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PRESENTATION

Operator

Hello, and welcome to Validus Holdings Ltd. conference call.

(Operator Instructions).

Now I would like to turn the conference over to Robert Kuzloski, Executive Vice President of Validus Holdings. You may now begin, sir.

Robert Kuzloski - Validus Holdings Ltd - EVP

Thank you, and good morning. Welcome to the Validus Holdings investor conference call. With me today are Ed Noonan, Validus' Chairman and Chief Executive Officer, and Jeff Consolino, Validus' President and Chief Financial Officer. On this morning's call, we will be following a slide presentation which is available on our website located at www.validusholdings.com. Today's call is being webcast, and will be available for replay. Those details are provided in a press release we issued yesterday, which is also available on our website.

As a reminder, certain comments made during this call may be considered forward-looking within the meaning of the US securities laws. These statements address matters that involve risks and uncertainties, and reflect the Company's current view of current events and financial performance. Accordingly, there are or will be important factors that could cause actual results to differ materially from these indicated in such statements, and therefore, you should not place undue reliance on any such statements.

More detail on these factors can be found in our most recent annual report on Form 10-K and quarterly report on Form 10-Q, both filed with the US Securities and Exchange Commission. Except to the extent required by law, Validus undertakes no obligation to undertake publicly or revise any forward-looking statement, whether as a result of new information, future developments, or otherwise. With that, I turn the call over to Ed Noonan.

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Thank you, Rob, and thank you all for taking the time to join us this morning. I'd like to start by providing a strategic overview before getting into some of the specific attributes that we think will make this a compelling direct conduction for Validus and its shareholders, as well as Transatlantic and their shareholders. Since our formation in December of 2005, we've been of the view that short tail classes of risks have been the most attractively priced. We have successfully built the Company in this space, including two major acquisitions along the way. As a result, Validus is one of the leaders in the global short tail market, and for catastrophe risk in particular.

We've also been of the view that the casualty business has been less attractive due to a decreasing rate environment over the last four to five years. We've held the view that when presented with a market upturn, we would look seriously at entering the class. We note from our discussions with buyers and brokers of casualty reinsurance, that the market has shown reasonable the system, and that there is not significant excess capacity.

We have not concluded that a market upturn is imminent, however, we do observe that accident year results for casualty lines are unprofitable, reserve releases from prior years are dwindling, and investment income is at historic lows. We see these as the siege of a market likely to stabilize and improve over the next few years. Frankly, these factors alone would not have caused us to into the casualty market. We be inclined to wait a bit longer.

However, the availability of one of the leading global franchises in the industry at a fair valuation caused us to evaluate our position in a different context. We could wait a year or two, but the Transatlantic opportunity would no longer be available. We think that the analytical skill, platform, and underwriting acumen we've built in the short tail lines can grow more robustly as part of a well diversified business. We also see very clear benefits to Transatlantic to be able to diversify their business more broadly, both in class and geography.

We don't think we're smart enough to time this cycle, and we wouldn't try. We also tend to be very conservative in our approach to reserving. Accordingly, we will increase Transatlantic's reserves by $500 million as part of this transaction.

At various times, we've taken a defensive approach towards different classes of risk within the Validus. As recently as January 1 of this year, we have taken a more defensive stance in our catastrophe business, as a result of the rate decreases. After 32 years in the business, the vast majority of expense and command roles for the biggest casualty reinsurers, I have a belief that success is as much about as what you don't write, as what you do.

We see this as a time to be defensive in the casualty classes, and the earnings stream that Validus brings to the combined Company will allow us to make all decisions around underwriting profit as a combined Company.

We have a very high regard for Transatlantic, and the franchise that they've created. We think the combined Company can not only be one of the largest reinsurers in the world, but more importantly, one of the most profitable. With that, I'd like to turn the call over to Jeff Consolino to walk through the offer itself, and some of the details attendant to it.

