VALIDUS HOLDINGS LTD
Form 10-K
February 27, 2009

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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, 2008

Commission file number 001-33606

VALIDUS HOLDINGS, LTD.
(Exact name of registrant as specified in its charter)

BERMUDA	**98-0501001**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

19 Par-La-Ville Road, Hamilton, Bermuda HM 11
(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 þ No o

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 o No þ

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 þ No o

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. þ

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 þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2008 was $796.8 million computed upon the basis of the closing sales price of the Common Shares on June 30, 2008. 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 27, 2009, there were 75,717,528 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 end of December 31, 2008.

Validus Holdings, Ltd.

2008 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.

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. We have assembled a senior management team with substantial industry expertise and longstanding industry relationships. We are well positioned to take advantage of current market conditions; we have also built our operations so that we may effectively take advantage of future market conditions as they develop.

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 21 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 20 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;

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 1, 2007 renewal season in the Validus Re segment, representing an increase of $144.6 million or 66.5% over the comparable period for 2006;

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 for the year ended December 31, 2007;

Underwriting $291.0 million in gross premiums written for the January 1, 2008 renewal season in the Validus Re segment;

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Opening offices in Miami, Singapore City and New York City in 2008;

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

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.

Our Operating Subsidiaries

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

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 $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.

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:

Line of Business (Dollars in thousands)	Year Ended December 31, 2008 Gross Premiums Written	Year Ended December 31, 2008 Gross Premiums Written (%)	Year Ended December 31, 2007 Gross Premiums Written	Year Ended December 31, 2007 Gross Premiums Written (%)	Year Ended December 31, 2006 Gross Premiums Written	Year Ended December 31, 2006 Gross Premiums Written (%)
Property	$ 492,967	71.7%	$ 498,375	71.0%	$ 370,958	68.6%
Marine	117,744	17.1%	136,710	19.5%	104,584	19.3%
Specialty	77,060	11.2%	67,013	9.5%	65,247	12.1%
Total	$ 687,771	100.0%	$ 702,098	100.0%	$ 540,789	100.0%

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, 2008 were $328.2 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 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, 2008 were $54.1 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, 2008 were $110.7 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, 2008 were $117.7 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, 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, 2008 were $77.1 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 us with significant benefits in terms of product line and geographic diversification as well as offering us 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 us 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 our short-tail insurance and reinsurance franchise.

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

Line of Business (Dollars in thousands)	**Year Ended December 31, 2008 Gross Premiums Written**	**Year Ended December 31, 2008 Gross Premiums Written (%)**	**Year Ended December 31, 2007(1) Gross Premiums Written**	**Year Ended December 31, 2007(1) Gross Premiums Written (%)**
Property	$ 152,142	21.4%	$ 151,245	22.0%
Marine	287,696	40.6%	264,008	38.4%
Specialty	269,158	38.0%	272,472	39.6%
Total	$ 708,996	100.0%	$ 687,725	100.0%

(1) Talbot was acquired on July 2, 2007. Talbot s gross premium 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 that period.

Property: The main sub-classes within property are international and North American direct and facultative contracts, 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 reinsurance risks substantially earned within 12 months, direct and facultative risks substantially earned after 18 months and lineslips and binding authorities earned within 24 months of the expiry of the contract. Gross premiums written on property business during the year ended December 31, 2008 were $152.1 million, including $51.0 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 $35.1 million of the $287.7 million of gross premiums written during the year ended December 31, 2008, 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. Gross premiums written on marine business during the year ended December 31, 2008 were $287.7 million.

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, and aviation. With the exception of aviation and other 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, 2008 were $269.2 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, 2008 were $128.7 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 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, 2008 were $42.3 million, comprised of:

	Year Ended December 31, 2008	
(Dollars in thousands)	**Gross Premiums Written**	**Gross Premiums Written (%)**
Bankers blanket bond	$ 26,597	62.9%
Professional indemnity	14,360	34.0%
Directors and Officers	1,285	3.0%
Other	21	0.1%
Total	$ 42,263	100.0%

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 41.2% of gross premiums written in 2008 generated in Europe, 20.3% from the U.S and 38.5% 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 current credit crisis. 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% of 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, 2008 were $22.9 million.

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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, 2008 were $16.9 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, 2008 were $18.3 million.

Aviation. The aviation account insures major airlines, general aviation, aviation hull war and satellites. The coverage is mainly excess of loss treaty with medium to high attachment points. Gross premiums written for aviation business during the year ended December 31, 2008 were $40.0 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 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 (ERM). 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 Underwriting Officer at Validus Re and the Chief Executive Officer at Talbot and are subject to review and approval by the Underwriting 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 Underwriting 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 Underwriting Committee of our Board of Directors according to our underwriting guidelines.

The underwriting guidelines are subject to waiver or change by the Chief Underwriting Officer at Validus Re or the Chief Executive Officer at Talbot subject to their authority as overseen by their respective Underwriting 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 Underwriting Officer for review. As the reviewer of such potential business, the Chief Underwriting Officer has the ability to determine if the business meets the Company s overall desired risk profile. The Chief Underwriting Officer has defined underwriting authority for each underwriter, and risks outside of this authority must be referred to the Chief Underwriting Officer. The Underwriting Committee reviews business that is outside the authority of the Chief Underwriting 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: 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.

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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 five 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 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 Underwriting 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 view 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 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 simulation 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. 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 Underwriting Committee sets these limits, which may be exceeded only with its approval.

Geographic Diversification: The Company actively manages our 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.

	Year Ended December 31, 2008 Gross Premiums Written				
(Dollars in thousands)	**Validus Re**	**Talbot**	**Eliminations**	**Total**	**%**
United States	$ 356,902	$ 62,098	$	$ 419,000	30.8%
Worldwide excluding United States(1)	27,512	221,260	(20,870)	227,902	16.7%
Europe	44,079	57,132		101,211	7.4%
Latin America and Caribbean	18,404	46,721	(13,413)	51,712	3.8%
Japan	9,416	3,955		13,371	1.0%
Canada		9,630		9,630	0.7%
Sub-total, non United States	99,411	338,698	(34,283)	403,826	29.6%
Worldwide including United States(1)	74,391	58,079		132,470	9.7%
Marine and Aerospace(2)	157,067	250,121		407,188	29.9%
Total	$ 687,771	$ 708,996	$ (34,283)	$ 1,362,484	100.0%

(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;

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.

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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 (cat bonds).

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 because 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.

Each July, before the start of each annual covered period, the in-force reinsurance program is reviewed by the Talbot Chief Executive Officer and modified to create a first draft of the reinsurance program for the following year (predominantly incepting on January 1). This exercise is repeated and refined with a second budgeting exercise in October, incorporating advice and analytical work from our brokers and actuarial team.

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.

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 amended by the Insurance Management Committee, 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.

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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, 2008 Gross Premiums Written**				
Name of broker	**Validus Re**	**Talbot**	**Eliminations**	**Total**	**%**
Aon Benfield Group Ltd.	263,255	93,136	(8,684)	347,707	25.5%
Marsh Inc./Guy Carpenter & Co.	$ 204,526	$ 94,766	$ (2,011)	$ 297,281	21.9%
Willis Group Holdings Ltd.	97,959	99,214	(8,894)	188,279	13.8%
Sub-total	565,740	287,116	(19,589)	833,267	61.2%
All Others	122,031	421,880	(14,694)	529,217	38.8%
Total	$ 687,771	$ 708,996	$ (34,283)	$ 1,362,484	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:

	At December 31, 2008		
(Dollars in thousands)	**Gross Case Reserves**	**Gross IBNR**	**Total Gross Reserve for Losses and Loss Expenses**
Property	$ 287,903	$ 183,291	$ 471,194
Marine	344,998	250,511	595,509
Specialty	74,816	163,784	238,600
Total	$ 707,717	$ 597,586	$ 1,305,303

	At December 31, 2008		
(Dollars in thousands)	**Net Case Reserves**	**Net IBNR**	**Total Net Reserve for Losses and Loss Expenses**
Property	$ 282,755	$ 175,886	$ 458,641
Marine	220,090	211,020	431,110
Specialty	66,701	140,055	206,756
Total	$ 569,546	$ 526,961	$ 1,096,507

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

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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 incurred but not reported (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 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 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 the first 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 II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements.

Analysis of Losses and Loss Expense Reserve Development Net of Reinsurance Recoveries

	Year Ended December 31,		
(Dollars in thousands)	**2006**	**2007**	**2008**
Estimated liability for unpaid losses and loss expense, net of reinsurance recoverable	$ 77,363	$ 791,713	$ 1,096,507
Liability estimated as of:			
One year later	60,106	722,010	
Two years later	54,302		
Cumulative redundancy (deficiency)(1)	23,061	69,702	
Cumulative paid losses, net of reinsurance recoveries, as of:			
One year later	$ 27,180	$ 216,469	$
Two years later	34,935		

(1) See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

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

(Dollars in thousands)	Year Ended December 31, 2006	2007	2008
Estimated gross liability for unpaid losses and loss expense	$ 77,363	$ 926,117	$ 1,305,303
Liability estimated as of:			
One year later	60,106	846,863	
Two years later	54,302		
Cumulative redundancy (deficiency)(1)	23,061	79,253	
Cumulative paid losses, gross of reinsurance recoveries, as of:			
One year later	$ 27,180	$ 245,240	$
Two years later	34,935		

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, 2008	2007	2006
Gross reserves at beginning of year	$ 926,117	$ 77,363	$
Losses recoverable at beginning of year	(134,404)		
Net loss reserves acquired in purchase of Talbot		588,068	
Net reserves at beginning of year	791,713	665,431	
Incurred losses current year	841,856	351,850	91,323
Incurred losses change in prior accident years	(69,702)	(67,857)	
Incurred losses	772,154	283,993	91,323
Paid losses	(406,469)	(156,872)	(13,960)
Foreign exchange	(60,891)	(839)	
Net reserves at year end	1,096,507	791,713	77,363
Losses recoverable at year end	208,796	134,404	
Gross reserves at year end	$ 1,305,303	$ 926,117	$ 77,363

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 Executive Committee for Events 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.

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 premiums 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 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 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. and Goldman Sachs Asset Management, 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, 2008 were publicly traded. At December 31, 2008, the average duration of the Company s fixed maturity portfolio was 1.82 years (December 31, 2007 and 2006: 2.00 and 0.90 years, respectively). Management emphasizes capital preservation for the portfolio and maintains a significant allocation of short-term investments. At December 31, 2008, the average rating of the portfolio was AAA (December 31, 2007 and 2006: AAA and AA+). At December 31, 2008, the total fixed maturity portfolio was $2,454.5 million (December 31, 2007 and 2006 : $2,411.4 million and $844.9 million, respectively), of which $1,941.3 million or 79.2% (December 31, 2007 and 2006: $2,029.6 million and $644.1 million, respectively) were rated AAA.

Please refer to our Current Report on Form 8-K filed with the Securities and Exchange Commission (the SEC) on February 13, 2009 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 (which was affirmed by A.M. Best on December 18, 2008). 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

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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 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, IPC Holdings 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 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

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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. While the required statutory capital and surplus of the Company s Bermuda-based operating subsidiaries are expected to increase under the BSCR, those subsidiaries have sufficient capital and surplus under these new requirements.

Employees

The following table details our personnel by geographic location as at December 31, 2008:

Location	**Validus Re**	**Talbot**	**Corporate**	**Total**	**%**
London, England		173		173	61.7%
Hamilton, Bermuda	61		7	68	24.3%
Waterloo, Canada	15			15	5.4%
Miami, United States	12			12	4.3%
Singapore City, Singapore		6		6	2.1%
New York, United States	3			3	1.1%
Grosseto, Italy		3		3	1.1%
Total	91	182	7	280	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.validusre.bm. 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 underwriting 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 www.validusre.bm or by writing to Investor Relations, Validus Holdings, Ltd., 19 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

We have a limited operating history and our historical financial results may not accurately indicate our future performance.

Validus Re was formed in October 2005 and was fully operational by December 2005. Talbot was formed in 2002. We, therefore, have a limited operating and financial history. Validus Re began underwriting with risks attaching no earlier than January 1, 2006. Talbot experienced losses in 2004 and 2005 but was formed following the events of September 11, 2001 and thus had no exposure to losses prior to 2002. While both Validus Re and Talbot experienced significant losses in connection with Hurricanes Ike and Gustav, there is nonetheless limited historical financial and operating information available to help evaluate our past performance or future prospects. As a recently formed company, we face substantial business and financial risks and may suffer significant losses in the future. As a result of these risks, it is possible that we may not be successful in the continued implementation of our business strategy or completing the development of the infrastructure necessary to run our business.

In addition, particularly as a recently formed company, our business strategy may change and may be affected by acquisitions, joint ventures or other business, investment and/or growth opportunities that may, in the future, become available to us or that we may pursue. In the future, we may pursue investments in or acquisitions of companies complementary to our business. There can be no assurance that any such investments or acquisitions will occur, or if such investments or acquisitions do occur, that they will have a positive effect on our business and financial results.

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

Validus Re was assigned a rating of A− (Excellent) with a stable outlook by A.M. Best Company in December 2005, which was affirmed by A.M. Best on December 18, 2008. This rating action followed the Company s closing of the acquisition of Talbot Holdings (Talbot), as well as the Company s completion of its capital raising initiatives, which were necessary to support the risk-adjusted capital position of the Company. Talbot s subsidiary, Talbot Underwriting Ltd., which manages Syndicate 1183 at Lloyd s, uses the Lloyd s rating. Lloyd s is rated A (Excellent) by A.M. Best and A+ (Strong) by S & P. On March 7, 2007, A.M. Best Company assigned an issuer credit rating of bbb- to Validus Holdings, Ltd.

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 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 and the events of September 11, 2001. 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 cyclicality, which could materially adversely affect our financial condition and results of operations.

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 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 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 J. Belfatti, Executive Vice President and Chief Actuary; Gilles A. M. Bonvarlet, Chief Operating 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; Stuart W. Mercer, Chief Risk Officer; and Conan M. Ward, Chief Underwriting Officer, 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 32 of our Bermuda employees, all of whom have obtained three- or five-year work permits.

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.

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, 2008, our business was primarily sourced from the following brokers: Aon Benfield Group Ltd. 25.5%, Marsh Inc./Guy Carpenter & Co. 21.9%, and Willis Group Holdings Ltd. 13.8%. These three brokers provided a total of 61.2% of our gross premiums written for the year ended December 31, 2008. Loss of all or a substantial portion of the business provided by one or more of these brokers could adversely affect our business.

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 upon 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, commencing in 2007, 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 BlackRock Financial Management, Inc. and Goldman Sachs Asset Management, 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 $58.2 million, or 109.6% for the year ended December 31, 2008. 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 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, 2008, 40.5% 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 loses 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.

The prolonged and severe disruptions in the public debt and equity markets, including among other things, widening of credit spreads, bankruptcies and government intervention in a number of large financial institutions, have resulted in significant unrealized losses in our investment portfolio. For the year ended December 31, 2008, we incurred substantial unrealized investment losses, as described in Management s Discussion and Analysis of Financial Condition and Results of Operations under Part II, Item 7 of this report. However, 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 Canadian dollar. 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 were held in foreign currencies. As of December 31, 2008, $62.3 million, or 2.6% of our total net 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 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 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.

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Risks Related to Acquisitions and New Ventures

There can be no assurance that we will fully realize the expected benefits of the Talbot acquisition in the anticipated time.

In order to realize the benefits of the Talbot acquisition, Validus Re s and Talbot s management will be required to devote considerable effort to projects such as upgrading and integrating financial, actuarial, underwriting and other systems and preparing financial reports on a timely basis, whether for a public company or otherwise, and no assurances can be given as to the impact these efforts may have upon our operations. In addition, no assurances can be given as to how much business Talbot will be permitted by Lloyd s to write in 2010 and subsequent years. We have recorded intangible assets related to the acquisition of Talbot based on assumptions of anticipated benefits. These intangible assets may become impaired if anticipated benefits are not achieved, resulting in a corresponding impact on our income.

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.

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 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. If the statutory transfer of business from Equitas to National Indemnity Company (NICO) is not implemented, and the limit of the NICO retrocession cover 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 those policies. The central fund, which can, subject to Lloyd s regulations, issue 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 and from residual litigation with Lloyd s members who have not accepted the settlement offer.

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.

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 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. New regulations or pronouncements interpreting or clarifying such provisions may be forthcoming. We cannot predict what effect, if any, such guidance would have on an investor that is subject to U.S. federal income taxation.

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. For example, Congress has recently conducted hearings related to the tax treatment of offshore insurance and is reported to be considering legislation that would adversely affect reinsurance between affiliates and offshore insurance and reinsurance more generally. One such proposal would increase the excise tax rate on reinsurance premiums paid to affiliated foreign reinsurers from 1% to 4%. A Senate Finance Committee staff discussion draft would limit deductions for premiums ceded to affiliated non-U.S. companies above certain levels. Other proposals relating to cross-border transactions, intangible products, or non-U.S. jurisdictions generally have been introduced in a number of Congressional committees. Enactment of some versions of such legislation as well as other changes in U.S. tax laws, regulations and interpretations thereof to address these issues could adversely affect our financial condition and results of operations could be materially adversely affected. Another legislative proposal has been introduced that would treat certain tax haven CFCs as U.S. corporations for federal income tax purposes. The term tax haven CFC would include a Bermuda corporation that is a controlled foreign corporation, but would exclude corporations that engage in the active conduct of a trade or business in Bermuda. It is not clear how this bill would apply to the Company, which conducts its insurance and reinsurance businesses through its subsidiaries and which has organizational documents that reduce voting power of any person to 9.09% of total voting power. Further, it is not clear whether this bill was intended to apply to a publicly traded company such as the Company. There is no assurance that this legislative proposal, if enacted, would not apply to the Company or any of its non-U.S. subsidiaries.

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.

Proposed U.S. Tax Legislation Could Adversely Affect U.S. Shareholders.

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 rather than ordinary income tax rates. Currently, there is proposed legislation before both Houses of Congress that would exclude shareholders of foreign corporations from this advantageous income tax treatment unless either (i) the corporation is organized or created under the laws of a country that has entered into a comprehensive income tax treaty with the U.S. or (ii) the stock of such corporation is readily tradable on an established securities market in the U.S. and the corporation is organized or created under the laws of a country that has a comprehensive income tax system that the U.S. Secretary of the Treasury determines is satisfactory for this purpose. We would likely not satisfy either of these tests and, accordingly, if this legislation became law, individual U.S. shareholders would no longer qualify for the capital gains tax rate on dividends paid by us.

