
Non-U.S. Government and Government Agency	115,389	4,403	(23,719)	96,073
States, municipalities, political subdivision	14,954	562		15,516
Agency residential mortgage-backed securities	425,533	8,358	(155)	433,736
Non-Agency residential mortgage-backed securities	299,346	47,276	(115,491)	231,131
U.S. corporate	454,810	2,126	(13,089)	443,847
Non-U.S. corporate	140,807	1,696	(16,803)	125,700
Catastrophe bonds	11,012	2	(142)	10,872
Asset-backed securities	141,209		(4,186)	137,023
Commercial mortgage-backed securities	217,803		(25,544)	192,259
<b>Total fixed maturities</b>	<b>2,553,018</b>	<b>100,612</b>	<b>(199,129)</b>	<b>2,454,501</b>
<b>Total short-term investments</b>	<b>379,537</b>	<b>55</b>	<b>(2,556)</b>	<b>377,036</b>
<b>Total</b>	<b>\$ 2,932,555</b>	<b>\$ 100,667</b>	<b>\$ (201,685)</b>	<b>\$ 2,831,537</b>

The following table sets forth certain information regarding the investment ratings of the Company's fixed maturities portfolio as at December 31, 2009 and 2008. Investment ratings are the lower of Moody's or Standard & Poor's rating for each investment security, presented in Standard & Poor's equivalent rating. For investments where Moody's and Standard & Poor's ratings are not available, Fitch ratings are used and presented in Standard & Poor's equivalent rating.

	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Estimated Fair Value</b>	<b>% of Total</b>	<b>Estimated Fair Value</b>	<b>% of Total</b>
AAA	\$ 3,287,879	67.5%	\$ 1,941,349	79.1%
AA	487,364	10.0%	146,923	6.0%
A	925,532	19.0%	338,966	13.8%
BBB	14,416	0.3%	12,427	0.5%

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Investment grade	4,715,191	96.8%	2,439,665	99.4%
BB	45,191	0.9%	7,416	0.3%
B	59,116	1.2%	7,420	0.3%
CCC	45,194	1.0%		0.0%
D/NR	4,686	0.1%		0.0%
Non-Investment grade	154,187	3.2%	14,836	0.6%
<b>Total fixed maturities</b>	<b>\$ 4,869,378</b>	<b>100.0%</b>	<b>\$ 2,454,501</b>	<b>100.0%</b>

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

The amortized cost and estimated fair value amounts for fixed maturity securities held at December 31, 2009 and 2008 are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	December 31, 2009		December 31, 2008	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 269,889	\$ 270,688	\$ 277,137	\$ 279,727
Due after one year through five years	3,498,792	3,521,167	1,143,494	1,134,275
Due after five years through ten years	306,065	306,502	17,451	17,493
Due after ten years	2,399	2,467	31,045	28,858
	4,077,145	4,100,824	1,469,127	1,460,353
Asset-backed and mortgage-backed securities	793,250	768,554	1,083,891	994,148
<b>Total</b>	<b>\$ 4,870,395</b>	<b>\$ 4,869,378</b>	<b>\$ 2,553,018</b>	<b>\$ 2,454,501</b>

The Company has a five year, \$500,000 secured letter of credit facility provided by a syndicate of commercial banks. At December 31, 2009, approximately \$225,823 (2008: \$199,186) of letters of credit were issued and outstanding under this facility for which \$314,857 of investments were pledged as collateral (2008: \$258,573). In 2007, the Company entered into a \$100,000 standby letter of credit facility which provides Funds at Lloyd's. On November 19, 2009, the Company entered into the Second Amendment to the Talbot FAL Facility to reduce the commitment from \$100,000 to \$25,000. At December 31, 2009, \$25,000 (2008: \$100,000) of letters of credit were issued and outstanding under this facility for which \$128,798 of investments were pledged as collateral (2008: \$144,149). In addition, \$1,517,249 of investments are held in trust at December 31, 2009, (2008: \$1,100,235). Of those, \$1,408,084 are held in trust for the benefit of Talbot's cedants and policyholders, and to facilitate the accreditation as an alien insurer/reinsurer by certain regulators (2008: \$1,032,267).

The Company assumed two letters of credit facilities as part of the IPC Acquisition. A \$250,000 Credit Agreement between IPC Holdings, Ltd., IPCRe Limited, the Lenders party thereto and Wachovia Bank, National Association (the IPC Syndicated Facility) and a \$350,000 Letters of Credit Master Agreement between Citibank N.A. and IPCRe Limited (the IPC Bi-Lateral Facility). At December 31, 2009, the IPC Syndicated Facility had \$16,537 letters of credit issued and outstanding for which \$25,233 investments were pledged as collateral. At December 31, 2009, the IPC Bi-Lateral Facility had \$96,047 letters of credit issued and outstanding for which \$219,004 of investments were held in an associated collateral account.