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

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Thank you, Ed. Thank you all for joining us on this morning's call. We're excited to see that so many Validus and Transatlantic shareholders have dialed in this morning. I'm going to cover the details of Validus' Superior proposal for Transatlantic stockholders. Ed will then come back and about the post-combination business plan. And I'll close with some commentary on our road map to completion.

For those of you who are following along with the slides we provided, I'm going to start on page six, which is titled Overview of Validus' Superior Proposal. Yesterday after the market closed, we delivered to Transatlantic and the Transatlantic Board, a proposal to merge Validus and Transatlantic. That proposal took the form of a letter outlining the terms of our proposal, plus a merger agreement. The proposed transaction is structured as a stock-for-stock merger, preceded by a special cash dividend to Transatlantic shareholders.

The transaction is designed to be tax-free for Validus shareholders, with respect to the Validus shares received in the merger. Our offer price is $55.95 per Transatlantic share based on the closing share price for Validus on July 12, $8.00 of this is in the form of the pre-closing cash dividend. The balance of the consideration is in Validus common shares. We're offering an exchange ratio of 1.5564 shares of Validus per share of Transatlantic. This calculates out to a value of $47.95 in Validus common stock, based on yesterday's closing price.

This $55.95 offer represents an $11.94 premium in dollar terms, to the Transatlantic June 10 closing price of $44.01. This is the last trading day before the announcement of the proposed Trans Allied merger. $11.94 is a 21.7% premium to the so-called unaffected share price for Transatlantic. Our $55.95 offer exceeds yesterday's closing price by $6.93 for Transatlantic. This is a 14.1% premium.

Finally, $55.95 also represents a 12.1% premium to the current value of the offer by Allied World. Our offer is a $6.04 improvement in per share value for Transatlantic. On a pro forma basis, pre-transaction Validus shareholders would have 52% ownership of the enlarged Company on a fully diluted basis. Pre-transaction Transatlantic shareholders will own 48%. Our transaction does have certain closing conditions, including Transatlantic's termination of the merger agreement with Allied World, shareholder approval from Transatlantic and Validus, and customary regulatory approvals.

In terms of financial effect, after Transatlantic's settling of $115 million breakup fee, after the $500 million planned reserve strengthening pre-tax to fortify Transatlantic's reserve position and after estimated expenses, we see a transaction which is slightly accretive to our March 31, 2010, 2011 diluted book value per share, and more accretive to the tangible book value per diluted share. While we do see this transaction as accretive to diluted book value per share, I would caution you that we will not be recording nearly the level of bargain purchase gain that we saw in our IPC acquisition in 2009. After adjusting for the break-up fee and setting aside what we consider to be an appropriate additional amount to fortify the Transatlantic loss reserve, we see this as essentially a book for book value exchange at parity for each party.

Moving on to page seven, this is a compelling choice for Transatlantic stockholders. A combination with Validus brings immediately greater value for a Transatlantic stockholder. It also enhances the long-term prospects for Transatlantic. In an Allied World takeover, a Transatlantic stockholder has effectively sold control at a low market value premium, and a significant book value discount, 23% discount currently. That stockholder has entered into a fully taxable transaction, without any cash component to fund taxes, further eroding the value received.

That stockholder becomes an owner in a new company, with a lower level of commitment to the reinsurance business. And that stockholder receives a stock, which has less favorable characteristics than the Validus common stock that we're offering. What a Transatlantic stockholder gets from the Validus Superior Proposal, is the superior economics which I've covered, and an enhanced capital base, and ownership interest in a more complementary business, a top six world-wide reinsurance industry position, a position and more attractively priced short tail reinsurance, and ownership in a substantial profitable Lloyd's syndicate that has a leading position in global specialty short tail insurance, and a management team that is experienced, and has a strong acquisition track record.

Moving on to page eight, the people that know us, know that when we get into something at this, we're fully committed. And Validus is fully committed to a transaction with Transatlantic. We need to be clear. It's our desire to enter into discussions with Transatlantic and its Board, and arrive at a consensual merger. We have the opportunity under the existing merging agreement, to submit a superior proposal. We believe that Transatlantic's Board has a fiduciary duty that would compel it to engage with Validus, and discuss our Superior Proposal.