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

The Organisation 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.S. companies may be subject to U.K. tax.

We intend to operate in such a manner so that none of our companies other than Talbot Underwriting Ltd., which manages Syndicate 1183 at Lloyd s, Talbot 2002 Underwriting Capital Ltd. and Underwriting Risk Services Ltd. (Talbot U.K. Group) should be resident in the U.K. for tax purposes or have a permanent establishment in the U.K. Accordingly, we expect that none of our companies other than the Talbot U.K. Group should be subject to U.K. taxation. However, since applicable law and regulations do not conclusively define the activities that constitute conducting business in the U.K. through a permanent establishment, the U.K. Inland Revenue might contend successfully that one or more of our other companies, is conducting business in the U.K. through a permanent establishment in the U.K.

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, 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, 2008, the excesses of statutory capital and surplus above minimum solvency margins for Validus Re and Talbot Insurance (Bermuda), Ltd., a Talbot subsidiary, were $1,419.5 million and $246.4 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 27, 2009 (but without giving effect to unvested restricted shares), we had 75,717,528 common shares outstanding and 8,680,148 shares issuable upon exercise of outstanding warrants. Approximately 37,670,477 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 approximately 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 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, 2008, there were 55,946,106 voting common shares, of which 5,085,501 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 exempted company like us. 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. 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, George Reeth and Stuart Mercer maintain residences in both Bermuda and the United States, Michael Belfatti resides in the United States and Rupert Atkin, Gilles Bonvarlet and Michael Carpenter reside in the United Kingdom. Of our directors, Edward Noonan and George Reeth maintain residences in both Bermuda and the United States, 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 Validus Re currently occupy office space in Hamilton, Bermuda under a lease expiring on August 31, 2011. Validus Research Inc. currently occupies office space in Waterloo Ontario, Canada under a lease expiring on February 28, 2018. Validus Reaseguros, Inc. currently occupies office space in Miami, Florida, under a lease expiring on March 29, 2011. Validus Services, Inc. and Validus Underwriting Risk Services, Inc. currently occupy office space in New York City, New York, under a lease expiring on January 31, 2012. Talbot currently occupies office space in London, England, under a lease expiring on December 24, 2013 and in Singapore City, Singapore, under a lease expiring on December 14, 2011. We believe our current facilities are sufficient for us to conduct our operations, however, as a result of our recent growth we are exploring expansion of our office space.

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.

Item 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of common shareholders during the fourth quarter of the fiscal year covered by this report.

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Executive Officers of the Company

The following table provides information regarding our executive officers and key employees as of February 27, 2009:

Name	Age	Position
Edward J. Noonan	50	Chairman of the Board of Directors and Chief Executive Officer
George P. Reeth	52	President and Deputy Chairman
C.N. Rupert Atkin	50	Chief Executive Officer of the Talbot Group
Michael J. Belfatti	38	Executive Vice President and Chief Actuary
Gilles A. M. Bonvarlet	45	Chief Operating Officer of the Talbot Group
Michael E.A. Carpenter	59	Chairman of the Talbot Group
Joseph E. (Jeff) Consolino	42	Executive Vice President and Chief Financial Officer
C. Jerome Dill	48	Executive Vice President and General Counsel
Stuart W. Mercer	49	Executive Vice President and Chief Risk Officer
Conan M. Ward	41	Executive Vice President and Chief Underwriting Officer

Edward J. Noonan has been chairman of our Board and the chief executive officer of the Company since its formation. Mr. Noonan has 28 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 31 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 2006 and 2007 years of account. Mr. Atkin was appointed to the Council of Lloyd s in 2007.

Michael J. Belfatti joined the Company in January 2008 as executive vice president and chief actuary. Mr. Belfatti has 15 years of experience in the insurance and reinsurance industry, serving most recently as senior consultant and Philadelphia location manager of the Tillinghast Insurance Consulting business of Towers Perrin from 2005 through 2007. Mr. Belfatti also held the position of director within the financial function of CIGNA Group Insurance in 2005.

Prior to that, Mr. Belfatti was senior vice president and chief actuary of ACE Financial Solutions from 2000 to 2004.

Gilles A. M. Bonvarlet has been Talbot s chief operating officer since 2004 when he joined the group. From 1994 through 2004 Mr. Bonvarlet was with the Brockbank Group, which became a part of XL Capital where he was, among other things, CFO of XL London Market Group and Managing Director of XL London Market Ltd.

Mr. Bonvarlet began his career in 1988 at CIC Union Européene International Bank before moving to Coopers and Lybrand where he remained for five years. Between 1995 and 2000, Mr. Bonvarlet was a committee member of the Lloyd s Underwriting Agents Association and a member of various other committees such as the Lloyd s Business Development Unit Board. Mr. Bonvarlet served on the Lloyd s Market Board from 2001 to 2002.

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 2006 and 2007 years 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 16 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.

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 and chief risk officer of the Company since its formation. Mr. Mercer has over 18 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.

Conan M. Ward has been executive vice president and chief underwriting officer of the Company since January 2006. Mr. Ward has over 16 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 Registrant s 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 commencing from the Company s IPO on July 25, 2007.

	High	Low

2008:		
1st Quarter	$ 26.22	$ 23.00
2nd Quarter	$ 23.72	$ 20.11
3rd Quarter	$ 24.70	$ 20.00
4th Quarter	$ 26.16	$ 14.84

	High	Low
2007:		
3rd Quarter	$ 25.28	$ 21.11
4th Quarter	$ 26.59	$ 24.73

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There were approximately 130 record holders of our common shares as of December 31, 2008. 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.

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, 2008 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., IPC Holdings Ltd., Max Capital Group Ltd., Odyssey Re Holdings Corp., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., RenaissanceRe Holdings Ltd., Transatlantic Holdings Inc., and XL Capital Ltd.

Dividend Policy

On February 12, 2009, the Company announced a quarterly cash dividend of $0.20 per each 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. During 2008, 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 on March 17, June 5, September 4 and December 4, to holders of record on March 3, May 22, August 21 and November 20, 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 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, 2008, the excesses of statutory capital and surplus above minimum solvency margins for Validus Re and Talbot Insurance (Bermuda), Ltd., a Talbot subsidiary, were $1,419.5 million and $246.4 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 December 18, 2008, 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 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

None.

Item 6. ***Selected Financial Data***

The summary consolidated statement of operations data for the years ended 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, 2008, December 31, 2007 and December 31, 2006 are derived from our audited consolidated financial statements. On July 2, 2007, the Company acquired Talbot Holdings Ltd. (Talbot) and is consolidating Talbot effective as of that date. As a result, Talbot is only included in the Company s consolidated results from July 2, 2007 through December 31, 2007. Talbot is not included in consolidated results for the year ended December 31, 2006 and the first six months of 2007.

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

The following table is derived from audited results for the years ended December 31, 2008, December 31, 2007, December 31, 2006 and the period from October 19, 2005, the date of our incorporation, to December 31, 2005:

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Period Ended December 31, 2005
	(Dollars in thousands, except share and per share amounts)			
Revenues				
Gross premiums written	$ 1,362,484	$ 988,637	$ 540,789	$
Reinsurance premiums ceded	(124,160)	(70,210)	(63,696)	
Net premiums written	1,238,324	918,427	477,093	
Change in unearned premiums	18,194	(60,348)	(170,579)	
Net premiums earned	1,256,518	858,079	306,514	
Net investment income	139,528	112,324	58,021	2,032
Realized gain on repurchase of debentures	8,752			
Net realized gains (losses) on investments	(1,591)	1,608	(1,102)	(39)
Net unrealized gains on investments(1)	(79,707)	12,364		
Other income	5,264	3,301	2,157	
Foreign exchange gains (losses)	(49,397)	6,696		
Total revenues	1,279,367	994,372	365,590	2,071
Expenses				
Losses and loss expenses	772,154	283,993	91,323	

Policy acquisition costs	234,951	134,277	36,072	
General and administrative expenses(2)	123,948	100,765	38,354	2,367
Share compensation expenses	27,097	16,189	7,878	290
Finance expenses	57,318	51,754	8,789	
Fair value of warrants issued		2,893	77	49,122
Total expenses	1,215,468	589,871	182,493	51,779
Net income before taxes	63,899	404,501	183,097	(49,708)
Taxes	(10,788)	(1,505)		
Net income (loss)	53,111	402,996	183,097	(49,708)

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	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006	Period Ended December 31, 2005
	(Dollars in thousands, except share and per share amounts)			
Comprehensive income (loss)				
Unrealized gains arising during the period(1)			(332)	144
Foreign currency translation adjustments	(7,809)	(49)		
Adjustment for reclassification of losses realized in income			1,102	(39)
Comprehensive income (loss)	$ 45,302	$ 402,947	$ 183,867	$ (49,603)
Earnings per share(3)				
Weighted average number of common shares and common share equivalents outstanding				
Basic	74,677,903	65,068,093	58,477,130	58,423,174
Diluted	75,819,413	67,786,673	58,874,567	58,423,174
Basic earnings per share	$ 0.62	$ 6.19	$ 3.13	$ (0.85)
Diluted earnings per share	$ 0.61	$ 5.95	$ 3.11	$ (0.85)
Cash dividends per share	$ 0.80	$	$	$
Selected financial ratios				
Losses and loss expenses ratio(4)	61.5%	33.1%	29.8%	
Policy acquisition cost ratio(5)	18.7%	15.6%	11.8%	
General and administrative expense ratio(6)	12.0%	13.3%	15.1%	
Expense ratio(7)	30.7%	28.9%	26.9%	
Combined ratio(8)	92.2%	62.0%	56.7%	
Return on average equity(9)	2.7%	26.9%	17.0%	NM

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

	As of	As of	As of

	December 31, 2008	December 31, 2007	December 31, 2006
	(Dollars in thousands, except share and per share amounts)		
Summary Balance Sheet Data:			
Investments at fair value	$ 2,831,537	$ 2,662,021	$ 1,376,387
Cash and cash equivalents	449,848	444,698	63,643
Total assets	4,322,480	4,144,224	1,646,423
Reserve for losses and loss expenses	1,305,303	926,117	77,363
Unearned premiums	539,450	557,344	178,824
Junior Subordinated Deferrable Debentures	304,300	350,000	150,000
Total shareholders equity	1,938,734	1,934,800	1,192,523
Book value per common share(10)	25.64	26.08	20.39
Diluted book value per common share(11)	23.78	24.00	19.73

NM Not meaningful

(1) The Company has early adopted FAS 157 and FAS 159 as of January 1, 2007 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.

(2) 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.

(3) FAS 123R 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.

(4) The loss and loss expense ratio is calculated by dividing losses and loss expenses by net premiums earned.

(5) The policy acquisition cost ratio is calculated by dividing policy acquisition costs by net premiums earned.

(6) 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.

(7) The expense ratio is calculated by combining the policy acquisition cost ratio and the general and administrative expense ratio.

(8) The combined ratio is calculated by combining the loss ratio, the policy acquisition cost ratio and the general and administrative expense ratio.

(9) 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.

(10) 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.

(11) 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). Diluted book value per common share is a Non-GAAP financial measure 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 and years ended December 31, 2008, 2007 and 2006 and the Company s consolidated financial condition and liquidity and capital resources at December 31, 2008 and 2007. The Company completed the acquisition of Talbot Holdings Ltd. (Talbot) on July 2, 2007. As a result, Talbot is included only in the Company s consolidated results from July 2, 2007 through December 31, 2008. Talbot is not included in consolidated results for the year ended December 31, 2006 and the first six months of 2007. This discussion and analysis pertains to the results of the Company inclusive of Talbot from the date of acquisition. Talbot results for the six months ended June 30, 2007 are included in discussion of segment results for comparison purposes only and are not consolidated in the Company results for 2007 periods. 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.

The Company was formed on October 19, 2005 and has limited historical financial and operating information. Insurance and reinsurance companies face substantial risk in their initial stages of development. See Cautionary Note Regarding Forward-Looking Statements. In addition, for a variety of reasons, including the Company s recent formation and the acquisition of Talbot, the Company s historical financial results may not accurately indicate future performance. 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. Talbot, the Company s principal insurance operating subsidiary, operates through its two underwriting platforms: Talbot Underwriting Ltd, which manages syndicate 1183 at Lloyd s, and Underwriting Risk Services Ltd, which is an underwriting agency writing primarily yachts, marinas and fine art 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.

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 a limited amount of property treaty. The business written is principally commercial and industrial insurance. The business is short-tail with risks generally earned 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. With the exception of 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 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 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 relatively few events of significant severity. 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, 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 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 large industry losses in 2004, 2005 and 2008 have increased the perception of catastrophe risk by market participants creating a supply/demand imbalance for reinsurance capacity.

The global property and casualty insurance and reinsurance industry has historically been highly cyclical. During the latter half of the 1990s, the industry experienced excess capacity for writers of insurance and reinsurance, which resulted in highly competitive market conditions. After this extended period of intense competition and eroding premium rates, the reinsurance markets began experiencing improvements in rates, terms and conditions for reinsurers in the first quarter of 2000. Continuing improvements through 2001 extended to the primary insurance industry and were accelerated by the events of September 11, 2001. While 2002 and 2003 proved to be relatively uneventful catastrophe years, the reinsurance markets were again significantly affected by natural catastrophe losses in 2004 and 2005. Taken together, 2004 and 2005 set a record for most Atlantic-basin tropical storms, hurricanes, major hurricanes (defined as category 3 or higher on the Saffir-Simpson Hurricane Intensity Scale) and major hurricanes making U.S. landfall. The 2005 Atlantic-basin hurricane season was the costliest on record, with Hurricanes Rita and Wilma each generating in excess of $10 billion in insured losses and Katrina responsible for an estimated $45 billion in insured losses, which places it as the most costly natural catastrophe on record.

In the aggregate, the Company observed substantial increases in premium rates in 2006 compared to 2005 levels. Such rate increases were most significant in the United States catastrophe-exposed lines of business. For risks outside of the U.S., or for risks which were not substantially exposed to catastrophes, rate increases were more modest, or in some cases, decreased. During the years ended December 31, 2007 and 2008, the Company has 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 has increased the supply of insurance and reinsurance which has resulted in a softening of rates in most lines. In addition, during year ended December 31, 2008, the Company observed cedents retaining more risk as their capital bases have increased.

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 has seen decreased competition and increased premium rates due to relatively scarce capital and increased demand.

Validus Re gross premiums written at January 1, 2009 grew by 26.0% from the prior year. This increase was largely due to rate increases coupled with modest exposure growth. The Company expects to see rates continue to increase over the balance of 2009. In the U.S. catastrophe market, loss-affected accounts saw increases of 25 to 35% with some as high as 80%.

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. 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.

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Annualized return on average equity	7.7%	29.9%	23.9%	2.7%	26.9%	17.0%

The decreases in annualized return on average equity were driven primarily by decreases net income for the three months and year ended December 31, 2008 of $102.0 million or 73.4%, and $349.9 million or 86.8%, respectively, compared to the same periods in 2007.

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 decreased from $24.00 at December 31, 2007 to $23.78 at December 31, 2008. The decrease was due to increased common shares outstanding and dividends declared on our common shares and common share equivalents, which decrease shareholders equity, offset in part by earnings generated in the year. 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 can be found in Exhibit 99.1 to the Company s Current Report on Form 8-K filed with the SEC on February 13, 2009.

Cash dividends per common share are an integral part of the value created for shareholders. The Company declared quarterly cash dividend of $0.20 per common share in each quarter of 2008. On February 12, 2009, the Company announced a quarterly cash dividend of $0.20 per each 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.

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, and foreign exchange gains (losses). 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, 2008 and December 31, 2007 was $33.0 million and $117.4 million, respectively. Underwriting income for the years ended December 31, 2008 and December 31, 2007 was $98.4 million and $325.9 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 and (2) premiums and (3) reinsurance premiums ceded and reinsurance recoverables.

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 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.

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 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.

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The Company additionally writes longer tail insurance lines of business, predominantly financial institutions ($42.3 million of gross premiums written on a claims made basis) and marine and energy liabilities ($35.1 million of gross premiums written on a losses occurring basis). These longer tail lines represent 5.7% of total gross premiums written. 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 nature of much of the business underwritten, the rapidly emerging and changing nature of facts and circumstances for large events that have recently occurred 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 the 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 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 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 catastrophe models, analyses of specific industry occurrences and facts, as well as information from cedants and policyholders on individual contract involvements.

Management anticipates that the loss estimates will be 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 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.

3. IBNR reserves:

a. *Large or catastrophe events* IBNR reserves are established for all lines based on the 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, 2008 from the methodology used in the year ended December 31, 2007 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, 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.

	At December 31, 2008		
(Dollars in thousands)	**Gross Case Reserves**	**Gross IBNR**	**Total Gross Reserve for Losses and Loss Expenses**
Validus Re	$ 283,599	$ 231,505	$ 515,104
Talbot	424,119	366,080	790,199
Total	$ 707,718	$ 597,585	$ 1,305,303

Management s best estimate of the gross reserve for losses and loss expenses at December 31, 2007 was $926.1 million. The following table sets forth a breakdown between gross case reserves and gross IBNR by segment at December 31, 2007.

	At December 31, 2007		
(Dollars in thousands)	**Gross Case Reserves**	**Gross IBNR**	**Total Gross Reserve for Losses and Loss Expenses**
Validus Re	$ 71,994	$ 124,819	$ 196,813
Talbot	391,377	337,927	729,304
Total	$ 463,371	$ 462,746	$ 926,117

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, 2008 is $1,096.5 million. The following tables show the effect on estimated net reserves for losses and loss expenses as of December 31, 2008 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

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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, 2008 Sensitivity to loss emergence patterns

Change in Assumption	Reserve for Losses and Loss Expenses (Dollars in thousands)	
Six month acceleration	$	927,112
Three month acceleration		1,004,253
No change (selected)		1,096,507
Three month deceleration		1,201,223
Six month deceleration		1,315,230

Net reserves for loss and loss expenses at December 31, 2008 Sensitivity to expected loss ratios

Change in Assumption	Reserve for Losses and Loss Expenses (Dollars in thousands)	
10% favorable	$	1,049,892
5% favorable		1,073,158
No change (selected)		1,096,507
5% unfavorable		1,119,864
10% unfavorable		1,143,222

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 $218.7 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 facility 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, 2008, premiums written on a facility basis accounted for $190.9 million or 26.9% 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.

