

VALIDUS HOLDINGS LTD

Form 10-Q

August 06, 2010

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

Form 10-Q

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

**For the quarterly period ended June 30, 2010
Commission file number 001-33606**

VALIDUS HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

BERMUDA

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

98-0501001

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

29 Richmond Road, Pembroke, Bermuda HM 08

(Address of principal executive offices and zip code)

(441) 278-9000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller
reporting company)

Smaller reporting
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 6, 2010, there were 111,527,254 outstanding Common Shares, \$0.175 par value per share, of the registrant.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM I. FINANCIAL STATEMENTS****Validus Holdings, Ltd.**

Consolidated Balance Sheets

As at June 30, 2010 (unaudited) and December 31, 2009

(Expressed in thousands of U.S. dollars, except share and per share information)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Fixed maturities, at fair value (amortized cost: 2010 - \$4,924,447; 2009 - \$4,870,395)	\$ 4,975,019	\$ 4,869,378
Short-term investments, at fair value (amortized cost: 2010 - \$269,782; 2009 - \$482,632)	269,782	481,766
Other investments, at fair value (amortized cost: 2010 - \$24,948; 2009 - \$35,941)	26,068	37,615
Cash and cash equivalents	492,489	387,585
Total investments and cash	5,763,358	5,776,344
Premiums receivable	931,670	551,616
Deferred acquisition costs	165,957	112,329
Prepaid reinsurance premiums	185,771	73,164
Securities lending collateral	99,224	90,350
Loss reserves recoverable	193,604	181,765
Paid losses recoverable	24,133	14,782
Net receivable for investments sold	25,542	
Income taxes recoverable	1,171	2,043
Intangible assets	120,975	123,055
Goodwill	20,393	20,393
Accrued investment income	38,643	38,077
Other assets	44,182	35,222
Total assets	\$ 7,614,623	\$ 7,019,140
Liabilities		
Reserve for losses and loss expenses	\$ 1,978,130	\$ 1,622,134
Unearned premiums	1,176,603	724,104
Reinsurance balances payable	98,740	65,414
Securities lending payable	100,000	90,106
Deferred income taxes	26,200	24,508
Net payable for investments purchased		44,145
Accounts payable and accrued expenses	95,404	127,809
Senior notes payable	246,820	
Debentures payable	289,800	289,800
Total liabilities	4,011,697	2,988,020

Commitments and contingent liabilities

Shareholders equity

Common shares, 571,428,571 authorized, par value \$0.175 Issued and outstanding (including treasury shares) (2010 - 111,407,993; 2009 - 128,459,478)	23,101	23,033
Treasury shares (2010 - 20,598,594; 2009 - 3,156,871)	(3,605)	(553)
Additional paid-in-capital	2,247,995	2,675,680
Accumulated other comprehensive (loss)	(6,726)	(4,851)
Retained earnings	1,342,161	1,337,811
Total shareholders equity	3,602,926	4,031,120
Total liabilities and shareholders equity	\$ 7,614,623	\$ 7,019,140

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

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Consolidated Statements of Operations and Comprehensive Income

For the Three and Six Months Ended June 30, 2010 and 2009 (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues				
Gross premiums written	\$ 516,861	\$ 425,032	\$ 1,387,795	\$ 1,034,924
Reinsurance premiums ceded	(67,726)	(62,291)	(158,465)	(134,803)
Net premiums written	449,135	362,741	1,229,330	900,121
Change in unearned premiums	(11,191)	(34,541)	(333,692)	(253,162)
Net premiums earned	437,944	328,200	895,638	646,959
Net investment income	34,809	26,963	69,108	53,735
Net realized gains (losses) on investments	12,441	(2,650)	23,839	(26,071)
Net unrealized gains on investments	41,640	37,249	57,053	59,402
Other income	2,697	1,017	3,585	1,774
Foreign exchanges (losses) gains	(4,099)	8,432	(12,863)	4,232
Total revenues	525,432	399,211	1,036,360	740,031
Expenses				
Losses and loss expenses	194,894	124,751	673,425	256,585
Policy acquisition costs	74,126	64,438	150,302	125,887
General and administrative expenses	52,379	41,200	105,948	79,279
Share compensation expenses	6,846	5,632	13,422	12,986
Finance expenses	13,218	10,752	28,369	18,475
Transaction expenses		15,851		15,851
Total expenses	341,463	262,624	971,466	509,063
Net income before taxes	183,969	136,587	64,894	230,968
Tax (expense) benefit	(4,187)	976	(3,490)	1,502
Net income	\$ 179,782	\$ 137,563	\$ 61,404	\$ 232,470
Comprehensive income				
Foreign currency translation adjustments	(68)	3,993	(1,875)	3,797
Comprehensive income	\$ 179,714	\$ 141,556	\$ 59,529	\$ 236,267

Earnings per share

Weighted average number of common
shares and common share equivalents
outstanding

Basic	121,009,553	76,138,038	123,821,415	75,941,308
Diluted	125,152,300	78,942,065	125,661,729	79,022,355

Basic earnings per share	\$	1.47	\$	1.79	\$	0.47	\$	3.02
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Diluted earnings per share	\$	1.44	\$	1.74	\$	0.46	\$	2.94
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Cash dividends declared per share	\$	0.22	\$	0.20	\$	0.44	\$	0.40
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The accompanying notes are an integral part of these consolidated financial statements (unaudited).