**(d) Securities lending**

The Company participates in a securities lending program whereby certain securities from its portfolio are loaned to third parties for short periods of time through a lending agent. The Company retains all economic interest in the

securities it lends and receives a fee from the borrower for the temporary use of the securities. Collateral in the form of cash, government securities and letters of credit is required at a rate of 102% of the market value of the loaned securities and is held by a third party. As at December 31, 2009, the Company had \$88,146 (2008: \$103,266) in securities on loan. During the year ended December 31, 2009, the Company recorded a \$24,186 unrealized loss on this collateral on its Statements of Operations (2008: unrealized loss \$6,734).

Securities lending collateral reinvested is primarily comprised of corporate floating rate securities with an average reset period of 26.1 days (2008: 26.7 days). As at December 31, 2009, the securities lending collateral

**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

reinvested by the Company in connection with its securities lending program was allocated between Levels 1, 2 and 3 as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Corporate	\$	\$ 14,123	\$	\$ 14,123
Agency		9,363		9,363
Asset-backed securities		6,153		6,153
Short-term investments	730	59,981		60,711
<b>Total</b>	\$ 730	\$ 89,620	\$	\$ 90,350

As at December 31, 2008, the securities lending collateral reinvested lending by the Company in connection with its securities program was allocated between Levels 1, 2 and 3 as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Corporate	\$	\$ 57,574	\$	\$ 57,574
Asset-backed securities		18,228		18,228
Short-term investments	7,390	15,762		23,152
<b>Total</b>	\$ 7,390	\$ 91,564	\$	\$ 98,954

The following table sets forth certain information regarding the investment ratings of the Company's securities lending collateral reinvested as at December 31, 2009 and 2008. Investment ratings are the lower of Moody's or Standard & Poor's rating for each investment security, presented in Standard & Poor's equivalent rating. For investments where Moody's and Standard & Poor's ratings are not available, Fitch ratings are used and presented in Standard & Poor's equivalent rating.

	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Estimated Fair Value</b>	<b>% of Total</b>	<b>Estimated Fair Value</b>	<b>% of Total</b>
AAA	\$ 33,501	37.1%	\$ 45,137	45.7%
AA+	12,011	13.3%	4,784	4.8%
AA	4,998	5.5%	12,789	12.9%
AA-	19,910	22.0%	20,035	20.2%

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A+		9,999	11.1%	4,947	5.0%
A		9,006	10.0%	3,782	3.8%
NR		195	0.2%	90	0.1%
		89,620	99.2%	91,564	92.5%
NR	Cash(1)	730	0.8%	7,390	7.5%
<b>Total</b>		<b>\$ 90,350</b>	<b>100.0%</b>	<b>\$ 98,954</b>	<b>100.0%</b>

(1) This amount relates to cash and is therefore not a rated security.

The amortized cost and estimated fair value amounts for securities lending collateral reinvested held at December 31, 2009 and 2008 are shown by contractual maturity below. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

	<b>December 31, 2009</b>		<b>December 31, 2008</b>	
	<b>Amortized cost</b>	<b>Estimated fair value</b>	<b>Amortized cost</b>	<b>Estimated fair value</b>
Due in one year or less	\$ 68,895	\$ 70,074	\$ 24,390	\$ 23,152
Due after one year through five years	21,211	20,276	81,298	75,802
<b>Total</b>	<b>\$ 90,106</b>	<b>\$ 90,350</b>	<b>\$ 105,688</b>	<b>\$ 98,954</b>

**8. Premiums receivable**

Premiums receivable are composed of premiums in course of collection, net of commissions and brokerage, and premiums accrued but unbilled, net of commissions and brokerage. The following is a breakdown of the components of receivables at December 31, 2009 and 2008:

	<b>Premiums in Course of Collection</b>	<b>Premiums Accrued But Unbilled</b>	<b>Total</b>
Balance as at December 31, 2008	\$ 160,455	\$ 247,804	\$ 408,259
Change during 2009	83,475	59,882	143,357
Balance as at December 31, 2009	243,930	307,686	551,616
Balance as at December 31, 2007	147,923	253,318	401,241
Change during 2008	12,532	(5,514)	7,018
Balance as at December 31, 2008	160,455	247,804	408,259

**9. Reserve for losses and loss expenses**

Reserves for losses and loss expenses are based in part upon the estimation of case losses reported from brokers, insureds and ceding companies. The Company also uses statistical and actuarial methods to estimate ultimate expected losses and loss expenses. The period of time from the occurrence of a loss, the reporting of a loss to the Company and the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. As these factors become apparent, case reserves will be adjusted, sometimes requiring an increase or decrease in the overall reserves of the Company, and at other times requiring a reallocation of incurred but not reported reserves to specific case reserves. These estimates are reviewed regularly, and such adjustments, if any,

are reflected in earnings in the period in which they become known. While management believes that it has made a reasonable estimate of ultimate losses, there can be no assurances that ultimate losses and loss expenses will not exceed the total reserves.