	Year Ended December 31, 2008		Year Ended December 31, 2007(1)		Year Ended December 31, 2006(1)	
(Dollars in Thousands)	**Gross Premiums Written**	**Gross Premiums Written (%)**	**Gross Premiums Written**	**Gross Premiums Written (%)**	**Gross Premiums Written**	**Gross Premiums Written (%)**
Proportional	$ 179,530	13.2%	$ 193,598	13.9%	$ 161,512	13.6%
Non-proportional	1,182,954	86.8%	1,196,225	86.1%	1,027,929	86.4%
Total	$ 1,362,484	100.0%	$ 1,389,823	100.0%	1,189,441	100.0%

(1) 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 years ended December 31, 2007 and 2006 for comparative purposes only. The figures presented are gross of $11.9 million and $8.7 million pro forma purchase adjustments for the years ended December 31, 2007 and 2006, respectively.

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, 2008 no provision for doubtful accounts is necessary for receivables from cedants.

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 2008, reinsurance recoverable balances were $208.8 million and reinsurance receivable balances were $1.4 million. At December 31, 2008, the Company had fully collateralized reinsurance balances related to Hurricane Ike of $8.5 million and $69.5 million on the property and marine lines, respectively. 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 2008, ceded IBNR recoverable balances were $70.6 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 2008, we had a provision for non-recoverability of $3.2 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, 2008, the use of different assumptions within the model could have a material 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 in FAS 157 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. FAS 157 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 (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 95.5% 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 2.6% of the Company s total assets, have primarily unobservable inputs. During the year ended December 31, 2008, the Company adopted FSP FAS 157-3. Consistent with this statement, certain market conditions allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable. Further details of FAS 157 and its application are presented in Note 7 to the consolidated financial statements (Part II).

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 year ended December 31, 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 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 were transferred to Level 3 assets with respect to the FAS 157 fair value hierarchy.

Consistent with FSP FAS 157-3 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 transferred to Level 3 assets with respect to the FAS 157 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, 2008 plus a spread of 564 basis points, representing the average spreads of BBB U.S. Corporate Securities over U.S. Treasuries for the last six months of 2008. While the majority of the identified RMBS securities are rated AAA, a number have been downgraded, mostly to BBB. The Company has conservatively used BBB as a benchmark in determining an appropriate discount rate.

The change in fair value measurement for the identified RMBS securities from a market approach to an income approach resulted in a $14.6 million increase in net unrealized losses on investments in the quarter. This increase in net unrealized losses on investments resulted in a $14.6 million decrease in shareholders equity as at December 31, 2008.

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.

Results of Operations

Validus Holdings, Ltd. and Validus Re were formed on October 19, 2005, and Validus Re commenced operations on December 16, 2005. Neither company had prior operating histories. The Company began writing reinsurance contracts on January 1, 2006. On July 2, 2007, the Company acquired Talbot and consolidates Talbot as of that date. 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 and years ended December 31, 2008, 2007, 2006 and the pro forma results of operations for the year ended December 31, 2007.

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006(1)	Year Ended December 31, 2008	Year Ended December 31, 2007		Year Ended December 31, 2006(1)
Dollars in thousands)	Actual	Actual	Actual	Actual	Actual	Pro Forma(1)	Actual
ross premiums written	$ 191,736	$ 190,996	$ 65,505	$ 1,362,484	$ 988,637	$ 1,377,948	$ 540,789
einsurance premiums eded	(2,722)	(4,566)	355	(124,160)	(70,210)	(146,833)	(63,696)
et premiums written	189,014	186,430	65,860	1,238,324	918,427	1,231,115	477,093
hange in unearned remiums	127,017	131,601	39,293	18,194	(60,348)	(88,201)	(170,579)
et premiums earned	316,031	318,031	105,153	1,256,518	858,079	1,142,914	306,514
osses and loss expenses	191,576	107,567	24,265	772,154	283,993	427,207	91,323
olicy acquisition costs	61,407	53,277	11,498	234,951	134,277	195,743	36,072
eneral and dministrative expenses	22,809	33,676	13,002	123,948	97,765	141,360	38,354
hare compensation xpense	7,279	6,135	2,223	27,097	16,189	18,524	7,878
otal underwriting xpenses	283,071	200,655	50,988	1,158,150	532,224	782,834	173,627
nderwriting income(2)	32,960	117,376	54,165	98,368	325,855	360,080	132,887
et investment income	30,671	37,525	17,652	139,528	112,324	132,205	58,021
ther income	1,598	1,971		5,264	3,301	5,466	
inance expenses	(8,522)	(25,423)	(3,653)	(57,318)	(51,754)	(77,645)	(8,789)
perating income before xes(2)	56,707	131,449	68,164	185,842	389,726	420,106	182,119
axes	5,796	(22)		10,788	1,505	(2,703)	
perating income after x(2)	50,911	131,471	68,164	175,054	388,221	417,403	182,119
et realized gains osses) on investments	6,757	784	(208)	(1,591)	1,608	378	(1,102)
et unrealized (losses) ains on investments	(7,099)	9,229		(79,707)	12,364	12,364	
ealized gain on purchase of debentures				8,752			

oreign exchange gains osses)	(13,554)	(2,515)	1,096	(49,397)	6,696	7,878	2,157
air value of warrants sued					(2,893)	(2,893)	(77)
quiline termination fee					(3,000)	(3,000)	
et income after taxes	$ 37,015	$ 138,969	$ 69,052	$ 53,111	$ 402,996	$ 432,130	$ 183,097
omprehensive income							
nrealized losses arising uring period			(522)				(332)
oreign currency anslation Adjustments	(6,330)	591		(7,809)	(49)		
djustment for classification of losses alized in income			208				1,102
omprehensive income	$ 30,685	$ 139,560	$ 68,738	$ 45,302	$ 402,947	$ 432,130	$ 183,867
elected ratios							
et premiums written/ ross premiums written	98.6%	97.6%	100.5%	90.9%	92.9%	89.3%	88.2%
osses and loss expenses tio	60.6%	33.8%	23.1%	61.5%	33.1%	37.4%	29.8%
olicy acquisition cost tio	19.4%	16.8%	10.9%	18.7%	15.6%	17.1%	11.8%
eneral and dministrative expense tio	9.5%	12.5%	14.5%	12.0%	13.3%	14.0%	15.1%
xpense ratio	28.9%	29.3%	25.4%	30.7%	28.9%	31.1%	26.9%
ombined ratio	89.5%	63.1%	48.5%	92.2%	62.0%	68.5%	56.7%

(1) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pro forma results of operations including Talbot are presented for the year ended December 31, 2007 for comparative purposes only.

(2) 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 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 underwriting income (loss) to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

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(Dollars in thousands)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007(1)	Three Months Ended December 31, 2006	Year Ended December 31, 2008	Year Ended December 31, 2007(1)	Year Ended December 31, 2006
VALIDUS RE						
Gross premiums written	$ 43,873	$ 47,499	$ 65,505	$ 687,771	$ 702,098	$ 540,789
Reinsurance premiums ceded	(1,696)	(3,813)	355	(62,933)	(68,842)	(63,696)
Net premiums written	42,177	43,686	65,860	624,838	633,256	477,093
Change in unearned premiums	122,191	118,828	39,293	28,693	(74,227)	(170,579)
Net premiums earned	164,368	162,514	105,153	653,531	559,029	306,514
Losses and loss expenses	95,972	48,244	24,265	420,645	175,538	91,323
Policy acquisition costs	28,011	22,107	11,498	100,243	70,323	36,072
General and administrative expenses	7,301	7,858	11,474	34,607	31,412	24,565
Share compensation expense	2,197	1,189	1,544	6,829	4,013	3,105
Total underwriting expenses	133,481	79,398	48,781	562,324	281,286	155,065
Underwriting income(2)	30,887	83,116	56,372	91,207	277,743	151,449
TALBOT						
Gross premiums written	$ 152,662	$ 143,497	$	$ 708,996	$ 286,539	$
Reinsurance premiums ceded	(5,825)	(753)		(95,510)	(1,368)	
Net premiums written	146,837	142,744		613,486	285,171	
Change in unearned premiums	4,826	12,773		(10,499)	13,879	
Net premiums earned	151,663	155,517		602,987	299,050	
Losses and loss expenses	95,604	59,323		351,509	108,455	
Policy acquisition costs	33,560	31,170		135,017	63,954	
General and administrative expenses	12,882	23,628		71,443	48,886	
Share compensation expense	1,436	978		4,702	1,709	
Total underwriting expenses	143,482	115,099		562,671	223,004	
Underwriting income(2)	8,181	40,418		40,316	76,046	
CORPORATE & ELIMINATIONS						
Gross premiums written	$ (4,799)	$	$	$ (34,283)	$	$
Reinsurance premiums ceded	4,799			34,283		
Net premiums written						
Policy acquisition costs	(164)	-		(309)		
General and administrative expenses	2,626	2,190	1,528	17,898	17,467	13,789
Share compensation	3,646	3,968	679	15,566	10,467	4,773

Total underwriting expenses	6,108	6,158	2,207	33,155	27,934	18,562
Underwriting income (loss)(2)	(6,108)	(6,158)	(2,207)	(33,155)	(27,934)	(18,562)
Total underwriting income(2)	$ 32,960	$ 117,376	$ 54,165	$ 98,368	$ 325,855	$ 132,887

(1) 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.

(2) 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.

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Three months ended December 31, 2008 compared to three months ended December 31, 2007 and 2006

Net income for the three months ended December 31, 2008 was $37.0 million compared to $139.0 million for the three months ended December 31, 2007, a decrease of $102.0 million or 73.4%. The primary factors driving the decrease in net income were:

Decrease in underwriting income of $84.4 million due primarily to increased estimate of losses and loss expense of $77.2 million as a result of Hurricane Ike. This loss was offset by increased earned reinstatement premiums of $7.1 million as a result of Hurricane Ike;

Decrease in net unrealized (losses) gains on investments of $16.3 million. This change was principally the result of market value declines due to interest rate movements and widening credit spreads resulting from extreme volatility in the financial markets; and

Decrease in foreign exchange (losses) gains of $11.0 million due to a decline in the value of assets denominated in foreign currencies relative to the U.S. dollar reporting currency.

The decrease in net income for the three months ended December 31, 2008 of $102.0 million is attributable to:

	Three Months Ended December 31, 2008 Increase (decrease) Over the Three Months Ended December 31, 2007			
(Dollars in thousands)	Validus Re	Talbot	Corporate and Other Reconciling Items	Total
Hurricanes Ike net losses and loss expenses	$ (58,938)	$ (18,257)	$	$ (77,195)
Hurricanes Ike net reinstatement premiums	6,592	505		7,097
Other underwriting (loss) income items	117	(14,485)	50	(14,318)
Underwriting income	(52,229)	(32,237)	50	(84,416)
Net investment income	219	(5,371)	(1,702)	(6,854)
Other income	164	(373)	(164)	(373)
Finance expenses	12	15,698	1,191	16,901
	(51,834)	(22,283)	(625)	(74,742)
Taxes	4	(5,822)		(5,818)
Net realized gains on investments	4,486	1,487		5,973
Net unrealized (losses) gains on investments	(33,318)	16,990		(16,328)
Foreign exchange (losses) gains	(785)	(10,254)		(11,039)
Net income after taxes	$ (81,447)	$ (19,882)	$ (625)	$ (101,954)

Gross Premiums Written

Gross premiums written for the three months ended December 31, 2008 were $191.7 million compared to $191.0 million for the three months ended December 31, 2007, an increase of $0.7 million or 0.4%. The increase in gross premiums written was driven primarily by increases in the property and specialty lines of $8.5 million and $8.3 million, respectively. This increase in the property and specialty lines was offset by the marine line which decreased by $16.0 million.

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

	Three Months Ended December 31, 2008		Three Months Ended December 31, 2007	
(Dollars in thousands)	**Gross Premiums Written**	**Gross Premiums Written (%)**	**Gross Premiums Written**	**Gross Premiums Written (%)**
Property	$ 45,410	23.7%	$ 36,908	19.3%
Marine	61,041	31.8%	77,073	40.4%
Specialty	85,285	44.5%	77,015	40.3%
Total	$ 191,736	100.0%	$ 190,996	100.0%

Validus Re. Validus Re gross premiums written for the three months ended December 31, 2008 were $43.9 million compared to $47.5 million for the three months ended December 31, 2007, a decrease of $3.6 million or 7.6%. Details of Validus Re gross premiums written by line of business are provided below.

	Three Months Ended December 31, 2008		Three Months Ended December 31, 2007	
(Dollars in thousands)	**Gross Premiums Written**	**Gross Premiums Written (%)**	**Gross Premiums Written**	**Gross Premiums Written (%)**
Property	$ 21,004	47.9%	$ 16,282	34.3%
Marine	5,799	13.2%	18,067	38.0%
Specialty	17,070	38.9%	13,150	27.7%
Total	$ 43,873	100.0%	$ 47,499	100.0%

The decrease in Validus Re gross premiums written was driven primarily by a decrease in the marine line of $12.3 million. This decrease was due primarily to the non-renewal of an $18.2 million quota share contract and the associated excess of loss policies. This decrease in the marine line was offset by $7.1 million of reinstatement premiums resulting from Hurricane Ike and $4.8 million as a result of quota share and surplus treaty contracts with Talbot, which was eliminated upon consolidation.

Talbot. Talbot gross premiums written for the three months ended December 31, 2008 were $152.7 million compared to $143.5 million for the three months ended December 31, 2007, an increase of $9.2 million or 6.4%. The $152.7 million of gross premiums written translated at fourth quarter 2007 rates of exchange would have been $169.1 million during the three months ended December 31, 2007, an increase of $25.6 million. Details of gross premiums written by line of business are provided below.

(Dollars in thousands)	Three Months Ended December 31, 2008 Gross Premiums Written	Three Months Ended December 31, 2008 Gross Premiums Written (%)	Three Months Ended December 31, 2007 Gross Premiums Written	Three Months Ended December 31, 2007 Gross Premiums Written (%)
Property	$ 29,159	19.1%	$ 20,626	14.4%
Marine	56,919	37.3%	59,006	41.1%
Specialty	66,584	43.6%	63,865	44.5%
Total	$ 152,662	100.0%	$ 143,497	100.0%

Increases to the property account in the three months ended December 31, 2008 quarter have come from the Latin America treaty account. Additional income has also been generated from new teams joining the business.

The marine account is down in the quarter compared to 2007 mainly due to exchange rate deterioration where a number of classes have a large sterling element to them. This had a $6.2 million negative effect compared to last year, coupled with a reduction of $3.2 million in already booked premiums on the yacht class in the period.

Specialty account gross premiums written increased over the same period in 2007 despite rate reductions and market overcapacity in the bloodstock and contingency accounts entered during 2007.

Reinsurance Premiums Ceded

Reinsurance premiums ceded for the three months ended December 31, 2008 were $2.7 million compared to $4.6 million for the three months ended December 31, 2007, a decrease of $1.8 million or 40.4%. Validus Re decreased its property ceded reinsurance premiums by $5.7 million, as discussed below.

	Three Months Ended December 31, 2008		Three Months Ended December 31, 2007	
(Dollars in thousands)	**Reinsurance Premiums Ceded**	**Reinsurance Premiums Ceded (%)**	**Reinsurance Premiums Ceded**	**Reinsurance Premiums Ceded (%)**
Property	$ (1,359)	(50.0)%	$ 4,308	94.4%
Marine	2,789	102.5%	640	14.0%
Specialty	1,292	47.5%	(382)	(8.4)%
Total	$ 2,722	100.0%	$ 4,566	100.0%

Validus Re. Validus Re reinsurance premiums ceded for the three months ended December 31, 2008 were $1.7 million compared to $3.8 million for the three months ended December 31, 2007, a decrease of $2.1 million or 55.5%.

	Three Months Ended December 31, 2008		Three Months Ended December 31, 2007	
(Dollars in thousands)	**Reinsurance Premiums Ceded**	**Reinsurance Premiums Ceded (%)**	**Reinsurance Premiums Ceded**	**Reinsurance Premiums Ceded (%)**
Property	$ (2,446)	(144.2)%	$ 3,213	84.2%
Marine	4,125	243.2%	(440)	(11.5)%
Specialty	17	1.0%	1,040	27.3%
Total	$ 1,696	100.0%	$ 3,813	100.0%

The decrease in Validus Re reinsurance premiums ceded was driven primarily by a decrease in the property line of $5.7 million. This decrease was due primarily to the recognition of a common account reinsurance contract in the three months ended December 31, 2007 which was renewed in the three months ended March 31, 2008 and the reclassification of a $2.9 million retrocession from the property line to the marine line. The decrease in the property line was offset by a $4.6 million increase in the marine line. This increase in the marine line was due primarily to the reclassification noted above.

Talbot. Talbot reinsurance premiums ceded for the three months ended December 31, 2008 were $5.8 million compared to $0.8 million for the three months ended December 31, 2007, an increase of $5.0 million.

(Dollars in thousands)	Three Months Ended December 31, 2008 Reinsurance Premiums Ceded	Three Months Ended December 31, 2008 Reinsurance Premiums Ceded (%)	Three Months Ended December 31, 2007 Reinsurance Premiums Ceded	Three Months Ended December 31, 2007 Reinsurance Premiums Ceded (%)
Property	$ 5,840	100.2%	$ 1,095	145.4%
Marine	341	5.9%	1,080	143.4%
Specialty	(356)	(6.1)%	(1,422)	(188.8)%
Total	$ 5,825	100.0%	$ 753	100.0%

The increase in reinsurance premiums ceded on the property account was primarily a result of the $4.8 million quota share and surplus treaty contracts with Validus Re, which was eliminated upon consolidation.

The marine and specialty accounts were adjusted for prior year releases where reinstatement premiums payable were reduced leading to a reduction in ceded premiums. The specialty account did not experience the same level of releases as in December 2007; hence the differential.

Net Premiums Written

Net premiums written for the three months ended December 31, 2008 were $189.0 million compared to $186.4 million for the three months ended December 31, 2007, an increase of $2.6 million or 1.4%. Details of net premiums written by line of business are provided below.