If Transatlantic's rebuffs our request for discussion, we do have a path to consummate a transaction, without the Board engaging. This path would consist of a vote no campaign, whereby the Transatlantic shareholders would vote against the Allied World acquisition at the special shareholders meeting. This also would involve Validus' launching of an exchange offer for Transatlantic shares, directly to the shareholders of Transatlantic. This exchange offer would be on terms substantially identical to the proposal made to the Transatlantic Board, although that exchange offer cannot be executed on a tax-free basis without the Transatlantic Board's cooperation.

Turning to slide nine, Validus has a track record of successfully executing and integrating transactions. In 2007, Validus acquired Talbot, a leading Lloyd's syndicate. We acquired Talbot for $382 million. Talbot has brought us $277 million in net income in acquisition. By moving first, Validus acquired the syndicate with the best business fit for Validus. We've kept all of the important management team at Talbot, and they continue to be with us today. A large number of competitors have followed Validus and entered into Lloyd's, but not one has reached the scale or the profitability that Talbot brings to Validus.

More recently, in September 2009, Validus amalgamated with IPC Holding. This was a $1.67 billion transaction. That transaction was the culmination of an unsolicited offer made by Validus, after IPC had agreed to combine with Max Capital at an inferior value. Validus launched a multi-pronged campaign to overcome this agreed IPC transaction with Max. And when we were successful, this transaction yielded a better value per IPC share, than did the proposed Max transaction. That transaction resulted in significant accretion for the Validus book value per share, and solidified Validus' position as a leader in the global short tail reinsurance market, positioning Validus as a leading quoting market, and positioning Validus with the size and market presence to create opportunity for differentiated price and term on many programs.

On page ten, we lay out why we believe our Superior offer provides stock with the superior market attributes. In short, we have a higher quality currency than the alternative. The Validus proposal provides a premium to Transatlantic stockholders, with a more liquid and better performing currency as a cash component. Validus' market capitalization of $3 billion is nearly 50% larger than that of Allied World. We have superior liquidity, creating $22.4 million per day over the last six months, and $27.6 million over the last three months, essentially double the liquidity in the Allied World stock.

For the time where we both been public, our total return to shareholders including dividends is 55%, well in excess of the comparable 24% for the Allied World shares. Our stock has been consistently accorded higher valuation multiples. Validus currently trades at 98% of diluted book value per share as of March 31, 2011. This represents a nearly 0.2% premium to Allied World. Our dividend yield is 3.3%, delivering more current income to shareholders than Allied World does. You can see on slide 11 that the valuation multiple gap that exists between our two companies has persisted over a very long time.

Before I turn back to Ed, I'd like to summarize on page 12. You can see a tabular presentation of our negotiated offer that we'd put before the Transatlantic Board, a comparison to the exchange offer we're prepared to launch, and a comparison to the Allied World offer. Validus is offering compelling value to the Transatlantic stockholders, well in that excess of that offered by Allied World. It is our desire to reach a consensual agreement with Transatlantic, and we're prepared to move as quickly as the Transatlantic Board will work with us. However, if the Transatlantic Board does not cooperate, Validus is prepared to commence an exchange offer as shown. We will continue to be willing to explore structures intended to provide tax-free treatment for Transatlantic stockholders. And in completed this, I'd like to turn back to Ed now.

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Thank you, Jeff. And sticking with the slide, looking at page 14, we've bring a commitment to the reinsurance business that we think is critical to success. We have a leading position in the best-priced risk classes in global market. From experience, I know that when casualty reinsurance goes through the correction phase, the results can be extraordinary. We've seen this in the post 9/11 period, and I experienced this in the mid-80s as well. We think the right soft market strategy is to be well-reserved, hang onto your experienced underwriters, and wait for the upturn. We see the combined Company as extremely well-positioned to execute on this strategy.