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid loss expenses for the years ended December 31, 2009, 2008 and 2007:

	<b>December 31, 2009</b>	<b>Years Ended December 31, 2008</b>	<b>December 31, 2007</b>
Reserve for losses and loss expenses, beginning of period	\$ 1,305,303	\$ 926,117	\$ 77,363
Losses and loss expenses recoverable	(208,796)	(134,404)	
Net reserves for losses and loss expenses, beginning of period	1,096,507	791,713	77,363
Net loss reserves acquired in purchase of IPC	304,957		
Net loss reserves acquired in purchase of Talbot			588,068
Increase (decrease) in net losses and loss expenses incurred in respect of losses occurring in:			
Current year	625,810	841,856	351,850
Prior years	(102,053)	(69,702)	(67,857)
Total incurred losses and loss expenses	523,757	772,154	283,993
Less net losses and loss expenses paid in respect of losses occurring in:			
Current year	(122,351)	(184,430)	(68,169)
Prior years	(385,084)	(222,039)	(88,703)
Total net paid losses	(507,435)	(406,469)	(156,872)
Foreign exchange	22,583	(60,891)	(839)
Net reserve for losses and loss expenses, end of period	1,440,369	1,096,507	791,713
Losses and loss expenses recoverable	181,765	208,796	134,404
Reserve for losses and loss expenses, end of period	\$ 1,622,134	\$ 1,305,303	\$ 926,117

Incurred losses and loss adjustment expenses comprise:

	<b>December 31, 2009</b>	<b>Years Ended December 31, 2008</b>	<b>December 31, 2007</b>
Gross losses and loss adjustment expenses	\$ 598,877	\$ 907,254	\$ 276,541
Reinsurance recoverable	(75,120)	(135,100)	7,452

Total incurred losses and loss adjustment expenses	\$ 523,757	\$ 772,154	\$ 283,993
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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

The December 31, 2009 and 2008 gross reserves balance comprises reserves for reported claims of \$831,325 and \$707,717, respectively, and reserves for claims incurred but not reported of \$790,809 and \$597,586, respectively. The net favorable development on prior years by segment and line of business is as follows:

	<b>Year Ended December 31, 2009</b>			
	<b>Property</b>	<b>Marine</b>	<b>Specialty</b>	<b>Total</b>
Validus Re	\$ (65,109)	\$ 19,628	\$ (7,491)	\$ (52,972)
Talbot	(27,630)	(15,306)	(6,145)	(49,081)
Net favorable development	\$ (92,739)	\$ 4,322	\$ (13,636)	\$ (102,053)

The amount recorded represents management's best estimate of expected losses and loss expenses on premiums earned. Favorable loss development on prior years totaled \$102,053. For Validus Re, the property lines experienced \$65,109 of favorable development primarily due to the reclassification of losses from onshore energy exposures during the 2007 California wildfires to the marine line and reduced loss estimates for Hurricane Ike, the June 2008 Midwest flood event and October 2007 Peruvian mining loss, as well as lower than expected claim development elsewhere. The marine lines experienced \$19,628 of adverse development primarily due to the reclassification from the property line and increased loss estimates for Hurricanes Ike and Gustav. For Talbot, the property lines experienced \$27,630 of favorable loss development primarily due to lower than expected claims development together with a favorable development relating to Hurricane Katrina. The marine lines experienced \$15,306 of favorable development due to continued low claims activity and reduced provisions for late reported claims in the more developed underwriting years of the marine liabilities line.

	<b>Year Ended December 31, 2008</b>			
	<b>Property</b>	<b>Marine</b>	<b>Specialty</b>	<b>Total</b>
Validus Re	\$ (17,573)	\$ 4,119	\$ (1,596)	\$ (15,050)
Talbot	(5,868)	(16,604)	(32,180)	(54,652)
Net favorable development	\$ (23,441)	\$ (12,485)	\$ (33,776)	\$ (69,702)

The amount recorded represents management's best estimate of expected losses and loss expenses on premiums earned. Favorable loss development on prior years totaled \$69,702. For Validus Re, the property line experienced favorable development of \$17,573 due primarily to favorable development on the 2007 UK floods, Australian storm losses, and several other smaller events. For Talbot, the marine line experienced favorable development of \$16,604 due primarily to low claims activity in the cargo and hull classes in the 2006 and prior underwriting years. For the year ended December 31, 2008, the specialty lines experienced favorable development of \$32,180, due primarily to a reduction in losses in the political violence, political risk, marine and aviation war, and aviation treaty lines due to

continued low claims activity and reduced provisions for late reported claims in the more developed underwriting years of the financial institutions line.

	<b>Year Ended December 31, 2007</b>			
	<b>Property</b>	<b>Marine</b>	<b>Specialty</b>	<b>Total</b>
Validus Re	\$ (13,279)	\$ (2,036)	\$ (1,942)	\$ (17,257)
Talbot	(5,958)	(7,037)	(37,605)	(50,600)
Net favorable development	\$ (19,237)	\$ (9,073)	\$ (39,547)	\$ (67,857)

The amount recorded represents management's best estimate of expected losses and loss expenses on premiums earned. Favorable loss development on prior years totaled \$67,857 and was experienced in all lines of business. Favorable development at Validus Re was primarily related to better than expected loss experience on the 2006 underwriting year. Favorable development at Talbot resulted from better than expected loss experience in

**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

the period post acquisition on the 2005 and prior underwriting years, including the financial institutions, marine liabilities and war accounts.