(Dollars in thousands)	Three Months Ended December 31, 2008 Net Premiums Written	Three Months Ended December 31, 2008 Net Premiums Written (%)	Three Months Ended December 31, 2007 Net Premiums Written	Three Months Ended December 31, 2007 Net Premiums Written (%)
Property	$ 46,769	24.8%	$ 32,600	17.5%
Marine	58,252	30.8%	76,433	41.0%
Specialty	83,993	44.4%	77,397	41.5%
Total	$ 189,014	100.0%	$ 186,430	100.0%

Premium rates in most lines have declined during the year ended December 31, 2008. As a result of the Company s decision to grow revenue only when returns meet or exceed internal requirements, overall net premiums written have remained consistent with the three month period ended December 31, 2007.

Validus Re. Validus Re net premiums written for the three months ended December 31, 2008 were $42.2 million compared to $43.7 million for the three months ended December 31, 2007, a decrease of $1.5 million or 3.5%. Details of net premiums written by line of business are provided below.

	Three Months Ended December 31, 2008		Three Months Ended December 31, 2007	
(Dollars in thousands)	**Net Premiums Written**	**Net Premiums Written (%)**	**Net Premiums Written**	**Net Premiums Written (%)**
Property	$ 23,450	55.6%	$ 13,069	29.9%
Marine	1,674	4.0%	18,507	42.4%
Specialty	17,053	40.4%	12,110	27.7%
Total	$ 42,177	100.0%	$ 43,686	100.0%

The decrease in Validus Re net premiums written was driven primarily by the marine line which accounted for $16.8 million of the decrease. This decrease in marine line net premiums written was a result of the non-renewal of an $18.2 million quota share contract and other marine excess of loss policies, as discussed above. This decrease was offset by a $10.4 million increase in property line net premiums written due to decreased reinsurance premium ceded and increased reinstatement premiums written, as discussed above.

The ratio of net premiums written to gross premiums written were 96.1% and 92.0% for the three month periods ended December 31, 2008 and 2007, respectively. This increase was due to decreased reinsurance premiums ceded and lower overall gross premiums written during the three months ended December 31, 2008 from the same period in 2007, as discussed above.

Talbot. Talbot net premiums written for the three months ended December 31, 2008 were $146.8 million compared to $142.7 million for the three months ended December 31, 2007, an increase of $4.1 million or 2.9%. Details of net premiums written by line of business are provided below.

	Three Months Ended December 31, 2008		Three Months Ended December 31, 2007	
(Dollars in thousands)	**Net Premiums Written**	**Net Premiums Written (%)**	**Net Premiums Written**	**Net Premiums Written (%)**
Property	$ 23,319	15.9%	$ 19,531	13.7%
Marine	56,578	38.5%	57,926	40.6%
Specialty	66,940	45.6%	65,287	45.7%
Total	$ 146,837	100.0%	$ 142,744	100.0%

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 month periods ended December 31, 2008 and 2007 were 96.2% and 99.5%, respectively. This decrease was due primarily to the increased reinsurance ceded to the Validus Re segment and a decrease in the amount of reinstatement premium adjustments to prior years from December 2007.

Change in Unearned Premiums

Change in unearned premiums for the three months ended December 31, 2008 was $127.0 million compared to $131.6 million for the three months ended December 31, 2007, a decrease of $4.6 million or 3.5%.

(Dollars in thousands)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Change in gross unearned premium	$ 134,071	$ 136,647
Change in prepaid reinsurance premium	(7,054)	(5,046)
Net change in unearned premium	$ 127,017	$ 131,601

Validus Re. Validus Re s change in unearned premiums for the three months ended December 31, 2008 was $122.2 million compared to $118.8 million for the three months ended December 31, 2007, an increase of $3.4 million or 2.8%. The increase was due partially to $7.1 million of earned reinstatement premiums as a result of losses in connection with Hurricane Ike and the relative maturation of the Company s risks-attaching business. Validus Re s change in prepaid reinsurance premiums was insignificant.

Talbot. The Talbot change in unearned premiums for the three months ended December 31, 2008 was $4.8 million compared to $12.8 million for the three months ended December 31, 2007, a decrease of $7.9 million.

(Dollars in thousands)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Change in gross unearned premium	$ 21,013	$ 34,009
Change in prepaid reinsurance premium	(16,187)	(21,236)
Net change in unearned premium	$ 4,826	$ 12,773

The difference in gross unearned premiums arises from a change in the written pattern of premiums. Talbot wrote more business in the last six months of 2008 than in 2007 and hence the change in earned premium will be less. In respect of prepaid reinsurance premiums, the difference arises from the non-renewal of several low level reinsurance layers in the 2008 excess of loss reinsurance program.

Net Premiums Earned

Net premiums earned for the three months ended December 31, 2008 were $316.0 million compared to $318.0 million for the three months ended December 31, 2007, a decrease of $2.0 million or 0.6%.

	Three Months Ended December 31, 2008		Three Months Ended December 31, 2007	
(Dollars in thousands)	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)

Property	$ 145,752	46.2%	$ 156,824	49.4%
Marine	93,340	29.5%	88,856	27.9%
Specialty	76,939	24.3%	72,351	22.7%
Total	$ 316,031	100.0%	$ 318,031	100.0%

Validus Re. Validus Re net premiums earned for the three months ended December 31, 2008 were $164.4 million compared to $162.5 million for the three months ended December 31, 2007, an increase of $1.9 million or 1.1%.

(Dollars in thousands)	Three Months Ended December 31, 2008 Net Premiums Earned	Three Months Ended December 31, 2008 Net Premiums Earned (%)	Three Months Ended December 31, 2007 Net Premiums Earned	Three Months Ended December 31, 2007 Net Premiums Earned (%)
Property	$ 117,496	71.5%	$ 124,519	76.6%
Marine	29,371	17.9%	22,933	14.1%
Specialty	17,501	10.6%	15,062	9.3%
Total	$ 164,368	100.0%	$ 162,514	100.0%

The increase in net premiums earned reflects the benefit of earning premiums on business written in 2007 as the prior year benefitted from premiums on business written in 2006. Contracts written on a risks-attaching basis are generally earned over 24 months and therefore have less immediate effect on premiums earned than contracts written on a losses-occurring basis which are generally earned on a 12 month basis. During the three months ended December 31, 2008 there was an additional $6.6 million increase in earned premiums due to reinstatement premiums from Hurricane Ike offset by premium adjustments to proportional business written during prior periods.

Talbot. Talbot net premiums earned for the three months ended December 31, 2008 were $151.7 million compared to $155.5 million for the three months ended December 31, 2007, a decrease of $3.9 million or 2.5%.

(Dollars in thousands)	Three Months Ended December 31, 2008 Net Premiums Earned	Three Months Ended December 31, 2008 Net Premiums Earned (%)	Three Months Ended December 31, 2007 Net Premiums Earned	Three Months Ended December 31, 2007 Net Premiums Earned (%)
Property	$ 28,256	18.6%	$ 32,305	20.8%
Marine	63,969	42.2%	65,923	42.4%
Specialty	59,438	39.2%	57,289	36.8%
Total	$ 151,663	100.0%	$ 155,517	100.0%

The reduction in net earned premium on the property and marine accounts is a function of those issues outlined in previous paragraphs.

Losses and Loss Expenses

Losses and loss expenses for the three months ended December 31, 2008 were $191.6 million compared to $107.6 million for the three months ended December 31, 2007, an increase of $84.0 million or 78.1%. The loss ratios, defined as losses and loss expenses divided by net premiums earned, for the three months ended December 31, 2008 and 2007 were 60.6% and 33.8%, respectively. During 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 represents 24.4 percentage points of the loss ratio. Details of loss ratios by line of business are provided below.

	Three Months Ended December 31, 2008	**Three Months Ended December 31, 2007**
Property	73.7%	28.6%
Marine	50.4%	53.5%
Specialty	48.3%	21.0%
All lines	60.6%	33.8%

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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 three months ended December 31, 2008:

	Three Months Ended December 31, 2008			
(Dollars in thousands)	**Validus Re**	**Talbot**	**Eliminations**	**Total**
Gross reserves at period beginning	$ 493,553	$ 795,088	$ (15,798)	$ 1,272,843
Losses recoverable at period beginning	53,591	135,670	(15,798)	173,463
Net reserves at period beginning	439,962	659,418		1,099,380
Incurred losses current year	102,089	109,156		211,245
Incurred losses change in prior accident years	(6,117)	(13,552)		(19,669)
Incurred losses	95,972	95,604		191,576
Paid losses	(80,347)	(74,574)		(154,921)
Foreign exchange	(4,222)	(35,306)		(39,528)
Net reserves at period end	451,365	645,142		1,096,507
Losses recoverable at period end	84,523	145,057	(20,784)	208,796
Gross reserves at period end	$ 535,888	$ 790,199	$ (20,784)	$ 1,305,303

The amount recorded represents management s best estimate of losses and loss expenses incurred. The increase in losses and loss expenses was due principally to Hurricane Ike. Favorable loss development on prior years totaled $19.7 million. The $13.6 million favorable loss reserve development in the Talbot segment relates primarily to the 2006 and prior underwriting years as described below. Favorable loss reserve development benefitted the Company s loss ratio by 6.2 percentage points for the three months ended December 31, 2008.

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 losses from recent loss events may vary materially from estimates.

At December 31, 2008 and 2007, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in the *Critical Accounting Policies and Estimates* above. The Company did not make any significant changes in the assumptions or methodology used in its reserving process during the three months ended December 31, 2008.

	At December 31, 2008		
(Dollars in thousands)	**Gross Case Reserves**	**Gross IBNR**	**Total Gross Reserve for Losses and Loss Expenses**

Property	$ 287,903	$ 183,291	$ 471,194
Marine	344,998	250,511	595,509
Specialty	74,816	163,784	238,600
Total	$ 707,717	$ 597,586	$ 1,305,303

	At December 31, 2008		
(Dollars in thousands)	Net Case Reserves	Net IBNR	Total Net Reserve for Losses and Loss Expenses
Property	$ 282,755	$ 175,886	$ 458,641
Marine	220,090	211,020	431,110
Specialty	66,701	140,055	206,756
Total	$ 569,546	$ 526,961	$ 1,096,507

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 chart below.

(Dollars in thousands)	Net Losses and Loss Expenses(1)	Net Reinstatement Premiums	Net Effect on Net (Loss) Income(2)
Hurricane Ike			
Validus Re			
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
Talbot			
Property	16,354	(289)	16,065
Marine	1,903	(216)	1,687
Specialty			
All lines	18,257	(505)	17,752
Total			
Property	54,583	(4,494)	50,089
Marine	22,737	(2,603)	20,134
Specialty	(125)		(125)
All lines	$ 77,195	$ (7,097)	$ 70,098

(1) Net of reinsurance

(2)

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, 2008 were $96.0 million compared to $48.2 million for the three months ended December 31, 2007, an increase of $47.7 million or 98.9%. The loss ratio, defined as losses and loss expenses divided by net premiums earned, was 58.4% and 29.7% for the three months ended December 31, 2008 and 2007, respectively. During the three months ended December 31, 2008, Validus Re incurred $58.9 million of losses and loss expense attributable to Hurricane Ike, which represents 35.9 percentage points of the loss ratio. During the three months ended December 31, 2007, Validus Re incurred $10.0 million, or 6.2 percentage points of the loss ratio and $6.1 million, or 3.8 percentage points of the loss ratio attributable to the California wildland fires and a satellite launch failure, respectively. Details of loss ratios by line of business and period of incurrence are provided below.

	Three Months Ended December 31, 2008	2007
Property current year	59.4%	25.1%
Property change in prior accident years	(3.0)%	(0.1)%
Property loss ratio	56.4%	25.0%
Marine current year	84.1%	31.1%
Marine change in prior accident years	(10.8)%	2.0%
Marine loss ratio	73.3%	33.1%
Specialty current year	43.5%	71.4%
Specialty change in prior accident years	2.5%	(8.5)%
Specialty loss ratio	46.0%	62.9%
All lines current year	62.1%	30.3%
All lines change in prior accident years	(3.7)%	(0.6)%
All lines loss ratio	58.4%	29.7%

Validus Re paid losses of $80.3 million and $14.8 million for the three months ended December 31, 2008 and 2007, respectively. Losses related to Hurricane Ike represent 32.5 percentage points of the property lines loss ratio for the three months ended December 31, 2008. Validus Re experienced favorable development of $6.1 million and $0.9 million during the three month periods ended December 31, 2008 and 2007, respectively. During the three months ended December 31, 2007, Validus Re incurred $10.0 million of loss expense attributable to the California wildland fires, which represented 8.0 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, 2008 and 2007 were 26.9% and 17.1%, respectively.

Losses related to Hurricane Ike represent 70.9 percentage points of the marine lines loss ratio for the three months ended December 31, 2008. During the three months ended December 31, 2008 the marine lines experienced favorable development in prior accident years loss ratio of $3.2 million, or 10.8 percentage points of the marine lines loss ratio. Validus Re marine line loss ratios, excluding prior year development and losses related to Hurricane Ike, for the three months ended December 31, 2008 and 2007 were 13.2% and 31.1%, respectively

The specialty lines include $7.6 million related to current year losses and $0.4 million of adverse development relating to prior accident years. During the three months ended December 31, 2007, Validus Re incurred $6.1 million of loss expense attributable to a satellite launch failure, which represented 40.4 percentage points of the specialty lines loss ratio. Validus Re specialty lines loss ratios, excluding prior year development and the loss event identified above, for the three months ended December 31, 2008 and 2007 were 43.5% and 31.0%, respectively.

Talbot. Talbot losses and loss expenses for the three months ended December 31, 2008 were $95.6 million compared to $59.3 million for the three months ended December 31, 2007, an increase of $36.3 million, or 61.2%. The loss ratio was 63.0% and 38.1% for the three months ended December 31, 2008 and 2007, respectively. Favorable loss reserve development of $13.6 million relates primarily to the 2006 and prior underwriting years, as described below. During the three months ended December 31, 2008, Talbot incurred an additional $18.3 million of loss expense attributable to Hurricane Ike which represents 12.1 percentage points of the all lines loss ratio. During the three months ended

December 31, 2007, Talbot incurred $1.9 million, or 1.2 percentage points of the loss ratio attributable to the California wildland fires. Details of loss ratios by line of business and calendar period are provided below.

	Three Months Ended December 31	
	2008	2007
Property current year	142.5%	42.3%
Property change in prior accident years	2.5%	0.0%
Property loss ratio	145.0%	42.3%
Marine current year	54.7%	61.0%
Marine change in prior accident years	(14.9)%	(0.4)%
Marine loss ratio	39.8%	60.6%
Specialty current year	57.0%	61.3%
Specialty change in prior accident years	(8.0)%	(51.4)%
Specialty loss ratio	49.0%	9.9%
All lines current year	71.9%	57.2%
All lines change in prior accident years	(8.9)%	(19.1)%
All lines loss ratio	63.0%	38.1%

The property lines include $40.3 million related to current year losses and include an increase of $16.4 million related to Hurricane Ike representing 57.9 percentage points of the property lines loss ratio for the three months ended December 31, 2008. During the three months ended December 31, 2007, Talbot incurred $1.9 million, or 5.9 percentage points of the property line loss ratio attributable to the California wildland fires. Talbot property line loss ratio, excluding prior year development and the loss events identified above, for the three months ended December 31, 2008 and 2007 were 84.6% and 36.4%, respectively.

The marine lines include $35.0 million related to current year marine losses. These were partially offset by $9.5 million of favorable development relating to prior accident years. The current year incurred losses include an increase of $2.0 million related to Hurricane Ike representing 3.0 percentage points of the marine lines loss ratio for the three months ended December 31, 2008. The favorable prior period development arises due to low claims activity across marine lines, most notably cargo and energy in the 2006 and prior underwriting years. Talbot marine line loss ratios, excluding prior year development and losses related to Hurricane Ike, for the three months ended December 31, 2008 and 2007 were 51.8% and 61.0%, respectively.

The specialty lines include $33.9 million relating to current year losses offset by $4.7 million due to favorable development on prior accident year reserves. The favorable development was due principally to reduced provisions for late reported claims in the 2006 and prior underwriting years of the financial institutions line together with low claims activity in the 2007 underwriting year of the aviation treaty line. Talbot specialty lines loss ratios, excluding prior year development, for the three months ended December 31, 2008 and 2007 were 57.0% and 61.3%, respectively.

Policy Acquisition Costs

Policy acquisition costs for the three months ended December 31, 2008 were $61.4 million compared to $53.3 million for the three months ended December 31, 2007, an increase of $8.1 million or 15.3%. The increase in policy acquisition costs was due primarily to an increase for Validus Re of $6.0 million.

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(Dollars in thousands)	Three Months Ended December 31, 2008 Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio (%)	Three Months Ended December 31, 2007 Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio (%)
Property	$ 26,197	42.7%	18.0%	$ 23,692	44.5%	15.1%
Marine	18,432	30.0%	19.7%	16,572	31.1%	18.7%
Specialty	16,778	27.3%	21.8%	13,013	24.4%	18.0%
Total	$ 61,407	100.0%	19.4%	$ 53,277	100.0%	16.8%

Validus Re. Validus Re policy acquisition costs for the three months ended December 31, 2008 were $28.0 million compared to $22.1 million for the three months ended December 31, 2007, an increase of $5.9 million or 26.7%.

(Dollars in thousands)	Three Months Ended December 31, 2008 Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio (%)	Three Months Ended December 31, 2007 Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio (%)
Property	$ 21,279	75.9%	18.1%	$ 17,223	77.9%	13.8%
Marine	4,222	15.1%	14.4%	2,634	11.9%	11.5%
Specialty	2,510	9.0%	14.3%	2,250	10.2%	14.9%
Total	$ 28,011	100.0%	17.0%	$ 22,107	100.0%	13.6%

Policy acquisition costs include brokerage, commission, excise tax and contributions to inuring reinsurance 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, 2008 and 2007 were 17.0% and 13.6%, respectively. The policy acquisition ratio increased largely due to a 4.3 percentage point increase on the policy acquisition ratio for the property line. This increase was primarily as a result of substantial inuring reinsurance costs incurred on policies that were not present in previous periods.

Talbot. Talbot policy acquisition costs for the three months ended December 31, 2008 were $33.6 million compared to $31.2 million for the three months ended December 31, 2007, an increase of $2.4 million or 7.7%.