We also see this transaction as a solidifying our leading position in the catastrophe business. Validus has built an excellent franchise in a short period of time through our deeply analytical approach to underwriting. As a combined Company, our one in 100 year PMLs will be 14.3% of capital immediately following closing, or 16.7% on a pre-tax basis. That leaves us well within our risk tolerances, and positions us for further gains in the event of an active Atlantic hurricane season. Validus enters hurricane season with more protection against it's North American portfolio than ever before, both absolutely and proportionally.

If we turn to page 15, you can see how the combined Company would stack up in the global market. We don't measure ourselves by premium, as we think underwriting profit is right metric. But reinsurance is a scale business, and you can see that we will have created the sixth largest reinsurer in the global market with this transaction. The combined Company will have the product reach, geographic scope and size, to be a leader in any class that we find attractive.

On page 16, you can see that relative to our peer group, the capitalization of the combined Company will be outstanding. In a world where critical values and infrastructure projects, risk concentrations and demand for coverage will continue to grow, there is a significant advantage to scale.

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With $8.4 billion in total capitalization, we will be positioned to take advantage of the demand for bigger capacity anywhere in the world. A good example of this is the catastrophe line.

You can see on page 17, that we will be one of the biggest underwriters of cat risk in the market. We know from Validus' experience that size leads to competitive advantage in terms of influence, over pricing, terms and conditions, preferential signings, and private transactions at above market rates. We saw this again in the June and July 1 renewals, in which we outperformed the rate changes suggested by the major brokers. As I described earlier, you can see on page 18, that we will be well within our risk threshold with capacity available to deploy in attractive situations.

Page 19 shows the long-term trend in cat pricing, and we continue to see good returns in this core business. As a combined Company with Transatlantic, we will be better positioned to continue to build this business. We know from our past discussions with Transatlantic management that they've been moving the book to short tail exposures, a great example of a defensive strategy. The chart on page 20 shows the business mix of the combined Company. We will be 52% purely short tail, and an additional 21% casualty short tail.

It's worth noting that among (inaudible) Transatlantic's casualty short tail business, our classes such as accident and health, ocean marine, aviation, surety, and credit, all classes that many market participants view as purely short tail, and some which are not truly third party business at all. In the longer tail casualty lines, Transatlantic is a leader in the market for professional liability reinsurance. Their underwriters are highly regarded in the market, and we know their enterprise risk management infrastructure is very highly developed. We think the combination of classes written by the combined group will allow for very strong cycle management.

Additionally, the only area of any meaningful customer overlap is in the catastrophe business. Given the capitalization of the combined Company, we're very comfortable with our ability to retain the combined lines wherever we find it attractive. We went through this with IPC, and our execution was flawless.

I mentioned that we have a commitment to the reinsurance business. It is no slight to observe that Allied World has positioned itself as a primary casualty insurance underwriter. As you can see on page 21, Allied has defined its mission this way, and based its compensation on a strategy of being a specialty casualty insurance underwriter. When in doubt, the compensation plan is usually a good place to look for management's motivation.

On page 22, you can see that we write almost as much as insurance through our Talbot syndicate as Allied World, however, our business is 96% short tail. Talbot is a global leader in marine, terrorism, and war risk, and one of the most successful syndicates in the Lloyd's market over the last decade. Talbot makes its money on current underwriting income. As you can see in the chart, Talbot underwriting results have been better than Allied in each of the years that we have owned it. Allied drives the majority of it's an underwriting profit from the reserve release from the hard market years, and its current business is not terribly attractive on an accident year basis. We bring a better insurance franchise which is growing faster with better diversification and better current underwriting results.

On page 23, you can see the CIAB pricing trends for the industry. While the rate of decrease has slowed, it remains negative. We don't see benefits to Transatlantic in doubling down on their exposure to the casualty business in this environment by selling themselves to Allied.