**10. Accounts payable and accrued expenses**

The following are components of accounts payable and accrued expenses:

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Amounts due to third party funds at Lloyd's providers	\$ 17,746	\$ 32,407
Amounts due to brokers	12,963	14,747
Interest accruals		1,274
Trade and compensation payables	97,100	25,756
Total	\$ 127,809	\$ 74,184

**11. Reinsurance**

The Company enters into reinsurance and retrocession agreements in order to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits, and increase its aggregate capacity. The cession of insurance and reinsurance does not legally discharge the Company from its primary liability for the full amount of the policies, and the Company is required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocession agreement. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

**a) Effects of reinsurance on premiums written and earned**

The effects of reinsurance on premiums written and earned for the years ended December 31, 2009, 2008 and 2007 are as follows:

	<b>Year Ended December 31, 2009</b>						
	<b>Validus Re</b>		<b>Talbot</b>		<b>Elimination</b>	<b>Total</b>	
	<b>Written</b>	<b>Earned</b>	<b>Written</b>	<b>Earned</b>			<b>Written</b>
Direct	\$	\$	\$ 459,771	\$ 427,280	\$	\$ 459,771	\$ 427,280
Assumed	768,084	880,434	460,135	382,535	(66,749)	1,161,470	1,262,969
Ceded	(95,446)	(84,884)	(204,186)	(155,788)	66,749	(232,883)	(240,672)
Total	\$ 672,638	\$ 795,550	\$ 715,720	\$ 654,027	\$	\$ 1,388,358	\$ 1,449,577

	Year Ended December 31, 2008						Total Written	Earned
	Validus Re		Talbot		Elimination			
	Written	Earned	Written	Earned				
Direct	\$	\$	\$ 393,003	\$ 389,389	\$	\$ 393,003	\$ 389,389	
Assumed	687,771	715,253	315,993	299,291	(34,283)	969,481	1,014,544	
Ceded	(62,933)	(61,722)	(95,510)	(85,693)	34,283	(124,160)	(147,415)	
Total	\$ 624,838	\$ 653,531	\$ 613,486	\$ 602,987	\$	\$ 1,238,324	\$ 1,256,518	

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(Expressed in thousands of U.S. dollars, except share and per share information)

	Year Ended December 31, 2007						
	Validus Re		Talbot		Elimination	Total	
	Written	Earned	Written	Earned			Written
Direct	\$	\$	\$ 192,186	\$ 195,141	\$	\$ 192,186	\$ 195,141
Assumed	702,098	621,330	94,353	148,509		796,451	769,839
Ceded	(68,842)	(62,301)	(1,368)	(44,600)		(70,210)	(106,901)
Total	\$ 633,256	\$ 559,029	\$ 285,171	\$ 299,050	\$	\$ 918,427	\$ 858,079

**b) Credit risk**

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At December 31, 2009, 99.3% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or better or from reinsurers posting full collateral and included \$99,587 of IBNR recoverable (2008: \$71,580). Reinsurance recoverables by reinsurer are as follows:

	December 31, 2009		December 31, 2008	
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total
Top 10 reinsurers	\$ 170,810	86.9%	198,403	94.4%
Other reinsurers balances > \$1 million	19,818	10.1%	8,987	4.3%
Other reinsurers balances < \$1 million	5,919	3.0%	2,794	1.3%
<b>Total</b>	<b>\$ 196,547</b>	<b>100.0%</b>	<b>210,184</b>	<b>100.0%</b>

Top 10 Reinsurers	December 31, 2009		
	Rating	Reinsurance Recoverable	% of Total
Fully collateralized reinsurers	NR	\$ 50,840	29.8%
Lloyd's Syndicates	A+	33,103	19.4%
Munich Re	AA-	19,921	11.7%
Hannover Re	AA-	13,427	7.8%

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Aspen	A	11,417	6.7%
Allianz	AA	9,645	5.6%
Swiss Re	A+	8,995	5.3%
Transatlantic Re	A+	8,804	5.1%
Brit Insurance Limited	A	8,159	4.8%
Platinum Underwriters	A	6,499	3.8%
<b>Total</b>		<b>\$ 170,810</b>	<b>100.0%</b>

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

<b>Top 10 Reinsurers</b>	<b>Rating</b>	<b>December 31, 2008</b>	
		<b>Reinsurance Recoverable</b>	<b>% of Total</b>
Fully collateralized reinsurers	NR	\$ 83,511	41.9%
Hannover Re	AA-	32,855	16.6%
Lloyd's Syndicates	A+	25,533	12.9%
Allianz	AA	14,988	7.6%
Swiss Re	AA-	13,207	6.7%
Munich Re	AA-	12,813	6.5%
Aspen	A	6,040	3.0%
Platinum Underwriters	A	3,270	1.6%
Transatlantic Re	A+	3,096	1.6%
Axa	AA	3,090	1.6%
<b>Total</b>		<b>\$ 198,403</b>	<b>100.0%</b>

At December 31, 2009 and 2008, the provision for uncollectible reinsurance relating to losses recoverable was \$3,477 and \$3,228, respectively. To estimate the provision for uncollectible reinsurance recoverable, the reinsurance recoverable must first be allocated to applicable reinsurers. This determination is based on a process rather than an estimate, although an element of judgment must be applied. As part of this process, ceded IBNR is allocated by reinsurer. Of the \$196,547 reinsurance recoverable at December 31, 2009, \$50,840 was fully collateralized (2008: \$83,511).