(Dollars in thousands)	Three Months Ended December 31, 2008 Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio (%)	Three Months Ended December 31, 2007 Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio (%)

Property	$ 5,082	15.2%	18.0%	$ 6,469	20.8%	20.0%
Marine	14,210	42.3%	22.2%	13,938	44.7%	21.1%
Specialty	14,268	42.5%	24.0%	10,763	34.5%	18.8%
Total	33,560	100.0%	22.1%	$ 31,170	100.0%	20.0%

Policy acquisition costs as a percent of net premiums earned were 22.1% and 20.0%, respectively, for the three month periods ended December 31, 2008 and 2007. On a gross basis, policy acquisition costs as a percentage of gross earned premiums were 19.3% and 17.6%, respectively, for the three month periods ended December 31, 2008 and 2007. The specialty line ratio increased in 2008 compared to 2007 as a result of premium estimate changes on contracts with high acquisition cost ratios. New treaty and quota share business within the property account written in 2008 has a lower acquisition cost ratio than business written in 2007.

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General and Administrative Expenses

General and administrative expenses for the three months ended December 31, 2008 were $22.8 million compared to $33.7 million for the three months ended December 31, 2007, a decrease of $10.9 million or 32.3%. The decrease was primarily a result of a $10.7 million reduction in Talbot s expenses.

(Dollars in thousands)	Year Ended December 31, 2008 General and Administrative Expenses	Year Ended December 31, 2008 General and Administrative Expenses (%)	Year Ended December 31, 2007 General and Administrative Expenses	Year Ended December 31, 2007 General and Administrative Expenses (%)
Validus Re	$ 7,301	32.0%	$ 7,858	23.3%
Talbot	12,882	56.5%	23,628	70.2%
Corporate & Eliminations	2,626	11.5%	2,190	6.5%
Total	$ 22,809	100.0%	$ 33,676	100.0%

General and administrative expense ratios for the three month periods ended December 31, 2008 and 2007 were 9.5% and 12.5%, 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, 2008 Expenses	Three Months Ended December 31, 2008 Expenses as % of Net Earned Premiums	Three Months Ended December 31, 2007 Expenses	Three Months Ended December 31, 2007 Expenses as % of Net Earned Premiums
General and Administrative	$ 22,809	7.2%	$ 33,676	10.6%
Share Compensation	7,279	2.3%	6,135	1.9%
Total	$ 30,088	9.5%	$ 39,811	12.5%

General and administrative expenses of $22.8 million in the three months ended December 31, 2008 represents 7.2 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, 2008 were $7.3 million compared to $7.9 million for the three months ended December 31, 2007, a decrease of $0.6 million or 7.1%. General and administrative expenses are generally comprised of salaries and benefits, professional fees, rent and office expenses. General and administrative expenses have decreased primarily as a result of reduced profit-related bonus expenses which are linked to our operating results. However, this decrease was offset result of an increase in staff to 91 at December 31, 2008 from 66 at December 31, 2007. Validus Re s general and administrative expenses as a percent of net premiums earned for the three month periods ended December 31, 2008 and 2007 were 4.5% and 4.9%, respectively.

Talbot. Talbot general and administrative expenses were $12.9 million and $23.6 million for the three months ended December 31, 2008 and 2007. General and administrative expenses have decreased primarily as a result of reduced salary costs of $6.8 million mostly relating to a reduction in profit-related bonus expenses and $1.0 million due to the movement in exchange rates as most expenses are denominated in sterling but reported in U.S. dollars. General and administrative expenses as a percent of net premiums earned were 8.5% and 15.2% for the three months ended December 31, 2008 and 2007.

Corporate & Eliminations. Corporate general and administrative expenses for the three months ended December 31, 2008 were $2.6 million compared to $2.2 million for the three months ended December 31, 2007, an increase of $0.4 million or 19.9%. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses and other cost relating to the Company as a whole.

Share Compensation Expense

Share compensation expense for the three months ended December 31, 2008 was $7.3 million compared to $6.1 million for the three months ended December 31, 2007, an increase of $1.1 million or 18.6%. 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.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
(Dollars in thousands)	**Share Compensation Expense**	**Share Compensation Expense (%)**	**Share Compensation Expense**	**Share Compensation Expense (%)**
Validus Re	$ 2,197	30.2%	$ 1,189	19.4%
Talbot	1,436	19.7%	978	15.9%
Corporate & Eliminations	3,646	50.1%	3,968	64.7%
Total	$ 7,279	100.0%	$ 6,135	100.0%

Share compensation expense of $7.3 million in the three months ended December 31, 2008 represents 2.3 percentage points of the general and administrative expense ratio.

Validus Re. Validus Re share compensation expense for the three months ended December 31, 2008 was $2.2 million compared to $1.2 million for the three months ended December 31, 2007, an increase of $1.0 million or 84.8%. This increase was due principally to an increase in staff to 91 at December 31, 2008 from 66 at December 31, 2007. Share compensation expense as a percent of net premiums earned for the three month periods ended December 31, 2008 and 2007 were 1.3% and 0.7%, respectively.

Talbot. Talbot share compensation expense for the three months ended December 31, 2008 was $1.4 million and $1.0 million for the three months ended December 31 2007, the difference being due to grants made during 2008. Share compensation expense as a percent of net premiums earned for the three month periods ended December 31, 2008 and December 31, 2007 was 0.9% and 0.6% respectively.

Corporate & Eliminations. Corporate share compensation expense for both three month periods ended December 31, 2008 and 2007 were $3.6 million.

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 three months ended December 31, 2008 and 2007.

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Losses and loss expenses ratio	60.6%	33.8%
Policy acquisition cost ratio	19.4%	16.8%
General and administrative expense ratio(1)	9.5%	12.5%
Expense ratio	28.9%	29.3%
Combined ratio	89.5%	63.1%

(1) Includes general and administrative expense, and share compensation expense

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	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Validus Re		
Losses and loss expenses ratio	58.4%	29.7%
Policy acquisition cost ratio	17.0%	13.6%
General and administrative expense ratio	5.8%	5.6%
Expense ratio	22.8%	19.2%
Combined ratio	81.2%	48.9%

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
Talbot		
Losses and loss expenses ratio	63.0%	38.1%
Policy acquisition cost ratio	22.1%	20.1%
General and administrative expense ratio	9.4%	15.8%
Expense ratio	31.5%	35.9%
Combined ratio	94.5%	74.0%

Underwriting (Loss) Income

Underwriting income for the three months ended December 31, 2008 was $33.0 million compared to $117.4 million for the three months ended December 31, 2007, a change of $84.4 million or 71.9%.

(Dollars in thousands)	Three Months Ended December 31, 2008	% of Sub Total	Three Months Ended December 31, 2007	% of Sub Total
Validus Re	$ 30,887	79.1%	$ 83,116	67.3%
Talbot	8,181	20.9%	40,418	32.7%
Sub total	39,068	100.0%	123,534	100.0%
Corporate & Eliminations	(6,108)		(6,158)	
Total	$ 32,960		$ 117,376	

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 net investment income (loss), other income, finance expenses, realized gain on repurchase of debentures, net realized and unrealized gains (losses) on investments and foreign exchange gains (losses).

(Dollars in thousands)	**Three Months Ended December 31, 2008**	**Three Months Ended December 31, 2007**
Underwriting (loss) income	$ 32,960	$ 117,376
Net investment income	30,671	37,525
Other income	1,598	1,971
Finance expenses	(8,522)	(25,423)
Net realized (losses) gains on investments	6,757	784
Net unrealized gains (losses) on investments	(7,099)	9,229
Foreign exchange gains (losses)	(13,554)	(2,515)
Net income before taxes	$ 42,811	$ 138,947

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Underwriting (loss) 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 (loss) 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 three months ended December 31, 2008 was $30.7 million compared to $37.5 million for the three months ended December 31, 2007, a decrease of $6.8 million or 18.1%. Net investment income decreased as a result of reduced market yields. 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, 2008 and 2007 are as presented below.

(Dollars in thousands)	**Three Months Ended December 31, 2008**	**Three Months Ended December 31, 2007**
Fixed maturities and short-term investments	$ 29,035	$ 29,895

Securities lending income		625		
Cash and cash equivalents		1,892		8,339
Total investment income		31,552		38,234
Investment expenses		(881)		(709)
Net investment income	$	30,671	$	37,525

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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. a subsidiary of Bank of America (Merrill Lynch) and Goldman Sachs is a major shareholder 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 month periods ended December 31, 2008 and December 31, 2007 were $0.4 million and $0.4 million, respectively. Investment management fees earned by GSAM for the three month periods ended December 31, 2008 and December 31, 2007 were $0.4 million and $0.3 million, respectively. Management believes that the fees charged were consistent with those that would have been charged by 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 3.8% and 4.9% for the three months ended December 31, 2008 and 2007, respectively, and the average duration at December 31, 2008 was 1.82 years (December 31, 2007 2.0 years).

Finance Expenses

Finance expenses for the three months ended December 31, 2008 were $8.5 million compared to $25.4 million for the three months ended December 31, 2007, a decrease of $16.9 million or 66.5%. The lower finance expenses in 2008 were attributable primarily to the $14.5 million decrease on Talbot third party FAL facility.

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

(Dollars in thousands)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007
9.069% Junior Subordinated Deferrable Debentures	$ 3,589	$ 3,625
8.480% Junior Subordinated Deferrable Debentures	3,187	4,340
Credit facilities	218	230
Talbot FAL facilities	86	658
Talbot other interest	(105)	544
Talbot third party FAL facility	1,547	16,026
Total	$ 8,522	$ 25,423

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 years profit is payable to Talbot third party FAL providers. However, some of these costs are fixed. Further, the 2005 underwriting year only became profitable on a cumulative basis in September 2007, thus triggering profit-related payments for that underwriting year. There will be no FAL finance charges related to the 2008 year of account as there were no third party FAL providers in that period.

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The FAL finance charges respond 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:

	Three Months Ended December 31					
	FAL Finance Charges		Total Syndicate Profit		FAL Finance Charges as % of Total Syndicate Profit	
Underwriting Year of Account (Dollars in thousands)	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
2005(1)	$	$ 11,390	$	$ 30,862	NM	36.9%
2006(1)	3,873	(302)	14,765	(1,106)	26.2%	27.3%
2007	(2,326)	4,938	372	19,292	(625.3)%	25.6%
2008			10,495		NM	NM
Total	$ 1,547	$ 16,026	$ 25,632	$ 49,048	6.0%	32.7%
Percentage excluding years in deficit					6.0%	32.6%

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

NM Not meaningful

FAL finance charges are based on syndicate profit but include fixed elements. FAL finance charges for the three months ended December 31, 2008 were $1.5 million compared to $16.0 million for the three months ended December 31, 2007, a decrease of $14.5 million. This decrease was due to lower profits on the oldest year of account together with lower rates of third party FAL costs in 2008 relative to 2007. There will be no FAL finance charges related to the 2008 year of account as there were no third party FAL providers.

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.

	Three Months Ended December 31	
(Dollars in thousands)	**2008**	**2007**
Total syndicate profit	$ 25,632	$ 49,048
FAL Finance expenses	(1,547)	(16,026)
Managing agent s fee(1)	1,889	2,474
Managing agent s profit commission(2)	8,892	8,875
Investment income(3)	(468)	3,291
Other segment operating expenses, net(4)	(7,335)	(6,997)
Company share compensation	(1,436)	(978)
Intangible amortization	(1,041)	(1,041)

Income tax expense	(5,786)	36
Talbot segment net (loss) income	$ 18,800	$ 38,682

(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.

(4) Includes Talbot Holdings Ltd share option expenses.

Net Realized (Losses) Gains on Investments

Net realized gains on investments for the three months ended December 31, 2008 were $6.8 million compared to gains of $0.8 million for the three months ended December 31, 2007. Net realized gains resulted primarily from the sale of fixed maturity investments in certain financial institutions.

Net Unrealized (Losses) Gains on Investments

Net unrealized losses on investments for the three months ended December 31, 2008 were $7.1 million compared to gains of $9.2 million for the three months ended December 31, 2007. The net unrealized losses in the three months ended December 31, 2008 resulted primarily from market value declines due to spreads widening as a result of extreme volatility in the financial markets.

The Company early adopted FAS 157 and the FAS 159 Fair Value Option on January 1, 2007 for its investment portfolio. As a result, for the quarters ended December 31, 2008 and 2007, net unrealized gains on investments are recorded as a component of net income. Talbot also adopted FAS 157 and the FAS 159 Fair Value Option for its investment portfolio upon acquisition by the Company on July 2, 2007. During the three months ended December 31, 2008, the Company adopted FSP FAS 157-3. Consistent with this statement, 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 measurement process for the identified non-Agency RMBS securities from a market approach to an income approach resulted in a $14.6 million increase in net unrealized loss on investments for the three months ended December 31, 2008. Further details are provided in the Investments section below.

Foreign Exchange (Losses) Gains

Foreign exchange losses for the three month period ended December 31, 2008 were $13.6 million compared to losses of $2.5 million for the three months ended December 31, 2007, a change of $11.1 million. The foreign exchange losses during the three months ended December 31, 2008 were due to a decline in the value of assets denominated in foreign currencies relative to the U.S. dollar reporting currency. 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.

Talbot s balance sheet includes net unearned premiums and deferred acquisition costs denominated in foreign currencies of approximately $62.3 million. This balance consisted of British pound sterling and Canadian dollars of approximately $55.9 million and $6.4 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. During the three months ended December 31, 2008, this translation process resulted in foreign exchange losses that will reverse in future periods as net unearned premiums and deferred acquisition costs are earned. 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.

Income Tax Expense

Income tax expense for the three months ended December 31, 2008 was $5.8 million compared to $0.0 million for the three months ended December 31, 2007, an increase of $5.8 million. Income tax expense resulted primarily from foreign exchange differences in the U.K. companies reporting under U.K. GAAP which are taxable in the U.K.

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The following table presents results of operations for the three months and years ended December 31, 2008, 2007, 2006 and the pro forma results of operations for the year ended December 31, 2007.

	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Three Months Ended December 31, 2006(1)	Year Ended December 31, 2008	Year Ended December 31, 2007		Year Ended December 31, 2006(1)
Dollars in thousands)	Actual	Actual	Actual	Actual	Actual	Pro Forma(1)	Actual
ross premiums written	$ 191,736	$ 190,996	$ 65,505	$ 1,362,484	$ 988,637	$ 1,377,948	$ 540,789
einsurance premiums eded	(2,722)	(4,566)	355	(124,160)	(70,210)	(146,833)	(63,696)
et premiums written	189,014	186,430	65,860	1,238,324	918,427	1,231,115	477,093
hange in unearned remiums	127,017	131,601	39,293	18,194	(60,348)	(88,201)	(170,579)
et premiums earned	316,031	318,031	105,153	1,256,518	858,079	1,142,914	306,514
osses and loss expenses	191,576	107,567	24,265	772,154	283,993	427,207	91,323
olicy acquisition costs	61,407	53,277	11,498	234,951	134,277	195,743	36,072
eneral and dministrative expenses	22,809	33,676	13,002	123,948	97,765	141,360	38,354
hare compensation xpense	7,279	6,135	2,223	27,097	16,189	18,524	7,878
otal underwriting xpenses	283,071	200,655	50,988	1,158,150	532,224	782,834	173,627
nderwriting income(2)	32,960	117,376	54,165	98,368	325,855	360,080	132,887
et investment income	30,671	37,525	17,652	139,528	112,324	132,205	58,021
ther income	1,598	1,971		5,264	3,301	5,466	
nance expenses	(8,522)	(25,423)	(3,653)	(57,318)	(51,754)	(77,645)	(8,789)
perating income before xes	56,707	131,449	68,164	185,842	389,726	420,106	182,119
axes	5,796	(22)		10,788	1,505	(2,703)	
perating income after x(2)	50,911	131,471	68,164	175,054	388,221	417,403	182,119
et realized gains osses) on investments	6,757	784	(208)	(1,591)	1,608	378	(1,102)
et unrealized (losses) ains on investments	(7,099)	9,229		(79,707)	12,364	12,364	
ealized gain on purchase of debentures				8,752			

oreign exchange gains osses)	(13,554)	(2,515)	1,096	(49,397)	6,696	7,878	2,157
air value of warrants sued					(2,893)	(2,893)	(77)
quiline termination fee					(3,000)	(3,000)	
et income after taxes	$ 37,015	$ 138,969	$ 69,052	$ 53,111	$ 402,996	$ 432,130	$ 183,097
omprehensive income							
nrealized losses arising uring period			(522)				(332)
oreign currency anslation Adjustments	(6,330)	591		(7,809)	(49)		
djustment for classification of losses alized in income			208				1,102
omprehensive income	$ 30,685	$ 139,560	$ 68,738	$ 45,302	$ 402,947	$ 432,130	$ 183,867
elected ratios							
et premiums written/ ross premiums written	98.6%	97.6%	100.5%	90.9%	92.9%	89.3%	88.2%
osses and loss expenses tio	60.6%	33.8%	23.1%	61.5%	33.1%	37.4%	29.8%
olicy acquisition cost tio	19.4%	16.8%	10.9%	18.7%	15.6%	17.1%	11.8%
eneral and dministrative expense tio	9.5%	12.5%	14.5%	12.0%	13.3%	14.0%	15.1%
xpense ratio	28.9%	29.3%	25.4%	30.7%	28.9%	31.1%	26.9%
ombined ratio	89.5%	63.1%	48.5%	92.2%	62.0%	68.5%	56.7%

(1) The results of operations for Talbot are consolidated only from the July 2, 2007 date of acquisition. The pro forma results of operations including Talbot are presented for the year ended December 31, 2007 for comparative purposes only.