When we contemplated Transatlantic, we were obviously very cautious about our ability to get our arms around reserve. We analyzed all the public data, as well as everything we know about the company. Our conclusion was that reserves still have some variability in them, and that our reserving standards would lead us to increase them by $500 million. We think this should stabilize prior-year reserves, and allow the combined Company to move forward without the drag. So with that, I'll stop and ask Jeff to run through the process from here, as we see it.

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

Thanks, again, Ed. I'll be covering in the final two slides Validus' road map to completion. On page 26, our road map starts with what we undertook yesterday, when we delivered our proposal letter and merger agreement to the Transatlantic Board containing the details of our Superior Proposal, reiterating Validus' desires that the Transatlantic Board engage in discussions with us on our proposal, so that we can deliver our Superior offer in a tax-free transaction for Transatlantic stockholders.

Barring this outcome, Validus is prepared to commence a vote no campaign against what we consider to be an inferior Allied World offer. That no vote would enable Transatlantic to terminate the merger agreement with Allied World and accept Validus' Superior proposal.

Many Transatlantic stockholders have already expressed reservations about the Allied World acquisition. And Validus believes that Transatlantic stockholders want the superior economics and the superior long-term value offered by Validus. In tandem with the vote no campaign, we would be prepared to take our offer directly to the Transatlantic shareholders. This would commence if the Transatlantic Board refuses to engage in discussions with Validus.

The exchange offer would allow Validus to acquire outstanding shares of Transatlantic for the same 1.5564 exchange ratio of Validus voting common shares plus $8.00 in cash per share. These terms are similar to proposal made to the Transatlantic Board, but if the Transatlantic Board refuses to engage in discussion with Validus, this exchange offer cannot to be made on a tax-free basis to Transatlantic stockholders.

Closing on page 27, we see a combination with Validus as creating greater current value and greater longer-term prospects for the Transatlantic stockholder. Validus is committed to it's Superior Proposal to merge with Transatlantic, creating a global reinsurance leader. The Validus proposal clearly represents a superior proposal, our $55.95 per Transatlantic share has a superior current value, a 27% premium to the unaffected Transatlantic share price, a 14% premium to Transatlantic's closing share price yesterday, and a 12% premium to the value implied by the Allied World transaction.

The Validus proposal delivers superior long-term value, with profitable diversification, strong growth prospects and strong growth prospects in profit. And a Validus proposal can be structured to be tax-free for Transatlantic shareholders if we go down the path of a consensual agreement with the Transatlantic Board. With that, our prepared remarks are finished, and we'd like to open the lines up for questions.

QUESTION AND ANSWER

Operator

Thank you.

(Operator Instructions).

Your first question comes from the line of Amit Kumar representing Macquarie. Please proceed.

Amit Kumar - Macquarie Research Equities - Analyst

Thanks, and good morning. I guess just starting with the obvious question. If you go back to slide 14, this proposal changes your focus with the long tail casualty line. I'm just wondering, you talked about the [TR] shareholders, why do you think is deal is good for Validus shareholders?

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Good morning, Amit, and thank you for joining us. First, I would observe that as I mentioned in my comments that the combined business would be 52% purely short tail, and another 21%, what Transatlantic refers to as casualty short tail. And if you look at the classes underlying that casualty short tail, they are described as a short tail by the rest of the market. So we don't -- the transformation in Validus isn't quite as stark, as it might otherwise seem. We think we're generally, about 73% short tail in total. We write accident and health, ocean and marine, aviation today. And so, those are not new classes to us, and we think of them as having very much short tail attributes.

What's in it for the Validus shareholders, which is obviously my primary concern? We take a business, that we think has performed extraordinarily well with -- that still has lots of room to grow. But we think that it has better room to grow, and better overall profit attributes as part of a bigger, a more broadly diversified enterprise. If you look at the global reinsurance market, the companies that are best able to capture the biggest opportunities at the better pricing, oftentimes our the ones with the bigger balance sheets.