The Company uses a default analysis to estimate uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer and default factors used to determine the portion of a reinsurer's balance deemed to be uncollectible. Default factors require considerable judgment and are determined using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions.

**(c) Collateralized quota share retrocession treaties**

On December 22, 2007, Validus Re entered into a collateralized retrocessional reinsurance agreement with an unaffiliated third party whereby the Company cedes certain business underwritten in the marine offshore energy lines. For the year ended December 31, 2009 and 2008 Validus Re ceded \$470 and \$19,978 of premiums written through this agreement, respectively. The earned portions of premiums ceded for the year ended December 31, 2009 and 2008 were \$650 and \$19,798, respectively.

**12. Share capital****a) Authorized and issued**

The Company's authorized share capital is 571,428,571 voting and non-voting shares with a par value of \$0.175 each. The holders of common voting shares are entitled to receive dividends and are allocated one vote per share, provided that, if the controlled shares of any shareholder or group of related shareholders constitute more than 9.09 percent of the outstanding common shares of the Company, their voting power will be reduced to 9.09 percent.

On September 4, 2009, the Company acquired all of the outstanding shares of IPC from a group of institutional and other investors. Pursuant to the Amalgamation Agreement, the Company acquired all of IPC's outstanding common shares in exchange for the Company's common shares and cash. The Company issued 54,556,762

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

common shares (and 21,506 restricted share awards) valued at \$24.10 per share as partial consideration for the acquisition.

The Company may from time to time repurchase its securities, including common shares and Junior Subordinated Deferrable Debentures. In November 2009, the Board of Directors of the Company authorized an initial \$400.0 million share repurchase program. On February 17, 2010, the Board of Directors of the Company authorized the Company to return up to \$750.0 million to shareholders. To this end, the Board of Directors expanded the Company's share repurchase program authorizing the Company to repurchase up to \$750.0 million of common shares. This amount is in addition to, and in excess of, the \$135.5 million of common shares purchased by the Company through February 17, 2010 under its previously authorized \$400.0 million share repurchase program announced in November 2009. The Company expects the purchases to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

The following table is a summary of the common shares issued and outstanding:

	<b>Common Shares</b>
Common shares outstanding, December 31, 2008	75,624,697
IPC acquisition issuance	54,556,762
Restricted share awards vested	423,746
Restricted share units vested	360,383
Employee seller shares vested	248,085
Options exercised	164,834
Warrants exercised	237,842
Treasury Stock	(3,156,871)
Common shares outstanding, December 31, 2009	128,459,478
	<b>Common Shares</b>
Common shares outstanding, December 31, 2007	74,199,836
Restricted share awards vested	777,953
Employee seller shares vested	515,103
Options exercised	112,825
Warrants exercised	18,980
Common shares outstanding, December 31, 2008	75,624,697

***b) Warrants***

In consideration for the founder s and sponsoring investors commitments, the Company had issued as at December 31, 2009 warrants to the founding shareholder and sponsoring investors to purchase, in the aggregate, up to 7,952,138 (December 31, 2008: 8,680,148) common shares. Of those issued, 2,090,815 (December 31, 2008: 2,090,815) of the warrants are to purchase non-voting common shares. No further warrants are anticipated to be issued.

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

In July 2007, in connection with the acquisition of Talbot, additional warrants of 256,409 were issued to the founding shareholder and sponsoring investors to maintain the allocation at 12.0% of the fully diluted shares of the Company pursuant to the anti-dilution provision of the warrants.

The warrants may be settled using either the physical settlement or net-share settlement methods. The warrants have been classified as equity instruments, in accordance with U.S. GAAP guidance for *Derivatives and Hedging, Contracts in Entity's own Equity*. The warrants were initially measured at fair value and recorded in additional paid-in capital. The additional warrants issued for the period ended December 31, 2007 increased the fair value to \$78,060 with the increase of \$2,893 expensed.