(2) 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 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 underwriting income (loss) to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

(Dollars in thousands)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007(1)	Three Months Ended December 31, 2006	Year Ended December 31, 2008	Year Ended December 31, 2007(1)	Year Ended December 31, 2006
VALIDUS RE						
Gross premiums written	$ 43,873	$ 47,499	$ 65,505	$ 687,771	$ 702,098	$ 540,789
Reinsurance premiums ceded	(1,696)	(3,813)	355	(62,933)	(68,842)	(63,696)
Net premiums written	42,177	43,686	65,860	624,838	633,256	477,093
Change in unearned premiums	122,191	118,828	39,293	28,693	(74,227)	(170,579)
Net premiums earned	164,368	162,514	105,153	653,531	559,029	306,514
Losses and loss expenses	95,972	48,244	24,265	420,645	175,538	91,323
Policy acquisition costs	28,011	22,107	11,498	100,243	70,323	36,072
General and administrative expenses	7,301	7,858	11,474	34,607	31,412	24,565
Share compensation expense	2,197	1,189	1,544	6,829	4,013	3,105
Total underwriting expenses	133,481	79,398	48,781	562,324	281,286	155,065
Underwriting income(2)	30,887	83,116	56,372	91,207	277,743	151,449
TALBOT						
Gross premiums written	$ 152,662	$ 143,497	$	$ 708,996	$ 286,539	$
Reinsurance premiums ceded	(5,825)	(753)		(95,510)	(1,368)	
Net premiums written	146,837	142,744		613,486	285,171	
Change in unearned premiums	4,826	12,773		(10,499)	13,879	
Net premiums earned	151,663	155,517		602,987	299,050	
Losses and loss expenses	95,604	59,323		351,509	108,455	
Policy acquisition costs	33,560	31,170		135,017	63,954	
General and administrative expenses	12,882	23,628		71,443	48,886	
Share compensation expense	1,436	978		4,702	1,709	
Total underwriting expenses	143,482	115,099		562,671	223,004	
Underwriting income(2)	8,181	40,418		40,316	76,046	

CORPORATE & ELIMINATIONS						
Gross premiums written	$ (4,799)	$	$	$ (34,283)	$	$
Reinsurance premiums ceded	4,799			34,283		
Net premiums written						
Policy acquisition costs	(164)			(309)		
General and administrative expenses	2,626	2,190	1,528	17,898	17,467	13,789
Share compensation	3,646	3,968	679	15,566	10,467	4,773
Total underwriting expenses	6,108	6,158	2,207	33,155	27,934	18,562
Underwriting income (loss)(2)	(6,108)	(6,158)	(2,207)	(33,155)	(27,934)	(18,562)
Total underwriting income(2)	$ 32,960	$ 117,376	$ 54,165	$ 98,368	$ 325,855	$ 132,887

(1) 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.

(2) 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 underwriting income (loss) to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

Year ended December 31, 2008 compared to years ended December 31, 2007 and 2006

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, and;

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.

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:

	Year Ended December 31, 2008 Increase (decrease) over the Year Ended December 31, 2007			
(Dollars in thousands)	**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 items	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)
Realized gain on repurchase of debentures			8,752	8,752
Net (losses) realized gains on investments	(10,161)	6,962		(3,199)
Net(losses) unrealized gains on investments	(93,270)	1,199		(92,071)
Foreign (losses) exchange gains	(24,196)	(31,897)		(56,093)
Fair value of warrants issued			2,893	2,893
Aquiline termination fee			3,000	3,000
Net income	$ (297,369)	$ (52,309)	$ (207)	$ (349,885)

(1) 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.

Gross Premiums Written

Gross premiums written for the year ended December 31, 2008 were $1.4 billion compared to $988.6 million for the year ended December 31, 2007, an increase of $373.8 million or 37.8%. The increase in gross premiums written was driven primarily by the addition of Talbot which contributed $422.5 million. The increase from Talbot was partially offset by decreases in Validus Re s property and marine lines of $5.4 million and $19.0 million, respectively, as discussed below. Details of gross premiums written by line of business are provided below.

(Dollars in thousands)	Year Ended December 31, 2008 Gross Premiums Written	Year Ended December 31, 2008 Gross Premiums Written (%)	Year Ended December 31, 2007(1) Gross Premiums Written	Year Ended December 31, 2007(1) Gross Premiums Written (%)	Year Ended December 31, 2006 Gross Premiums Written	Year Ended December 31, 2006 Gross Premiums Written (%)
Property	$ 623,385	45.8%	$ 547,552	55.3%	$ 370,958	68.6%
Marine	396,897	29.1%	250,732	25.4%	104,584	19.3%
Specialty	342,202	25.1%	190,353	19.3%	65,247	12.1%
Total	$ 1,362,484	100.0%	$ 988,637	100.0%	$ 540,789	100.0%

(1) 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, 2008 were $687.8 million compared to $702.1 million for the year ended December 31, 2007, a decrease of $14.3 million or 2.0%. Excluding reinstatement premiums written of $25.9 million as a result of Hurricanes Ike and Gustav, gross premiums written for the year ended December 31, 2008 were $661.9 million, a decrease of $40.2 million, or 5.7% compared to the year ended December 31, 2007. Details of Validus Re gross premiums written by line of business are provided below.

(Dollars in thousands)	Year Ended December 31, 2008 Gross Premiums Written	Year Ended December 31, 2008 Gross Premiums Written (%)	Year Ended December 31, 2007 Gross Premiums Written	Year Ended December 31, 2007 Gross Premiums Written (%)	Year Ended December 31, 2006 Gross Premiums Written	Year Ended December 31, 2006 Gross Premiums Written (%)
Property	$ 492,967	71.7%	$ 498,375	71.0%	$ 370,958	68.6%
Marine	117,744	17.1%	136,710	19.5%	104,584	19.3%
Specialty	77,060	11.2%	67,013	9.5%	65,247	12.1%
Total	$ 687,771	100.0%	$ 702,098	100.0%	$ 540,789	100.0%

Premium rates in most lines have declined during the year ended December 31, 2008. As a result of the Company s decision to grow revenue only when returns meet or exceed internal requirements, gross premiums written on the property and marine lines decreased in comparison to the year ended December 31, 2007. The decreases on property and marine lines were offset by $24.6 million and $1.3 million of reinstatement premiums written as a result of Hurricanes Ike and Gustav, respectively, and $34.3 million as a result of quota share and surplus treaty contracts with Talbot, which was eliminated upon consolidation.

Talbot. In the year ended December 31, 2008, Talbot gross premiums written were $709.0 million compared to $687.7 million for the year ended December 31, 2007, an increase of $21.3 million or 3.1%. Details of gross premiums written by line of business are provided below.

	Year Ended December 31, 2008		Year Ended December 31, 2007(1)		Year Ended December 31, 2006	
(Dollars in thousands)	**Gross Premiums Written**	**Gross Premiums Written (%)**	**Gross Premiums Written**	**Gross Premiums Written (%)**	**Gross Premiums Written**	**Gross Premiums Written (%)**
Property	$ 152,142	21.5%	$ 151,245	22.0%	$ 159,374	24.6%
Marine	287,696	40.5%	264,008	38.4%	244,535	37.7%
Specialty	269,158	38.0%	272,472	39.6%	244,743	37.7%
Total	$ 708,996	100.0%	$ 687,725	100.0%	$ 648,652	100.0%

(1) 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 years ended December 31, 2007 and 2006 for comparative purposes only.

The increase was largely due to an increase in premium of $23.7 million written on the marine lines. This is largely driven by the hull and cargo lines which have written more due to rising values and the boost to the worldwide economy over the past three years where, for example, increased oil values saw insured load values increase and written premiums adjusted accordingly. The specialty accounts have seen rate reductions in the bloodstock and contingency lines, and have also been impacted by the falling value of the British pound sterling against the U.S. dollar. At exchange rates consistent with the year ended December 31, 2007, the specialty account would have written the equivalent of $279.4 million as opposed to the actual $269.2 million in the year and the segment as whole would have written $733.9 million against $709.0 million in the year.

Reinsurance Premiums Ceded

Reinsurance premiums ceded for the year ended December 31, 2008 were $124.2 million compared to $70.2 million for the year ended December 31, 2007, an increase of $54.0 million or 76.8%. The increase in reinsurance premiums ceded was due primarily to the addition of Talbot which contributed $94.1 million. The increase from Talbot was partially offset by an inter-segmental elimination of $34.3 million and a $5.9 million decrease in Validus Re reinsurance premiums ceded, as discussed below.

	Year Ended December 31, 2008		Year Ended December 31, 2007(1)		Year Ended December 31, 2006	
(Dollars in thousands)	**Reinsurance Premiums Ceded**	**Reinsurance Premiums Ceded (%)**	**Reinsurance Premiums Ceded**	**Reinsurance Premiums Ceded (%)**	**Reinsurance Premiums Ceded**	**Reinsurance Premiums Ceded (%)**

Property	$	46,360	37.4%	$	35,689	50.9%	$	32,808	51.5%
Marine		39,406	31.7%		32,808	46.7%		30,288	47.6%
Specialty		38,394	30.9%		1,713	2.4%		600	0.9%
Total	$	124,160	100.0%	$	70,210	100.0%	$	63,696	100.0%

(1) 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, 2008 were $62.9 million compared to $68.8 million for the year ended December 31, 2007, a decrease of $5.9 million or 8.6%.

(Dollars in thousands)	Year Ended December 31, 2008 Reinsurance Premiums Ceded	Year Ended December 31, 2008 Reinsurance Premiums Ceded (%)	Year Ended December 31, 2007 Reinsurance Premiums Ceded	Year Ended December 31, 2007 Reinsurance Premiums Ceded (%)	Year Ended December 31, 2006 Reinsurance Premiums Ceded	Year Ended December 31, 2006 Reinsurance Premiums Ceded (%)
Property	$ 34,712	55.2%	$ 34,609	50.3%	$ 32,808	51.5%
Marine	27,652	43.9%	31,768	46.1%	30,288	47.6%
Specialty	569	0.9%	2,465	3.6%	600	0.9%
Total	$ 62,933	100.0%	$ 68,842	100.0%	$ 63,696	100.0%

The decrease in Validus Re reinsurance premiums ceded was due primarily to a decrease in the marine lines of $4.1 million, or 13.0%.

Talbot. Talbot reinsurance premiums ceded for the year ended December 31, 2008 were $95.5 million compared to $89.9 million for the year ended December 31, 2007, an increase of $5.6 million, or 6.3%.

(Dollars in thousands)	Year Ended December 31, 2008 Reinsurance Premiums Ceded	Year Ended December 31, 2008 Reinsurance Premiums Ceded (%)	Year Ended December 31, 2007(1) Reinsurance Premiums Ceded	Year Ended December 31, 2007(1) Reinsurance Premiums Ceded (%)	Year Ended December 31, 2006 Reinsurance Premiums Ceded	Year Ended December 31, 2006 Reinsurance Premiums Ceded (%)
Property	$ 33,372	34.9%	$ 24,497	27.2%	$ 41,522	34.9%
Marine	20,297	21.3%	21,001	23.4%	31,723	26.7%
Specialty	41,841	43.8%	44,369	49.4%	45,696	38.4%
Total	$ 95,510	100.0%	$ 89,867	100.0%	$ 118,941	100.0%

(1) 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 and for comparative purposes only.

The structure of the 2008 reinsurance program changed from the 2007 program. Less excess of loss coverage was purchased at lower levels, resulting in increased retention. However, the reduction has been partly offset by increased premiums ceded as a result of a surplus treaty and quota share contracts with Validus Re.

Net Premiums Written

Net premiums written for the year ended December 31, 2008 were $1,238.3 million compared to $918.4 million for the year ended December 31, 2007, an increase of $319.9 million or 34.8%. Details of net premiums written by line of business are provided below. The increase in net premiums written was driven primarily by the consolidation of Talbot which contributed $328.3 million.

	Year Ended December 31, 2008		Year Ended December 31, 2007(1)		Year Ended December 31, 2006	
(Dollars in thousands)	**Net Premiums Written**	**Net Premiums Written (%)**	**Net Premiums Written**	**Net Premiums Written (%)**	**Net Premiums Written**	**Net Premiums Written (%)**
Property	$ 577,025	46.6%	$ 511,863	55.8%	$ 338,150	70.9%
Marine	357,491	28.9%	217,924	23.7%	74,296	15.6%
Specialty	303,808	24.5%	188,640	20.5%	64,647	13.5%
Total	$ 1,238,324	100.0%	$ 918,427	100.0%	$ 477,093	100.0%

(1) 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 written for the year ended December 31, 2008 were $624.8 million compared to $633.3 million for the year ended December 31, 2007, a decrease of $8.4 million or 1.3%. Details of net premiums written by line of business are provided below.

	Year Ended December 31, 2008		Year Ended December 31, 2007		Year Ended December 31, 2006	
(Dollars in thousands)	**Net Premiums Written**	**Net Premiums Written (%)**	**Net Premiums Written**	**Net Premiums Written (%)**	**Net Premiums Written**	**Net Premiums Written (%)**
Property	$ 458,255	73.4%	$ 463,766	73.2%	$ 338,150	70.9%
Marine	90,092	14.4%	104,942	16.6%	74,296	15.6%
Specialty	76,491	12.2%	64,548	10.2%	64,647	13.5%
Total	$ 624,838	100.0%	$ 633,256	100.0%	$ 477,093	100.0%

The ratio of net premiums written to gross premiums written was 90.8% and 90.2% for the year ended December 31, 2008 and 2007, respectively.

Talbot. Talbot net premiums written for the year ended December 31, 2008 were $613.5 million compared to $597.9 million for the year ended December 31, 2007, an increase of $15.6 million or 2.6%. Details of net premiums written by line of business are provided below.

	Year Ended December 31, 2008		Year Ended December 31, 2007(1)		Year Ended December 31, 2006	
(Dollars in thousands)	**Net Premiums Written**	**Net Premiums Written (%)**	**Net Premiums Written**	**Net Premiums Written (%)**	**Net Premiums Written**	**Net Premiums Written (%)**
Property	$ 118,770	19.3%	$ 126,748	21.2%	$ 117,852	22.2%
Marine	267,399	43.6%	243,007	40.6%	212,812	40.2%
Specialty	227,317	37.1%	228,102	38.2%	199,047	37.6%
Total	$ 613,486	100.0%	$ 597,857	100.0%	$ 529,711	100.0%

(1) 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 and 2006 for comparative purposes only.

The increase in the net premium written was driven primarily by the increase in gross premiums written, explained above. The ratio of net premiums written to gross premiums written for the year ended December 31, 2008 and 2007 was 86.5% and 86.9%, respectively.

Change in Unearned Premiums

Change in unearned premiums for the year ended December 31, 2008 was $18.2 million compared to $(60.3) million for the year ended December 31, 2007, a decrease of $78.5 million or 130.1%.

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
	(Dollars in thousands)		
Change in gross unearned premium	$ 7,163	$ (23,657)	$ (178,824)
Change in prepaid reinsurance premium	11,031	(36,691)	8,245
Net change in unearned premium	$ 18,194	$ (60,348)	$ (170,579)

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Validus Re. Validus Re s change in unearned premiums for the year ended December 31, 2008 was $28.7 million compared to $(74.2) million for the year ended December 31, 2007, a increase of $102.9 million or 138.7%. This change was due primarily to the nonrenewal of a $49.0 million proportional global onshore energy contract recorded in January 2007 and the relative maturation of the Company s risks-attaching business. The relationship between earned and written premiums will stabilize as the Company s operating history lengthens past its third year. Validus Re s change in prepaid reinsurance premiums was insignificant.

Talbot. The Talbot change in unearned premiums for the year ended December 31, 2008 was $(10.5) million compared to $(14.0) million for the year ended December 31, 2007.

(Dollars in thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007(1)	Year Ended December 31, 2006(1)
Change in gross unearned premium	$ (20,318)	$ (12,772)	$ (36,710)
Change in prepaid reinsurance premium	9,819	(1,201)	(1,284)
Net change in unearned premium	$ (10,499)	$ (13,973)	$ (37,994)

(1) 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 years ended December 31, 2007 and 2006 for comparative purposes only.

The increase in unearned premium comprises $7.5 million of gross unearned premium difference less $11.0 million ceded unearned premium. The gross difference arises from increases in gross written premium together with a marginally slower earnings pattern on the 2008 account compared to the 2007 account at the same stage. In respect of reinsurance, this arises from an increase in quota share and surplus treaty expenditure; this earns in line with gross premium, unlike the excess of loss program which is predominantly earned on a straight line basis.

Net Premiums Earned

Net premiums earned for the year ended December 31, 2008 were $1,256.5 million compared to $858.1 million for the year ended December 31, 2007, an increase of $398.4 million or 46.4%. The increase in net premiums earned was driven primarily by the consolidation of Talbot which contributed $303.9 million and increased premiums earned at Validus Re which accounted for $94.5 million of the increase.

	Year Ended December 31, 2008		Year Ended December 31, 2007(1)		Year Ended December 31, 2006	
(Dollars in thousands)	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)
Property	$ 598,406	47.7%	$ 488,591	56.9%	$ 214,084	69.9%
Marine	367,449	29.2%	199,571	23.3%	56,754	18.5%

Specialty	290,663	23.1%	169,917	19.8%	35,676	11.6%
Total	$ 1,256,518	100.0%	$ 858,079	100.0%	$ 306,514	100.0%

(1) 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, 2008 were $653.5 million compared to $559.0 million for the year ended December 31, 2007, an increase of $94.5 million or 16.9%.

(Dollars in thousands)	Year Ended December 31, 2008 Net Premiums Earned	Year Ended December 31, 2008 Net Premiums Earned (%)	Year Ended December 31, 2007 Net Premiums Earned	Year Ended December 31, 2007 Net Premiums Earned (%)	Year Ended December 31, 2006 Net Premiums Earned	Year Ended December 31, 2006 Net Premiums Earned (%)
Property	$ 478,523	73.2%	$ 423,977	75.8%	$ 214,084	69.8%
Marine	104,479	16.0%	78,684	14.1%	56,754	18.5%
Specialty	70,529	10.8%	56,368	10.1%	35,676	11.7%
Total	$ 653,531	100.0%	$ 559,029	100.0%	$ 306,514	100.0%

The increase in net premiums earned reflects the benefit of earning premiums on business written in 2007 and 2006. Contracts written on a risks-attaching basis are generally earned over 24 months and therefore have less immediate effect on premiums earned than contracts written on a losses-occurring basis which are generally earned on a 12 month basis.

Talbot. Talbot net premiums earned for the year ended December 31, 2008 were $603.0 million compared to $583.9 million for the year ended December 31, 2007, an increase of $19.1 million or 3.3%.

(Dollars in thousands)	Year Ended December 31, 2008 Net Premiums Earned	Year Ended December 31, 2008 Net Premiums Earned (%)	Year Ended December 31, 2007(1) Net Premiums Earned	Year Ended December 31, 2007(1) Net Premiums Earned (%)	Year Ended December 31, 2006 Net Premiums Earned	Year Ended December 31, 2006 Net Premiums Earned (%)
Property	$ 119,883	19.9%	$ 134,435	23.0%	$ 109,289	22.2%
Marine	262,970	43.6%	235,428	40.3%	196,290	39.9%
Specialty	220,134	36.5%	214,021	36.7%	186,555	37.9%
Total	$ 602,987	100.0%	$ 583,884	100.0%	$ 492,134	100.0%

(1) 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 years ended December 31, 2007 and 2006 for comparative purposes only.