We've done extremely well at Validus in executing on that strategy, and we'll continue to. But we see the opportunity to take the Company to an entirely new level, as one of the larger companies in the market with almost $8.5 billion of capitalization. We aren't using our PMLs, anywhere near our full risk tolerances. We see the room to deploy lots more aggregate, in the core catastrophe lines, if prices are attractive. And we do see at right time, if casualty conditions improve, significant diversification benefit to our shareholders through an improving casualty environment.

And of course, the float off of the reserves that goes along with it. And so we think actually, it's a rather compelling transaction for us, and one that will allow Validus to continue to generate for its shareholders the outstanding results out of our short tail business, but now do it on a platform that should allow us to grow it better. And at the same time, offer better diversification long-term.

Amit Kumar - Macquarie Research Equities - Analyst

Okay. Thanks for the answer. In terms of capital, what kind of excess capital do you foresee on a pro forma basis, and what do you plan to do with that excess capital going forward?

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

Thanks, and this is Jeff Consolino. We do feel like Validus, pre-transaction, is in an excess capital position. We do have nearly $400 million remaining under our share repurchase authorization. But as you've seen from us, we've not been using that authorization. And through the course of 2011, we haven't been using that authorization because we like what we see in the underlying business, and our focus has been growing our Company, and growing our business.

Amit Kumar - Macquarie Research Equities - Analyst

Got it. And just one very quick question, can you talk about the potential combined earnings stream? And are there any potential expense saves going forward?

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Amit, from our perspective, I think the best way to describe the potential earnings stream going forward, is to take people's estimates for the two companies, maybe look at what Transatlantic disclosed in their proxy as to their estimate of earnings going forward. We wouldn't -- we don't provide guidance on forward earnings, and so I wouldn't look to do it in this situation.

As far as expense synergies, I mean there are clearly synergies involved in the deal, we don't see them as being hugely people-based synergies. We see this as being more akin to the Talbot acquisition, whereby you take what is an excellent company, and look to continue to invest in it, and make it better still. Clearly, there are synergies.

There are synergies around not having two public reporting companies. And no doubt, there are some tax synergies involved in the deal. But from our perspective, the synergies are all kind of icing on the cake. Those aren't the drivers of the deal. The drivers of the deal for us, is the opportunity to likely to be one of the largest and most profitable reinsurers in the market. And really achieve, what we think is the long-term goal and destiny of Validus in the catastrophe spaces, as well as on a more diversified basis.

Amit Kumar - Macquarie Research Equities - Analyst

Got it. Okay. Thanks for all your answers.

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Thanks, Amit.

Operator

Your next question comes from the line of Jay Cohen, representing Bank of America Merrill Lynch. Please proceed.

Jay Cohen - BofA Merrill Lynch - Analyst

Thank you. A couple questions. The first is, I know you're not giving guidance, but it sounds like you were buying a Company at about a 9.4 times earnings. Your stock is about 6.6 times earnings. So from an EPS standpoint, it's hard to see this deal not being dilutive to EPS. Is that fair?

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

It all depends, Jay, on what earnings you're looking at when you calculate a price earnings multiple. We've obviously read the Transatlantic proxy, and the earnings projections that they've put forward. We're also aware of the Street. Out of the gate, we look at this as additive to our book value, and more additive to tangible book. When we close on the transaction, which we expect to close on in the fourth quarter, we'll be right up against the January 1 insurance renewal. And we'll be in a position to determine how much we want to write, and what the combined earnings power of the Company looks like. So I think is a good opportunity, Jay, to decide how it is we're going to approach our risk appetite, and how much business we take on post closing.

Jay Cohen - BofA Merrill Lynch - Analyst

Got it. And then about the reserves, I guess, you have seen so many companies over the years, with all the inside information, get the reserves wrong. And here, you're using public information, obviously far less granular. I guess a couple questions there. One, how do you get comfortable with that? And then secondly, how much of a difference is there? In other words, if you were able to look at the inside detailed information, how much more informed could you be?