The fair value of each warrant issued was estimated on the date of grant using the Black-Scholes option-pricing model. The volatility assumption used, of approximately 30.0%, was derived from the historical volatility of the share price of a range of publicly-traded Bermuda reinsurance companies of a similar business nature to the Company. No allowance was made for any potential illiquidity associated with the private trading of the Company's shares. The other assumptions in the warrant-pricing model were as follows:

	<b>July 24, 2007 Issuance</b>	<b>February 3, 2006 Issuance</b>	<b>December 15, 2005 Issuance</b>
Warrants issued	256,409	8,593	8,446,727
Average strike price	\$ 20.00	\$ 17.50	\$ 17.50
Volatility	30.0%	30.0%	30.0%
Risk-free rate	4.5%	4.5%	4.5%
Expected dividend yield	0.0%	0.0%	0.0%
Expected term (years)	8	10	10
Calculated fair-value per warrant	\$ 11.28	\$ 8.89	\$ 8.89

During the year ended December 31, 2009, 728,010 (2008: 31,581) warrants were exercised which resulted in the net share issuance of 237,842 (2008: 18,980) common shares.

**c) Deferred share units**

Under the terms of the Company's Director Stock Compensation Plan, non-management directors may elect to receive their director fees in deferred share units rather than cash. The number of share units distributed in case of election under the plan is equal to the amount of the annual retainer fee otherwise payable to the director on such payment date divided by 100% of the fair market value of a share on such payment date. Additional deferred share units are issued in lieu of dividends that accrue on these deferred share units. The total outstanding deferred share units at December 31, 2009 were 4,577 (December 31, 2008: 4,430).

**d) Dividends**

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On February 12, 2009, the Company announced a quarterly cash dividend of \$0.20 (2008: \$0.20) per common share and \$0.20 per common share equivalent for which each outstanding warrant is then exercisable, payable on March 31, 2009 to holders of record on March 16, 2009.

On May 4, 2009, the Company announced a quarterly cash dividend of \$0.20 (2008: \$0.20) per common share and \$0.20 per common share equivalent for which each outstanding warrant is then exercisable, payable on June 30, 2009 to holders of record on June 15, 2009.

On July 28, 2009, the Company announced a quarterly cash dividend of \$0.20 (2008: \$0.20) per common share and \$0.20 per common share equivalent for which each outstanding warrant is then exercisable, payable on September 30, 2009 to holders of record on August 20, 2009.

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

On November 4, 2009, the Company announced a quarterly cash dividend of \$0.20 (2008: \$0.20) per common share and \$0.20 per common share equivalent for which each outstanding warrant is then exercisable, payable on December 31, 2009 to holders of record on December 15, 2009.

**13. Retirement plans**

The Company provides pension benefits to eligible employees through various plans which are managed externally and sponsored by the Company. All pension plans are structured as defined contribution retirement plans. The Company's contributions are expensed as incurred. The Company's expenses for its defined contribution retirement plans for the years ended December 31, 2009, 2008 and 2007 were \$5,606, \$4,732 and \$2,442, respectively.

**14. Stock plans***a) Long-term incentive plans*

The Company's Long Term Incentive Plan ( LTIP ) provides for grants to employees of any option, stock appreciation right ( SAR ), restricted share, restricted share unit, performance share, performance unit, dividend equivalent or other share-based awards. The total number of shares reserved for issuance under the LTIP is 13,126,896 shares. The LTIP is administered by the Compensation Committee of the Board of Directors. No SARs or performance shares have been granted to date. Grant prices are established at the estimated fair market value of the Company's common shares at the date of grant.

In accordance with the terms of the Amalgamation Agreement, the IPC 2007 Stock Incentive Plan (the IPC Plan ) was assumed by Validus on the acquisition date and this resulted in shares underlying the following awards to be converted into the Company's awards: 21,603 restricted share awards, 218,804 restricted share units, 199,315 performance share units and 650,557 fully exercisable non-qualified options.

*i. Options*

Options may be exercised for voting common shares upon vesting. Options have a life of 10 years and vest either ratably or at the end of the required service period from the date of grant. All options granted in 2009 were as a result of the Amalgamation Agreement. Grant prices are established at the estimated fair value of the Company's common shares at the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for all grants to date:

	<b>Weighted Average Risk Free Interest Rate</b>	<b>Weighted Average Dividend Yield</b>	<b>Expected Life (Years)</b>	<b>Expected Volatility</b>
<b>Year</b>				

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2007 and prior years	4.5%	0.0%	7	30.0%
2008	3.5%	3.2%	7	30.0%
2009	3.9%	3.7%	2	34.6%

Expected volatility is based on stock price volatility of comparable publicly-traded companies. The Company uses the simplified method consistent with U.S. GAAP authoritative guidance on stock compensation expenses to estimate expected lives for options granted during the period as historical exercise data is not available and the options met the requirement as set out in the bulletin.