The increase in net earned premium is due principally to increased gross premiums written on the marine line and a lower excess of loss reinsurance spend.

Losses and Loss Expenses

Losses and loss expenses for the year ended December 31, 2008 were $772.2 million compared to $284.0 million for the year ended December 31, 2007, an increase of $488.2 million or 171.9%. During the year ended December 31, 2008, the Company incurred $260.6 million and $22.1 million of loss expense attributable to Hurricanes Ike and Gustav, which represent 20.7 and 1.8 percentage points of the loss ratio, respectively. Also, the consolidation of Talbot accounts for $243.1 million of the increase in loss expense. The loss ratio, which is defined as losses and loss expenses divided by net premiums earned, for the year ended December 31, 2008 and 2007 was 61.5% and 33.1%, respectively. Details of loss ratios by line of business are provided below.

	Year Ended December 31, 2008	**Year Ended December 31, 2007(1)**	**Year Ended December 31, 2006**
Property	69.7%	31.0%	32.3%
Marine	68.7%	45.5%	18.2%
Specialty	35.2%	23.5%	33.3%
All lines	61.5%	33.1%	29.8%

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(1) 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, 2008 and 2007, loss events impacting the worldwide insurance and reinsurance markets affected the Company s loss ratio. During the year ended December 31, 2008, the frequency and severity of worldwide losses that materially affected the Company s loss ratio increased relative to the year ended December 31, 2007. 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, 2008 and 2007:

		Years Ended December 31,					
		Validus Re		Talbot		Total	
Event (Dollars in thousands)	Description	Losses and Loss Expenses	% of NPE	Losses and Loss Expenses	% of NPE	Losses and Loss Expenses	% of NPE
2008 losses and loss expenses		$ 420,645	64.4%	$ 351,509	58.3%	$ 772,154	61.5%
2008 notable loss events							
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%		0.0%	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	0.0%	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%
2007 losses and loss expenses(1)		$ 175,538	31.4%	$ 108,455	NM	$ 283,993	33.1%
2007 notable loss events(1)							
Windstorm Kyrill	Windstorm	20,500	3.7%		NM	20,500	NM
UK Flood July	Flood	10,000	1.8%	10,313	NM	20,313	NM
Australian storms	Storm	12,000	2.1%		NM	12,000	NM
UK flood June	Flood	12,000	2.1%		NM	12,000	NM
California Wildland Fires (Cat 21)	Fire	10,000	1.8%	1,863	NM	11,863	NM
NSS 8 Sea Launch	Satellite launch failure	7,000	1.3%		NM	7,000	NM

RASCOM QAF-1	Satellite launch failure		6,100	1.1%			NM		6,100	NM
Total		$	77,600	13.9%	$	12,176	NM	$	89,776	NM

(1) 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.

NM Not meaningful

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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, 2008:

	Year Ended December 31, 2008			
(Dollars in thousands)	**Validus Re**	**Talbot**	**Eliminations**	**Total**
Gross reserves at period beginning	$ 196,814	$ 729,303	$	$ 926,117
Losses recoverable at period beginning		(134,404)		(134,404)
Net reserves at period beginning	196,814	594,899		791,713
Incurred losses current year	435,695	406,161		841,856
Incurred losses change in prior accident years	(15,050)	(54,652)		(69,702)
Incurred losses	420,645	351,509		772,154
Paid losses	(161,872)	(244,597)		(406,469)
Foreign exchange	(4,222)	(56,669)		(60,891)
Net reserves at period end	451,365	645,142		1,096,507
Losses recoverable at period end	84,523	145,057	(20,784)	208,796
Gross reserves at period end	$ 535,888	$ 790,199	$ (20,784)	$ 1,305,303

The amount recorded represents management s best estimate of losses and loss expenses incurred. The increase in loss and loss expenses was due principally to Hurricanes Ike and Gustav and the consolidation of Talbot. Favorable loss development on prior years totaled $69.7 million. The $54.7 million favorable loss reserve development in the Talbot segment relates primarily to the 2006 and prior underwriting years as described below. The $15.0 million favorable loss reserve development in the Validus Re segment relates primarily to the property lines. Favorable loss reserve development benefited the Company s loss ratio for the year ended December 31, 2008 by 5.5 percentage points.

The loss ratio in 2008 is not necessarily comparable to the 2007 loss ratio due to the consolidation of Talbot effective July 2, 2007. Prior to the six months ended December 31, 2008, Talbot had experienced a higher loss ratio than Validus Re in the periods since inception of Validus Re, attributable to the different mix of business written by Validus Re and Talbot. In periods of light natural catastrophe activity, Validus Re can generally be expected to have a lower loss ratio than Talbot. Conversely, in periods of heavy natural catastrophe activity, such as the year ended December 31, 2008, Validus Re can generally be expected to have a higher loss ratio than Talbot.

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 ultimate losses for recent catastrophe events may vary materially from estimates.

At December 31, 2008 and December 31, 2007, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in the critical accounting policies and estimates as discussed above. The Company did not make any significant changes in the assumptions or methodology used in its reserving process during the year ended December 31, 2008.

	At December 31, 2008		
(Dollars in thousands)	**Gross Case Reserves**	**Gross IBNR**	**Total Gross Reserve for Losses and Loss Expenses**
Property	$ 287,903	$ 183,291	$ 471,194
Marine	344,998	250,511	595,509
Specialty	74,816	163,784	238,600
Total	$ 707,717	$ 597,586	$ 1,305,303

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	At December 31, 2008		
(Dollars in thousands)	**Net Case Reserves**	**Net IBNR**	**Total Net Reserve for Losses and Loss Expenses**
Property	$ 282,755	$ 175,886	$ 458,641
Marine	220,090	211,020	431,110
Specialty	66,701	140,055	206,756
Total	$ 569,546	$ 526,961	$ 1,096,507

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 chart below.

(Dollars in thousands)	**Net Losses and Loss Expenses(1)**	**Net Reinstatement Premiums**	**Net Effect on Net Income(2)**
Hurricane Ike			
Validus Re Hurricane Ike Property	$ 158,515	$ (18,072)	$ 140,443
Marine	57,612	(6,485)	51,127
Specialty			
All lines	216,127	(24,557)	191,570
Talbot Hurricane Ike Property	31,515	(675)	30,840
Marine	12,381	(222)	12,159
Specialty	544		544
All lines	44,440	(897)	43,543
Total Hurricane Ike 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
Hurricane Gustav			
Validus Re Hurricane Gustav Property	$ 13,946	$ (1,303)	$ 12,643
Marine	1,500		1,500
Specialty			
All lines	15,446	(1,303)	14,143
Talbot Hurricane Gustav Property	3,695		3,695
Marine	2,500		2,500
Specialty	500		500

All lines		6,695				6,695
Total Hurricane Gustav Property		17,641		(1,303)		16,338
Marine		4,000				4,000
Specialty		500				500
All lines	$	22,141	$	(1,303)	$	20,838
Hurricanes Ike and Gustav						
Property	$	207,671	$	(20,050)	$	187,621
Marine		73,993		(6,707)		67,286
Specialty		1,044				1,044
All lines	$	282,708	$	(26,757)	$	255,951

(1) Net of reinsurance.

(2) 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, 2008 were $420.6 million compared to $175.5 million for the year ended December 31, 2007, an increase of $245.1 million or 139.6%. The loss ratio, defined as losses and loss expenses divided by net premiums earned, for the year ended December 31, 2008 and 2007 was 64.4% and 31.4%, respectively. Validus Re loss ratios, excluding prior year development and notable loss events identified above, for the years ended December 31, 2008 and 2007 were 26.9% and 20.6%, respectively.

Details of loss ratios by line of business and period of incurrence are provided below.

	Year Ended December 31		
	2008	**2007**	**2006**
Property current year	65.8%	32.6%	32.3%
Property change in prior accident years	(3.7)%	(3.1)%	0.0%
Property loss ratio	62.1%	29.4%	32.3%
Marine current year	90.5%	36.0%	18.2%
Marine change in prior accident years	3.9%	(2.6)%	0.0%
Marine loss ratio	94.4%	33.4%	18.2%
Specialty current year	37.1%	46.9%	33.3%
Specialty change in prior accident years	(2.3)%	(3.4)%	0.0%
Specialty loss ratio	34.8%	43.4%	33.3%
All lines current year	66.7%	34.5%	29.8%
All lines change in prior accident years	(2.3)%	(3.1)%	0.0%
All lines loss ratio	64.4%	31.4%	29.8%

Validus Re paid losses of $161.9 million and $56.1 million for the year ended December 31, 2008 and 2007, respectively. Validus Re experienced favorable development of $15.0 million and $17.3 million during years ended December 31, 2008 and 2007, respectively.

For the year ended December 31, 2008, the property line experienced favorable development of $17.6 million, or 3.7 percentage points of the property line loss ratio, due primarily to favorable development on the 2007 UK floods, Australian storm losses, and several other smaller events. The property line includes $199.9 million and $59.5 million of loss and losses expenses attributable to notable loss events identified above, which represent 41.8 and 14.0 percentage points of the property line loss ratios for the years ended December 31, 2008 and 2007, respectively. The property line loss ratios, excluding prior year development and notable loss events identified above, for the years ended December 31, 2008 and 2007 were 24.0% and 18.6%, respectively.

For the year ended December 31, 2008, the marine line experienced adverse development of $4.1 million, or 3.9 percentage points of the marine line loss ratio, due primarily to adverse development on a 2007 off-shore drilling loss as well as attritional loss experience. The marine line includes $59.7 million and $7.1 million of loss and losses expenses attributable to notable loss events identified above, which represent 57.2 and 9.0 percentage points of the marine line loss ratios for the years ended December 31, 2008 and 2007, respectively. The marine line loss ratios, excluding prior year development and notable loss events identified above, for the years ended December 31, 2008 and 2007 were 33.3% and 27.0%, respectively.

For the year ended December 31, 2008, the specialty lines include $nil and $11.0 million of loss and losses expenses attributable to notable loss events identified above, which represent nil and 15.6 percentage points of the specialty lines loss ratios for the years ended December 31, 2008 and 2007, respectively. The specialty lines loss ratios, excluding prior year development and notable loss events identified above, for the years ended December 31, 2008 and 2007 were 37.1% and 27.4%, respectively.

Talbot. Talbot losses and loss expenses for the year ended December 31, 2008 were $351.5 million compared to $251.0 million for the year ended December 31, 2007, an increase of $100.5 million or 40.1%. The loss ratio for the year ended December 31, 2008 and 2007 was 58.3% and 42.9%, respectively. Favorable loss reserve development on all lines of $54.7 million relates primarily to the 2006 and prior underwriting years, as described below. Talbot loss ratio, excluding prior year development and notable loss events identified above, for the year ended December 31, 2008 was 55.9% Details of loss ratios by line of business and period of incurrence are provided below.

	Year Ended December 31		
	2008	**2007(1)**	**2006(1)**
Property current year	104.9%	49.5%	47.0%
Property change in prior accident years	(4.9)%	(4.4)%	(8.9)%
Property loss ratio	100.0%	45.1%	38.1%
Marine current year	64.8%	58.1%	55.2%
Marine change in prior accident years	(6.3)%	(3.1)%	(5.8)%
Marine loss ratio	58.5%	55.0%	49.4%
Specialty current year	50.0%	46.0%	40.9%
Specialty change in prior accident years	(14.6)%	(17.5)%	(22.6)%
Specialty loss ratio	35.4%	28.5%	18.3%
All lines current year	67.4%	51.6%	48.5%
All lines change in prior accident years	(9.1)%	(8.7)%	(12.2)%
All lines loss ratio	58.3%	42.9%	36.3%

(1) 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 and 2006 for comparative purposes only.

Talbot experienced favorable development of $54.6 million and $50.6 million during years ended December 31, 2008 and 2007, respectively.

For the year ended December 31, 2008, the property line experienced favorable development of $5.9 million, or 4.9 percentage points of the property line loss ratio. The property line includes $43.3 million of loss and losses expenses attributable to notable loss events identified above, which represents 36.2 percentage points of the property line loss ratio for the year ended December 31, 2008. The property line loss ratios, excluding prior year development and notable loss events identified above, for the year ended December 31, 2008 was 68.7%.

For the year ended December 31, 2008, the marine line experienced favorable development of $16.6 million, or 6.3 percentage points of the marine line loss ratio, due primarily to low claims activity in the cargo and hull classes in the 2006 and prior underwriting years. The marine line includes $24.5 million of loss and losses expenses attributable to notable loss events identified above, which represent 9.3 percentage points of the marine line loss ratio. The marine line loss ratio, excluding prior year development and notable loss events identified above, for the year ended December 31, 2008 was 55.5%.

For the year ended December 31, 2008, the specialty lines experienced favorable development of $32.2 million, or 14.6 percentage points of the specialty lines loss ratio, 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. The specialty lines include $1.0 million of loss and losses expenses attributable to notable loss events identified above, which represent 0.5 percentage points of the specialty lines loss ratio. The specialty lines loss ratio, excluding prior year development and notable loss events identified above, for the year ended December 31, 2008 was 49.5%. The increase in the current year loss ratio was due to several losses on the financial institutions line together with provisions in respect of expected claims arising from the current global economic downturn that have been incurred but have not yet fully emerged.

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Policy Acquisition Costs

Policy acquisition costs for the year ended December 31, 2008 were $235.0 million compared to $134.3 million for the year ended December 31, 2007, an increase of $100.7 million or 75.0%. Policy acquisition costs were higher due to $71.1 million resulting from the consolidation of Talbot and an increase at Validus Re which accounted for $29.9 million of the increase.

(Dollars in thousands)	Year Ended December 31, 2008 Policy Acquisition Costs	Year Ended December 31, 2008 Policy Acquisition Costs (%)	Year Ended December 31, 2007 Policy Acquisition Costs	Year Ended December 31, 2007 Policy Acquisition Costs (%)	Year Ended December 31, 2006 Policy Acquisition Costs	Year Ended December 31, 2006 Policy Acquisition Costs (%)
Property	$ 97,345	41.4%	$ 68,645	51.1%	$ 28,590	79.3%
Marine	74,372	31.7%	33,391	24.9%	3,785	10.5%
Specialty	63,234	26.9%	32,241	24.0%	3,697	10.2%
Total	$ 234,951	100.0%	$ 134,277	100.0%	$ 36,072	100.0%

(1) 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, 2008 were $100.2 million compared to $70.3 million for the year ended December 31, 2007, an increase of $29.9 million or 42.5%.

(Dollars in thousands)	Year Ended December 31, 2008 Policy Acquisition Costs	Year Ended December 31, 2008 Policy Acquisition Costs (%)	Year Ended December 31, 2007 Policy Acquisition Costs	Year Ended December 31, 2007 Policy Acquisition Costs (%)	Year Ended December 31, 2006 Policy Acquisition Costs	Year Ended December 31, 2006 Policy Acquisition Costs (%)
Property	$ 75,717	75.5%	$ 55,472	78.9%	$ 28,590	79.3%
Marine	14,718	14.7%	7,410	10.5%	3,785	10.5%
Specialty	9,808	9.8%	7,441	10.6%	3,697	10.2%
Total	$ 100,243	100.0%	$ 70,323	100.0%	$ 36,072	100.0%

Policy acquisition costs include brokerage, commission and excise tax and are generally driven by contract terms and are normally a set percentage of premiums. Policy acquisition costs were higher as a result of the higher level of premiums earned in the year ended December 31, 2008 compared to the same period in 2007. Policy acquisition costs as a percent of net premiums earned for the year ended December 31, 2008 and 2007 were 15.3% and 12.6%, respectively, an increase of 2.7 percentage points. The policy acquisition ratio increased due principally to an increase in the policy acquisition ratio on property lines of 2.7 percentage points. A number of proportional property contracts that incepted during the year ended December 31, 2007 that carry a high acquisition cost ratio were at their peak earnings period. These contracts increased the acquisition cost ratio for the year ended December 31, 2008.

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Talbot. Talbot policy acquisition costs for the year ended December 31, 2008 were $135.0 million compared to $125.4 million for the year ended December 31, 2007, an increase of $9.6 million or 7.7%.

(Dollars in thousands)	Year Ended December 31, 2008 Policy Acquisition Costs	Year Ended December 31, 2008 Policy Acquisition Costs (%)	Year Ended December 31, 2007(1) Policy Acquisition Costs	Year Ended December 31, 2007(1) Policy Acquisition Costs (%)	Year Ended December 31, 2006(1) Policy Acquisition Costs	Year Ended December 31, 2006(1) Policy Acquisition Costs (%)
Property	$ 21,937	16.2%	$ 25,356	20.2%	$ 26,351	22.8%
Marine	59,654	44.2%	51,387	41.0%	47,751	41.3%
Specialty	53,426	39.6%	48,676	38.8%	41,417	35.9%
Total	$ 135,017	100.0%	$ 125,419	100.0%	$ 115,519	100.0%

(1) 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.

Policy acquisition costs as a percent of net premiums earned were 22.4% and 21.5%, respectively, for the years ended December 31, 2008 and 2007. On a gross basis, policy acquisition costs as a percent of gross earned premiums were 19.6% and 18.6%, respectively, for the years ended December 31, 2008 and 2007. This increase is due to higher brokerage rates on the bloodstock and accident and health accounts within the specialty class of business.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2008 were $123.9 million compared to $97.8 million for the year ended December 31, 2007, an increase of $26.2 million or 26.8%. The increase in general and administrative expenses was driven primarily by the addition of Talbot which contributed $22.6 million.

(Dollars in thousands)	Year Ended December 31, 2008 General and Administrative Expenses	Year Ended December 31, 2008 General and Administrative Expenses (%)	Year Ended December 31, 2007(1) General and Administrative Expenses	Year Ended December 31, 2007(1) General and Administrative Expenses (%)	Year Ended December 31, 2006 General and Administrative Expenses	Year Ended December 31, 2006 General and Administrative Expenses (%)
Validus Re	$ 34,607	28.0%	$ 31,412	32.1%	$ 24,565	64.1%
Talbot	71,443	57.6%	48,886	50.0%		NM
Corporate & Eliminations	17,898	14.4%	17,467	17.9%	13,789	35.9%
Total	$ 123,948	100.0%	$ 97,765	100.0%	$ 38,354	100.0%

(1) 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.

NM Not meaningful

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General and administrative expense ratios for the years ended December 31, 2008 and 2007 were 12.0% and 13.3%, respectively. General and administrative expense ratio is the sum of general and administrative expenses and share compensation expense divided by net premiums earned.