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Consolidated Statements of Shareholders' Equity

For the Six Months Ended June 30, 2010 and 2009 (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Common shares		
Balance Beginning of period	\$ 23,033	\$ 13,235
Issue of common shares	68	92
Balance End of period	\$ 23,101	\$ 13,327
Treasury shares		
Balance Beginning of period	\$ (553)	\$
Repurchase of common shares	(3,052)	
Balance End of period	\$ (3,605)	\$
Additional paid-in capital		
Balance Beginning of period	\$ 2,675,680	\$ 1,412,635
Issue of common shares, net of expenses	(80)	(1,243)
Repurchase of common shares	(441,027)	
Share compensation expenses	13,422	12,986
Balance End of period	\$ 2,247,995	\$ 1,424,378
Accumulated other comprehensive (loss)		
Balance Beginning of period	\$ (4,851)	\$ (7,858)
Foreign currency translation adjustments	(1,875)	3,797
Balance End of period	\$ (6,726)	\$ (4,061)
Retained earnings		
Balance Beginning of period	\$ 1,337,811	\$ 520,722
Dividends	(57,054)	(34,867)
Net income	61,404	232,470
Balance End of period	\$ 1,342,161	\$ 718,325
Total shareholders' equity	\$ 3,602,926	\$ 2,151,969

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

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Consolidated Statements of Cash Flows

For the Six Months Ended June 30, 2010 and 2009 (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Cash flows provided by (used in) operating activities		
Net income	\$ 61,404	\$ 232,470
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Share compensation expenses	13,422	12,986
Discount on senior notes	27	
Net unrealized (gains) losses on investments	(23,839)	26,071
Net unrealized (gains) on investments	(57,053)	(59,402)
Amortization of intangible assets	2,080	2,081
Foreign exchange losses (gains) on cash and cash equivalents included in net income	17,129	(9,593)
Amortization of premium on fixed maturities	8,410	4,123
Change in:		
Premiums receivable	(383,671)	(264,194)
Deferred acquisition costs	(53,628)	(37,460)
Prepaid reinsurance premiums	(112,607)	(63,532)
Loss reserves recoverable	(13,488)	42,977
Paid losses recoverable	(9,364)	(34,083)
Income taxes recoverable	860	(522)
Accrued investment income	(653)	680
Other assets	(11,550)	258
Reserve for losses and loss expenses	367,779	(18,001)
Unearned premiums	452,499	316,689
Reinsurance balances payable	35,240	66,957
Deferred income taxes	1,452	(2,504)
Accounts payable and accrued expenses	(30,867)	(6,190)
Net cash provided by operating activities	263,582	209,811
Cash flows provided by (used in) investing activities		
Proceeds on sales of investments	2,933,352	1,509,773
Proceeds on maturities of investments	198,637	311,221
Purchases of fixed maturities	(3,244,072)	(2,122,514)
Sales of short-term investments, net	211,801	53,781
Sales of other investments	11,610	
(Increase) in securities lending collateral	(9,894)	(63,235)
Net cash provided by (used in) investing activities	101,434	(310,974)

Cash flows provided by (used in) financing activities

Net proceeds on issuance of senior notes	246,793	
Issue of common shares, net of expenses	(12)	(1,182)
Purchases of common shares under share repurchase program	(444,079)	
Dividends paid	(55,994)	(33,973)
Increase in securities lending payable	9,894	63,235
Net cash (used in) provided by financing activities	(243,398)	28,080
Effect of foreign currency rate changes on cash and cash equivalents	(16,714)	13,325
Net increase (decrease) in cash	104,904	(59,758)
Cash and cash equivalents beginning of period	387,585	449,848
Cash and cash equivalents end of period	\$ 492,489	\$ 390,090
Taxes paid during the period	\$ 1,335	\$ 1,199
Interest paid during the period	\$ 12,729	\$ 13,344

The accompanying notes are an integral part of these consolidated financial statements (unaudited).

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Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

1. Basis of preparation and consolidation

These unaudited consolidated financial statements include Validus Holdings, Ltd. and its wholly and majority owned subsidiaries (together, the Company) and have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the U.S. Securities and Exchange Commission (the SEC).

In the opinion of management, these unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company's financial position and results of operations as at the end of and for the periods presented. Certain amounts in prior periods have been reclassified to conform to current period presentation. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The major estimates reflected in the Company's consolidated financial statements include the reserve for losses and loss expenses, premium estimates for business written on a line slip or proportional basis, the valuation of goodwill and intangible assets, reinsurance recoverable balances including the provision for unrecoverable reinsurance recoverable balances and investment valuation. Actual results could differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results for a full year. The terms ASC used in these notes refer to Accounting Standard Codifications issued by the United States Financial Accounting Standards Board (FASB).