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

Share compensation expenses of \$4,158 were recorded for the year ended December 31, 2009 (2008: \$4,251, 2007: \$3,944). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period. Activity with respect to the options for the year ended December 31, 2009 was as follows:

	<b>Options</b>		<b>Weighted Average Grant Date Fair Value</b>		<b>Weighted Average Grant Date Exercise Price</b>
Options outstanding, December 31, 2008	2,799,938	\$	7.57	\$	18.23
Options granted	650,557		3.42		27.27
Options exercised	(164,834)		5.80		21.01
Options forfeited	(7,646)		10.30		20.39
Options outstanding, December 31, 2009	3,278,015	\$	6.83	\$	19.88
Options exercisable at December 31, 2009	2,468,944	\$	5.83	\$	20.10

Activity with respect to options for the year ended December 31, 2008 was as follows:

	<b>Options</b>		<b>Weighted Average Grant Date Fair Value</b>		<b>Weighted Average Grant Date Exercise Price</b>
Options outstanding, December 31, 2007	2,761,176	\$	7.61	\$	17.82
Options granted	164,166		6.73		24.73
Options exercised	(112,825)		7.36		17.57
Options forfeited	(12,579)		8.56		18.69
Options outstanding, December 31, 2008	2,799,938	\$	7.57	\$	18.23
Options exercisable at December 31, 2008	1,396,353	\$	7.46	\$	17.63

Activity with respect to options for the year ended December 31, 2007 was as follows:

	<b>Weighted Average</b>	<b>Weighted Average</b>
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	<b>Options</b>	<b>Grant Date Fair Value</b>	<b>Grant Date Exercise Price</b>
Options outstanding, December 31, 2006	2,568,894	\$ 7.35	\$ 17.50
Options granted	206,464	10.88	21.44
Options exercised			
Options forfeited	(14,182)	10.30	20.39
Options outstanding, December 31, 2007	2,761,176	\$ 7.61	\$ 17.82
Options exercisable at December 31, 2007	908,361	\$ 7.36	\$ 17.52

At December 31, 2009, there were \$4,713 (2008: \$9,139, 2007: \$12,340) of total unrecognized share compensation expenses that are expected to be recognized over a weighted-average period of 1.3 years (2008: 2.2 years; 2007: 3.1 years).

*ii. Restricted share awards*

Restricted share awards vest either ratably or at the end of the required service period and contain certain restrictions for the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. Share compensation expenses of \$16,775 were recorded for the year ended

**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

December 31, 2009 (2008: \$15,060; 2007: \$7,083). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period. Activity with respect to unvested restricted share awards for the year ended December 31, 2009 was as follows:

	<b>Restricted Share Awards</b>		<b>Weighted Average Grant Date Fair Value</b>
Restricted share awards outstanding, December 31, 2008	2,307,402	\$	22.73
Restricted share awards granted	772,672		24.68
Restricted share awards vested	(512,847)		22.11
Restricted share awards forfeited	(41,269)		24.05
Restricted share awards outstanding, December 31, 2009	2,525,958	\$	23.43

Activity with respect to unvested restricted share awards for the period ended December 31, 2008 was as follows:

	<b>Restricted Share Awards</b>		<b>Weighted Average Grant Date Fair Value</b>
Restricted share awards outstanding, December 31, 2007	2,158,220	\$	20.44
Restricted share awards granted	1,007,083		24.09
Restricted share awards vested	(822,370)		18.55
Restricted share awards forfeited	(35,531)		21.87
Restricted share awards outstanding, December 31, 2008	2,307,402	\$	22.73

Activity with respect to unvested restricted share awards for the period ended December 31, 2007 was as follows:

	<b>Restricted Share Awards</b>		<b>Weighted Average Grant Date Fair Value</b>
Restricted share awards outstanding, December 31, 2006	733,964	\$	17.52

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Restricted share awards granted	1,428,306		21.94
Restricted share awards vested			
Restricted share awards forfeited	(4,050)		20.39
Restricted share awards outstanding, December 31, 2007	2,158,220	\$	20.44

At December 31, 2009, there were \$38,395 (2008: \$35,915; 2007: \$25,116) of total unrecognized share compensation expenses that are expected to be recognized over a weighted-average period of 2.8 years (2008: 3.2 years; 2007: 3.4 years).

**iii. Restricted share units**

Restricted share units under the LTIP vest either ratably or at the end of the required service period and contain certain restrictions for the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. Share compensation expenses of \$5,513 were recorded for the year ended December 31, 2009 (2008: \$43; 2007: \$nil) related to restricted share units. The expenses represent

**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

the proportionate accrual of the fair value of each grant based on the remaining vesting period. Activity with respect to unvested restricted share units for the year ended December 31, 2009 was as follows:

	<b>Restricted Share Units</b>		<b>Weighted Average Grant Date Fair Value</b>
Restricted share units outstanding, December 31, 2008	11,853	\$	25.28
Restricted share units granted	427,451		24.76
Restricted share units vested	(360,713)		24.76
Restricted share units forfeited			
Restricted share units outstanding, December 31, 2009	78,591	\$	24.84

Activity with respect to unvested restricted share units for the year ended December 31, 2008 was as follows:

	<b>Restricted Share Units</b>		<b>Weighted Average Grant Date Fair Value</b>
Restricted share units outstanding, December 31, 2007		\$	
Restricted share units granted	11,853		25.28
Restricted share units vested			
Restricted share units forfeited			
Restricted share units outstanding, December 31, 2008	11,853	\$	25.28

At December 31, 2009, there were \$578 (2008: \$227; 2007: \$nil) of total unrecognized share compensation expenses that are expected to be recognized over a weighted-average period of 2.5 years (2008: 4.3 years; 2007: nil). Additional restricted share units are issued in lieu of accrued dividends from unvested restricted share units. As at December 31, 2009, unvested restricted share units issued in lieu of dividends were 858 (December 31, 2008: 410).