	Year Ended December 31, 2008		Year Ended December 31, 2007(1)		Year Ended December 31, 2006	
(Dollars in thousands)	**Expenses**	**Expenses as% of Net Earned Premiums**	**Expenses**	**Expenses as% of Net Earned Premiums**	**Expenses**	**Expenses as% of Net Earned Premiums**
General and Administrative	$ 123,948	9.9%	$ 97,765	11.4%	$ 38,354	12.5%
Share Compensation	27,097	2.1%	16,189	1.9%	7,878	2.6%
Total	$ 151,045	12.0%	$ 113,954	13.3%	$ 46,232	15.1%

(1) 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 $123.9 million in the year ended December 31, 2008 represents 9.9 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, 2008 were $34.6 million compared to $31.4 million for the year ended December 31, 2007, an increase of $3.2 million or 10.2%. The increase in expenses reflects the increase in staff to 91 at December 31, 2008 from 66 at December 31, 2007. The general and administrative expenses as a percent of net premiums earned for the years ended December 31, 2008 and 2007 were 5.3% and 5.6%, respectively.

Talbot. Talbot general and administrative expenses were $71.4 million and $95.5 million for the years ended December 31, 2008 and 2007, respectively. General and administrative expenses have decreased as a result of a reduction in profit related bonus expenses of $9.5 million, a reduction Lloyd s operating costs of $5.7 million due to lower rates of central fund charges and a reduction in non-syndicate operating costs of $3.0 million. This decrease was partly offset by an additional $2.1 million of intangible asset amortization related to the Company s acquisition of Talbot. General and administrative expenses as a percent of net premiums earned were 11.8% and 16.4% for the years ended December 31, 2008 and 2007.

Corporate & Eliminations. Corporate general and administrative expenses for the year ended December 31, 2008 were $17.9 million compared to $17.5 million for the year ended December 31, 2007. 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, 2008 was $27.1 million compared to $16.2 million for the year ended December 31, 2007, an increase of $10.9 million or 67.4%. This increase reflects the increase in staff to 280 at December 31, 2008 from 228 at December 31, 2007 and $2.5 million in respect of the Employee Seller shares issued to Talbot employees as part of the purchase of the group by the Company. 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.

	Year Ended December 31, 2008		Year Ended December 31, 2007(1)		Year Ended December 31, 2006	
(Dollars in thousands)	**Share Compensation Expense**	**Share Compensation Expense (%)**	**Share Compensation Expense**	**Share Compensation Expense (%)**	**Share Compensation Expense**	**Share Compensation Expense (%)**
Validus Re	$ 6,829	25.2%	$ 4,013	24.7%	$ 3,105	39.4%
Talbot	4,702	17.4%	1,709	10.6%		NM
Corporate & Eliminations	15,566	57.4%	10,467	64.7%	4,773	60.6%
Total	$ 27,097	100.0%	$ 16,189	100.0%	$ 7,878	100.0%

(1) 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 $27.1 million in the year ended December 31, 2008 represents 2.1 percentage points of the general and administrative expense ratio.

Validus Re. Validus Re share compensation expense for the year ended December 31, 2008 was $6.8 million compared to $4.0 million for the year ended December 31, 2007, an increase of $2.8 million or 70.2%. Share compensation expense as a percent of net premiums earned for the years ended December 31, 2008 and 2007 was 1.0% and 0.7%, respectively.

Talbot. Talbot share compensation expense for the years ended December 31, 2008 and December 31, 2007 was $4.7 million and $1.7 million, respectively. The increase is due to awards made in the third quarter of 2007 and the 2008 cost of those awards being incurred for the full year whereas the 2007 cost includes the period from acquisition only. Share compensation expense as a percent of net premiums earned for the year ended December 31, 2008 and December 31, 2007 was 0.8% and 0.3%, respectively.

Corporate & Eliminations. Corporate share compensation expense for the year ended December 31, 2008 was $15.6 million compared to $10.5 million for the year ended December 31, 2007, an increase of $5.1 million or 48.7%. The increase was partially a result of a $2.5 million increase related to the Employee Seller shares issued to Talbot employees as part of the purchase of the group by the Company.

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 net 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 loss and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the years ended December 31, 2008, 2007 and 2006.

	Year Ended December 31, 2008	**Year Ended December 31, 2007**	**Year Ended December 31, 2006**
Losses and loss expenses ratio	61.5%	33.1%	29.8%
Policy acquisition cost ratio	18.7%	15.6%	11.8%
General and administrative expense ratio(1)	12.0%	13.3%	15.1%
Expense ratio	30.7%	28.9%	26.9%
Combined ratio	92.2%	62.0%	56.7%

(1) Includes general and administrative expense, and share compensation expense.

	Year Ended	**Year Ended**	**Year Ended**

Validus Re	**December 31, 2008**	**December 31, 2007**	**December 31, 2006**
Losses and loss expenses ratio	64.4%	31.4%	29.8%
Policy acquisition cost ratio	15.3%	12.6%	11.8%
General and administrative expense ratio	6.3%	6.3%	9.0%
Expense ratio	21.6%	18.9%	20.8%
Combined ratio	86.0%	50.3%	50.6%

Talbot	Year Ended December 31, 2008	Year Ended December 31, 2007(1)	Year Ended December 31, 2006
Losses and loss expenses ratio	58.3%	43.0%	36.3%
Policy acquisition cost ratio	22.4%	21.4%	23.5%
General and administrative expense ratio	12.6%	16.9%	13.9%
Expense ratio	35.0%	38.3%	37.4%
Combined ratio	93.3%	81.3%	73.7%

(1) 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, 2008 was $98.4 million compared to $325.9 million for the year ended December 31, 2007, a decrease of $227.5 million or 69.8%.

(Dollars in thousands)	Year Ended December 31, 2008	% of Sub Total	Year Ended December 31, 2007	% of Sub Total	Year Ended December 31, 2006	% of Sub Total
Validus Re	$ 91,207	69.3%	$ 277,743	78.5%	$ 151,449	100.0%
Talbot	40,316	30.7%	76,046	21.5%		N/A
Sub total	131,523	100.0%	353,789	100.0%	151,449	100.0%
Corporate & Eliminations	(33,155)		(27,934)		(18,562)	
Total	$ 98,368		$ 325,855		$ 132,887	

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 net investment income (loss), other income, realized gain on repurchase of debentures, finance expenses, net realized and unrealized gains (losses) on investments, foreign exchange gains (losses), fair value of warrants issued and Aquiline termination fee.

	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
	(Dollars in thousands)		
Underwriting income	$ 98,368	$ 325,855	$ 132,887
Net investment income	139,528	112,324	58,021
Other income	5,264	3,301	
Realized gain on repurchase of debentures	8,752		
Finance expenses	(57,318)	(51,754)	(8,789)
Net realized (losses) gains on investments	(1,591)	1,608	(1,102)
Net unrealized gains (losses) on investments	(79,707)	12,364	
Foreign exchange gains (losses)	(49,397)	6,696	2,157
Fair value of warrants issued		(2,893)	(77)
Aquiline termination fee		(3,000)	
Net income before taxes	$ 63,899	$ 404,501	$ 183,097

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

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

Net Investment Income

Net investment income for the year ended December 31, 2008 was $139.5 million compared to $112.3 million for the year ended December 31, 2007, an increase of $27.2 million or 24.2%. Net investment income increased as a result of growth in the Validus Re investment portfolio and the addition of the Talbot investment portfolio. 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 year ended December 31, 2008 and 2007 is as presented below.

(Dollars in thousands)	**Year Ended December 31, 2008**	**Year Ended December 31, 2007**	**Year Ended December 31, 2006**
Fixed maturities and short-term investments	$ 127,689	$ 98,559	$ 57,350
Securities lending income	1,775	242	
Cash and cash equivalents	13,416	16,111	2,583

Total investment income		142,880		114,912		59,933
Investment expenses		(3,352)		(2,588)		(1,912)
Net investment income	$	139,528	$	112,324	$	58,021

Investment management fees incurred relate to BlackRock and GSAM. Each of Merrill Lynch and Goldman Sachs is a major shareholder 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 years ended December 31, 2008 and December 31, 2007 were $1.7 million and $1.4 million, respectively. Investment management fees earned by GSAM for the years ended December 31, 2008 and December 31, 2007 were $1.4 million and $0.9 million, respectively. Management believes that the fees charged were consistent with those that would have been charged by 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 for the years ended December 31, 2008 and 2007 was 4.4% and 4.9%, respectively, and the average duration at December 31, 2008 was 1.82 years (December 31, 2007 2.0 years).

Finance Expenses

Finance expenses for the year ended December 31, 2008 were $57.3 million compared to $51.8 million for the year ended December 31, 2007, an increase of $5.6 million or 10.8%. The higher finance expenses in 2008 were primarily attributable to the following:

Increased interest on the 8.480% Junior Subordinated Deferrable Debentures of $5.8 million as the debentures were issued on June 21, 2007; and

Increased FAL finance expense of $2.1 million resulting from the consolidation of Talbot.

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

(Dollars in thousands)	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
9.069% Junior Subordinated Deferrable Debentures	$ 14,354	$ 14,398	$ 7,824
8.480% Junior Subordinated Deferrable Debentures	14,704	8,938	
Credit facilities	910	2,332	965
Talbot FAL facilities	255	658	
Talbot other interest	(186)	620	
Talbot third party FAL facility	27,281	24,808	
Total	$ 57,318	$ 51,754	$ 8,789

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 they 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 years profit is payable to Talbot third party FAL providers. However some of these costs are fixed. Further, the 2005 underwriting year only became profitable on a cumulative basis in September 2007, thus triggering profit-related payments for that underwriting year.

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The FAL finance charges respond 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:

	Year Ended December 31								
	FAL Finance Charges			Total SyndicateProfit			FAL Finance Charges as% of Total Syndicate Prof		
rwriting Year of Account ars in thousands)	2008	2007(1)	2006(1)	2008	2007(1)	2006(1)	2008	2007(1)	200
2)	$	$	$ 23,325	$	$	61,819	NM	NM	3
2)	$	$ 16,335	$ 1,511	$	$ 76,677	56,564	NM	21.3%	
2)	18,160	19,202	12,425	54,845	54,484	33,173	33.1%	35.2%	3
	9,121	6,299		35,986	20,864		25.3%	30.2%	N
				(28,724)			NM	NM	N
	$ 27,281	$ 41,836	37,261	$ 62,107	$ 152,025	$ 151,556	43.9%	27.5%	2
ntage excluding years in :							30.0%	27.5%	2

(1) 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 years ended December 31, 2007 and 2006 for comparative purposes only.

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

NM Not meaningful

FAL finance charges are based on syndicate profit but include fixed elements. Both the 2005 and 2007 years of account were in cumulative loss positions at December 31, 2007 and so provisions for only fixed elements of FAL finance charges were made.

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.

	Year Ended December 31		
(Dollars in thousands)	**2008**	**2007(1)**	**2006(1)**
Total syndicate profit	$ 62,108	$ 152,025	$ 151,556
FAL Finance expenses	(27,281)	(41,836)	(37,261)
Managing agent s fee(2)	9,019	9,750	8,473
Managing agent s profit commission(3)	22,286	23,625	14,040
Investment income(4)	7,433	13,512	7,663
Other segment operating expenses, net(5)	(24,515)	(30,692)	(21,273)

Share compensation	(4,702)	(1,469)	
Intangible amortization	(4,161)	(2,081)	
Income tax expense	(10,700)	(2,638)	566
Talbot segment net income	$ 29,487	$ 120,196	$ 123,764

(1) 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 years ended December 31, 2007 and 2006 for comparative purposes only.

(2) 1.5% of syndicate capacity; corresponding syndicate expense reflected in total syndicate profit, above.

(3) 15.0% of syndicate profit; corresponding syndicate expense reflected in total syndicate profit, above.

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

(5) Includes Talbot Holdings Ltd share option expenses.

Net Realized Gains (Losses) on Investments

Net realized losses on investments for the year ended December 31, 2008 were $1.6 million compared to gains of $1.6 million for the year ended December 31, 2007. Net realized gains resulted from the sale of fixed maturity investments in certain financial institutions.

Net Unrealized Gains (Losses) on Investments

Net unrealized losses on investments for the year ended December 31, 2008 were $79.7 million compared to gains of $12.4 million for the year ended December 31, 2007. The net unrealized losses during the year ended December 31, 2008 were due primarily to market value declines in the Company s holding of AAA rated Alt-A non-Agency RMBS and CMBS. The net unrealized losses during the remaining nine months ended December 31, 2008 were primarily from market value declines due to spreads widening as a result of extreme volatility in the financial markets.

The Company early adopted FAS 157 and the FAS 159 Fair Value Option on January 1, 2007 for its investment portfolio. As a result, for the quarters ended December 31, 2008 and 2007, net unrealized gains on investments are recorded as a component of net income. Talbot also adopted FAS 157 and the FAS 159 Fair Value Option for its investment portfolio upon acquisition by the Company on July 2, 2007. During the three months ended September 30, 2008, the Company adopted FSP FAS 157-3. Consistent with this statement, 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 certain markets. The change in fair value measurement process for the identified non-Agency RMBS securities resulted in a $21.8 million reduction in net unrealized loss on investments for the year ended December 31, 2008. Further details are provided in the Investments section below.

Realized Gain on Repurchase of Debentures

On April 29, 2008, the Company repurchased from an unaffiliated financial institution $45.7 million principal amount of its 8.480% Junior Subordinated Deferrable Debentures due 2037 at an aggregate price of $36.6 million plus accrued and unpaid interest of $0.5 million. The repurchase resulted in the recognition of a realized gain of $8.8 million for the year ended December 31, 2008.

Foreign Exchange (Losses) Gains

Foreign exchange losses for the year ended December 31, 2008 were $49.4 million compared to gains of $6.7 million for the year ended December 31, 2007, a decrease of $56.1 million. Foreign exchange (losses) gains resulted from the effect of the fluctuation in foreign currency exchange rates on assets denominated in foreign currencies. The foreign exchange losses during the year ended December 31, 2008 were a result of the strengthening of the U.S. dollar resulting in losses on translation arising out of receipts of non-U.S. dollar premium installments. 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.

Talbot s balance sheet includes net unearned premiums and deferred acquisition costs denominated in foreign currencies of approximately $62.3 million. This balance consisted of British pound sterling and Canadian dollars of approximately $55.9 million and $6.4 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. During the three months ended December 31, 2008, this translation process resulted in foreign exchange losses that will reverse in future periods as net unearned premiums and deferred acquisition costs are earned. 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.

Income Tax Expense

Income tax expense for the year ended December 31, 2008 was $10.8 million compared to $1.5 million for the year ended December 31, 2007, an increase of $9.3 million. This increase was driven primarily by the addition of Talbot which contributed $9.3 million. The increased income tax expense resulted primarily from higher levels of profit commission which is taxable in the U.K., through the Talbot segment, together with lower bonus cost and foreign exchange differences in the U.K. companies reporting under U.K. GAAP which are taxable in the U.K., which did not have a significant effect for the year ended December 31, 2007.

Year ended December 31, 2007 compared to year ended December 31, 2006

Net income for the year ended December 31, 2007 was $403.0 million compared to $183.1 million for the year ended December 31, 2006, an increase of $219.9 million or 120.1%. The primary factors driving the increase were:

- The consolidation of Talbot effective in the third quarter of 2007 increased annual underwriting income by $76.0 million;

- An increase in Validus Re underwriting income of $126.3 million or 83.4% as a result of an increase of $252.5 million in net premiums earned, offset by losses including those related to windstorm Kyrill, the Australian windstorms, flooding in parts of England and the California wildland fires;

- An increase in net investment income of $54.3 million or 93.6% as a result of growth in the Validus Re investment portfolio and the addition of the Talbot portfolio;

- Increased realized and unrealized gains on investments of $15.1 million. The majority of this increase was due to the early adoption on FAS 157 and FAS 159 resulting in unrealized gains on investments being recorded in net income rather than comprehensive income; and

- An increase in foreign exchange gains of $4.5 million due primarily to the weakening U.S. dollar.

The increases above were partially offset by the following factors:

- Increased finance expenses of $43.0 million, primarily resulting from $6.6 million on the 9.069% Junior Subordinated Deferrable Debentures, $8.9 million finance expense on the 8.480% Junior Subordinated Deferrable Debentures, $26.1 million of Talbot FAL finance expense and $1.0 million finance expense on unsecured credit facility borrowings of $188.0 million and;

- Fair value of warrants issued expense of $2.9 million due to an anti-dilution provision of the warrants arising from the issuance of restricted common shares in to the Talbot acquisition.

The increase in net income for the year ended December 31, 2007 of $219.9 million is described in the following table:

	Year Ended December 31, 2007 Increase (Decrease) over the Year Ended December 31, 2006			
(Dollars in thousands)	**Validus Re**	**Talbot**	**Corporate and Other Reconciling Items**	**Total**
Underwriting income	$ 126,294	$ 76,046	$ (9,372)	$ 192,968
Net investment income (loss)	27,985	25,805	513	54,303
Other income (loss)		3,301		3,301
Finance expenses	(1,281)	(26,086)	(15,598)	(42,965)
	152,998	79,066	(24,457)	(207,607)
Taxes	61	1,444		1,505
Net (losses) realized gains on investments	1,545	1,165		2,710
Net (losses) unrealized gains on investments	8,556	3,808		12,364
Foreign (losses) exchange gains	5,338	(799)		4,539
Fair value of warrants issued			(2,816)	(2,816)
Aquiline termination fee			(3,000)	(3,000)
Net income	$ 168,376	$ 81,796	$ (30,273)	$ (219,899)

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 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 financing activities and the effect of foreign currency rate changes on cash and cash equivalents for the three years ended December 31, 2008, 2007 and 2006 is described in the following table:

Year Ended December 31

(Dollars in thousands)	2008	% Change	2007	% Change	2006
Net cash provided by operating activities	$ 485,983	(13.7)%	$ 563,378	108.3%	$ 270,512
Net cash (used in) provided by investing activities	(269,810)	68.6%	(860,522)	(14.1)%	(754,486)
Net cash (used in) provided by financing activities	(162,334)	(124.2)%	670,246	357.7%	146,436
Effect of foreign currency rate changes on cash and cash equivalents	(48,689)	(712.2)%	7,953	195.3%	2,693
Net increase (decrease) in cash					