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Well, Jay, this is Ed. There's no doubt that with greater information and access to the independent actuarial reviews of the Company, we would have much greater granularity. What we see -- if you think about it, is that most of the variability and trends in the reserves have come from older time periods, the soft market years, some asbestos and environmental drag. We're well into the payout on those years. Those years are -- have been developing, and they've had their slippage. But if you look over the last few years, that slippage has slowed quite dramatically. We do have a good deal of insight into the Company and it's reserving thoughts and practices.

I would be remiss in suggesting that I or anyone else, could tell you that by putting up $0.5 billion, there's no potential for any slippage from there. But when you look at where the vast majority of the reserves slippage has come from, and the accident years involved, we're well out on the curve on them. And so, we think that $500 million obviously is above the level that Transatlantic is comfortable with, and has accounting and actuarial sign off on. And so, we think it moves more towards the type of -- point in the range that Validus tends to reserve at, and is prudent. Again, never say never, but we do think that to the extent that there is additional slippage in the future, we certainly have put the vast, vast majority behind us, both in terms of what Transatlantic has done over the years, and now with this additional $0.5 billion.

Jay Cohen - BofA Merrill Lynch - Analyst

Got it. Thanks for the answers.

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

Thank you, Jay.

Operator

Your next question comes from the line of Josh Shanker representing Deutsche Bank. Please proceed.

Josh Shanker - Deutsche Bank - Analyst

Yes, thank you. It just following up on Jay's question there, if the reserve strengthened do you think Transatlantic is in the reserve right now?

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

That the -- that's actually kind of one of those in the eye of the beholder questions. Thinking about Transatlantic, it is a big organization with $8 billion, $9 billion of reserves. There are reasonable ranges around a point estimate for those reserves. I wouldn't start by saying that Transatlantic is under reserved, over reserved, or anything else. They're obviously at a point that they're comfortable with, and that their outside auditors and actuaries are comfortable with. In our case, we -- having done our analysis, just tend to be more comfortable, a bit higher in the range.

Josh Shanker - Deutsche Bank - Analyst

Okay. And to what sense is this acquisition leveraging your hope that the casualty market might turn near-term?

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

I'm sorry, could you repeat that?

Josh Shanker - Deutsche Bank - Analyst

To what extent is this transaction, based on your desire that the casualty markets might turn in the next year or two?

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Yes. As I mentioned earlier, I'm not smart enough to predict casualty market turns, even after 32 years at it. But we do know that the underlying dynamics are now starting to flash yellow, at the very least. You've got four underwriting results on an accident year basis. You've got this massive amounts of reserve release that the industry has seen over the last five years is now dwindling pretty rapidly.

There's virtually no investment income to be had, so there's no point in writing business at a loss in the hopes that you're going to make it up in the float. And so we think that the dynamics are coming together for the market to stabilize, and starts to turn upward. I can't predict whether that's next year or the year after, I can't predict whether it's V-shaped or U-shaped, but we do know and from looking at past experience, it's easy to start to see that the market is running out of legs in terms of its ability to compete.

Josh Shanker - Deutsche Bank - Analyst

Okay. And finally, are there any tax efficiencies that can be used by restructuring Transatlantic into Validus on a current business?

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

Josh, I think it's pretty well known that Transatlantic has been seeking a transaction that moves them offshore. We haven't had these chance to sit down with Transatlantic and figure out how to optimize the tax structure of the post combination Company. So as noted, this transaction for us stands on its own, without considering any tax aspects to it. We'll see what the future brings, once we are the owner of Transatlantic, and we're operating as a combined Company.

Josh Shanker - Deutsche Bank - Analyst

Okay. Well, thanks for the answers. Good luck.

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Thank you, Josh.

Operator

The next question comes from the line of [Brian Novak] representing Pilot. Please proceed.

Brian Novak - Pilot Advisors - Analyst

Yes. The first question is the $8.00, you would write a check out of your own money to pay for the cash part of it? Whatever it was?