***iv. Performance share units***

The Performance Share Units ( PSUs ) contained both a market and performance based component. On November 4, 2009, it was resolved by the Board of Directors that as the performance factor of the award had been removed, the

performance share units would be converted into restricted share units. The vesting terms, rights and restrictions of the awards remain unchanged. During the year ended December 31, 2009, 199,315 PSUs were granted, of these, 173,591 vested during the year ended December 31, 2009.

***b) Employee seller shares***

Pursuant to the Share Sale Agreement for the purchase of Talbot, the Company issued 1,209,741 restricted shares to Talbot employees (the "employee seller shares"). Upon consummation of the acquisition, the employee seller shares were validly issued, fully-paid and non-assessable and entitled to vote and participate in distributions and dividends in accordance with the Company's By-laws. However, the employee seller shares are subject to a restricted period during which they are subject to forfeiture (as implemented by repurchase by the Company for a nominal amount). Forfeiture of employee seller shares will generally occur in the event that any such Talbot employee's employment terminates, with certain exceptions, prior to the end of the restricted period. The restricted period will end for 25% of the employee seller shares on each anniversary of the closing date of July 2, 2007 for all Talbot employees other than Talbot's Chairman, such that after four years forfeiture will be completely extinguished.

**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)**

Share compensation expenses of \$6,022 were recorded for the year ended December 31, 2009 (2008: \$7,743; 2007: \$5,162). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period. Activity with respect to unvested employee seller shares for the year ended December 31, 2009 was as follows:

	<b>Employee Seller Shares</b>		<b>Weighted Average Grant Date Fair Value</b>
Employee seller shares outstanding, December 31, 2008	663,375	\$	22.01
Employee seller shares granted			
Employee seller shares vested	(248,085)		22.01
Employee seller shares forfeited	(4,623)		22.01
Employee seller shares outstanding, December 31, 2009	410,667	\$	22.01

Activity with respect to unvested employee seller shares for the year ended December 31, 2008 was as follows:

	<b>Employee Seller Shares</b>		<b>Weighted Average Grant Date Fair Value</b>
Employee seller shares outstanding, December 31, 2007	1,209,741	\$	22.01
Employee seller shares granted			
Employee seller shares vested	(515,103)		22.01
Employee seller shares forfeited	(31,263)		22.01
Employee seller shares outstanding, December 31, 2008	663,375	\$	22.01

Activity with respect to unvested employee seller shares for the year ended December 31, 2007 was as follows:

	<b>Employee Seller Shares</b>		<b>Weighted Average Grant Date Fair Value</b>
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Employee seller shares outstanding, December 31, 2006		\$	
Employee seller shares granted	1,209,741		22.01
Employee seller shares vested			
Employee seller shares forfeited			
Employee seller shares outstanding, December 31, 2007	1,209,741	\$	22.01

At December 31, 2009, there were \$6,135 (2008: \$12,157; 2007: \$18,852) of total unrecognized share compensation expenses that are expected to be recognized over a weighted-average period of 1.5 years (2008: 2.5 years; 2007: 3.1 years).

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**Table of Contents****Validus Holdings, Ltd.****Notes to Consolidated Financial Statements (Continued)**  
**(Expressed in thousands of U.S. dollars, except share and per share information)****c) Total share compensation expense**

Total share compensation expense includes \$5,431 of IPC-related termination expenses which have been included as part of the gain on bargain purchase, net of expenses in the Statements of Operations. The breakdown of share compensation expense is as follows:

	<b>Years Ended</b>		
	<b>December 31, 2009</b>	<b>December 31, 2008</b>	<b>December 31, 2007</b>
Options	\$ 4,158	\$ 4,251	\$ 3,944
Restricted share awards	16,775	15,060	7,083
Restricted share units	5,513	43	
Employee seller shares	6,022	7,743	5,162
<b>Total</b>	<b>\$ 32,468</b>	<b>\$ 27,097</b>	<b>\$ 16,189</b>

**15. Debt and financing arrangements****a) Financing structure and finance expenses**

The financing structure at December 31, 2009 was:

	<b>Commitment</b>	<b>Outstanding(1)</b>	<b>Drawn</b>
9.069% Junior Subordinated Deferrable Debentures	\$ 150,000	\$ 150,000	\$ 150,000
8.480% Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
\$200,000 unsecured letter of credit facility	200,000		
\$500,000 secured letter of credit facility	500,000	225,823	
Talbot FAL facility(2)	25,000	25,000	
\$250,000 IPC Syndicated Facility	16,537	16,537	
\$350,000 IPC Bi-Lateral Facility	350,000	96,047	
<b>Total</b>	<b>\$ 1,441,537</b>	<b>\$ 653,207</b>	<b>\$ 289,800</b>