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

In our preferred direction, which would be a consensual transaction with Transatlantic, Transatlantic itself would declare a pre-closing dividend of $8.00, and they would do the financing for that. That facilitates a tax-free transaction for the stock component. You'll see in our release, that we would expect that pre-closing special dividend would be financed entirely by new indebtedness incurred entirely by Transatlantic. And the good people at JPMorgan Securities have provided us with a highly confident letter, to the extent in connection with the arrangement that the full amount of financing for Transatlantic could be obtained.

Brian Novak - Pilot Advisors - Analyst

Understood. I was confused a little bit. Did -- have you had discussions previous previously with Transatlantic management, and now they won't talk you? What's the situation in your dialogue with Transatlantic, if there has been? Because you sort of went back and forth in your discussion about that.

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Yes. We have at various times had conversations with Transatlantic. It's a Company we have a very high regard for. We know management, and I think Jeff and I both would describe Bob Warlick as a personal friend, as well as somebody we admire professionally. And so we've had kind of -- initial discussions on a number of occasions. Most recently, we actually had sent Bob a letter suggesting that we really should sit down now and see what it would take to combine the two companies. Our sense is that from reading their proxy, as it turns out, we think we're probably Company A, and that the timelines fit. And that they were already in -- I think some exclusive type of discussions with Allied World. But we have had discussions on and off over time, based on our respect for the company, and our belief that there's a great fit.

Brian Novak - Pilot Advisors - Analyst

Could you just refresh my memory, because I forgot what the breakup fee is with Allied World, for them quick?

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

It's a $115 million.

Brian Novak - Pilot Advisors - Analyst

115?

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

115. And just to reiterate, we've factored that into our analysis of the effect on our book value and our tangible book value per share.

Brian Novak - Pilot Advisors - Analyst

And in relation to the last two questions of the last two guys, you really haven't baked in switching around the investment portfolio and not paying taxes on it, as a result of making this a Bermuda company?

Jeff Consolino - Validus Holdings Ltd - EVP and CFO

Well, let's be clear. Post merger, the combined Company would have a parent company, which is a Bermuda company. That's our parent holding Company, Validus Holdings Limited. But that doesn't magically move everything out of the US. Transatlantic domestic US entities would continue to be domestic US entities, and their assets would continue to be in the US.

Brian Novak - Pilot Advisors - Analyst

(inaudible) Superior Proposal, to do that, considerable time?

Ed Noonan - Validus Holdings Ltd - Chairman and CEO

Well, I mean again, from our standpoint, the transaction makes compelling sense to us, in the absence of any particular tax considerations. No doubt, there are some, but that's not the key motivator for us at all. We think the chance to create one of the largest reinsurers in the world with such a diverse stream of profits is really the compelling aspect of it.

Brian Novak - Pilot Advisors - Analyst
One last question. After so many years, after year of having reserve deficiencies, as Transatlantic had a reserve redundancy, how confident are you, that you know what you are doing, when you talk about -- when you are talking about this $500 million reserve increase?

Ed Noonan - Validus Holdings Ltd - Chairman and CEO
Well again, I mean, we certainly would be more confident if we had access to zip Transatlantic's books and records and ensures that is et cetera, but again, we have for a short tail company, we have some very deeply experienced casualty actuaries on staff, all of whom with decades of experience in the reinsurance business. We know a lot about the industry, we know a lot about the development trends in the industry, we know about Transatlantic as a company that we've looked at and thought about over time. So I'd love to be able to say that gee, we've got this perfect.

But again, what I would say is that, we think the adverse development they've seen has come from primarily 2001 and prior. So we're well out into the development tail on that. We have noted it slowing over the last few years. That's not a momentary blip. And so we think that given how far out on the curve they are, that with the addition of $0.5 billion of reserves, it may not be an absolute firewall. But we think it certainly has to eliminate the vast majority of the drag that the Company would otherwise see, if you follow the trends in their published data.

Brian Novak - Pilot Advisors - Analyst
Thank you very much.

Ed Noonan - Validus Holdings Ltd - Chairman and CEO
Thank you for your interest.

Operator

Your next question comes from the line of Adam Starr, representing Gulfside Asset Management. Please proceed.