The consolidated financial statements include the results of operations and cash flows of IPC Holdings Ltd. (IPC), since the date of acquisition, September 4, 2009 and not any prior periods (including for comparative purposes) except where indicated Pro Forma financial information.

2. Recent accounting pronouncements

In June 2009, the FASB issued authoritative guidance on accounting for *Transfers and Servicing* (ASC 860). This update addresses practices that have developed that are not consistent with the original intent and key requirements and concerns that derecognized financial assets and related obligations should continue to be reported in the transferors' financial statements. This update is effective for financial asset transfers in the interim and annual periods beginning January 1, 2010. The adoption of this guidance has not had a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued authoritative guidance which amends the *Consolidation* guidance that applies to Variable Interest Entities (VIEs) (ASC 810). This update amends the guidance for the identification of VIEs and their primary beneficiaries and the financial statement disclosures required. This update is effective for interim and annual periods beginning January 1, 2010. The adoption of this update has not had a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued authoritative guidance on *Fair Value Measurements and Disclosures* (ASC 820). This update requires additional disclosures regarding (1) significant transfers in and out of Levels 1 and 2 and

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Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

the reasons that such transfers were made; (2) inputs and valuation techniques used to measure fair value for financial assets and liabilities that fall in either Level 2 or Level 3; (3) the activity within Level 3 fair value measurements, including information on a gross basis for purchases, sales, issuances, and settlements; and (4) disaggregation of financial assets and liabilities measured at fair value into classes of financial assets and liabilities. This guidance is effective for interim and annual reporting periods beginning January 1, 2010, except for Level 3 reconciliation disclosures which are effective for interim and annual periods beginning January 1, 2011. The adoption of this update has not had a material impact on the Company's consolidated financial statements.

In February 2010, the FASB issued authoritative guidance which amends the *Subsequent Events* guidance (ASC 855). The guidance requires SEC filers to evaluate subsequent events through the date the financial statements are issued, and also exempts SEC filers from disclosing the date through which subsequent events have been evaluated. This update is effective immediately for financial statements that are (1) issued or available to be issued or (2) revised. The adoption of this update has not had a material impact on the Company's consolidated financial statements.

In March 2010, the FASB issued authoritative guidance which clarifies the *Embedded Derivatives* guidance (ASC 815). All entities that enter into contracts containing an embedded credit derivative feature related to the transfer of credit risk that is not only in the form of subordination of one financial instrument to another will be affected by the amendments. The amendments in this update are effective for interim periods beginning after June 15, 2010. The Company has evaluated the guidance and has concluded that it does not have a material impact on the Company's consolidated financial statements.

In April 2010, the FASB issued authoritative guidance which clarifies the *Stock Compensation* guidance (ASC 718). This guidance clarifies the accounting for certain employee share-based payment awards. Awards with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades would not be considered to contain a condition that is not a market, performance or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. This accounting guidance is effective for accounting periods beginning on or after December 15, 2010, with earlier application permitted. The Company is currently evaluating the impact of this guidance, however it is not expected to have a material impact on the Company's consolidated financial statements.

3. Investments

The Company's investments in fixed maturities are classified as trading and carried at fair value, with related net unrealized gains or losses included in earnings. The Company has adopted all authoritative guidance in effect as of the balance sheet date regarding certain market conditions that allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable.

(a) Classification within the fair value hierarchy

Under U.S. GAAP, a company must determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement. Level 3 inputs are unobservable inputs for the asset or liability.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices or alternative indices including overnight repos and commercial paper. Level 2 includes financial instruments that are valued through independent external sources using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. The Company performs internal procedures on the valuations received from independent external sources. Financial instruments in this category include U.S. and U.K. Treasuries, sovereign debt, corporate debt, catastrophe bonds and U.S. agency and non-agency mortgage and asset-backed securities. Level 3 includes financial instruments that are valued using market approach and income approach valuation techniques. These models incorporate both observable and unobservable inputs. Financial instruments in this category include certain residential mortgage-backed securities and a hedge fund.

The Company's external investment advisors have noted illiquidity and dislocation in the non-Agency RMBS market during 2010 and 2009. During the period ended June 30, 2010 and 2009, the Company identified certain non-Agency RMBS securities in its portfolio trading in inactive markets (identified RMBS securities). In order to gauge market activity for the identified RMBS securities, management, with assistance from external investment advisors, reviewed the pricing sources for each security in the portfolio. The Company utilized various pricing vendors to obtain market pricing information for investment securities.

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

Other investments consist of an investment in a fund of hedge funds and a deferred compensation trust held in mutual funds. During the fourth quarter of 2009, a majority of the fund of hedge funds was redeemed. The remaining portion is a side pocket valued at \$19,130 at June 30, 2010. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is unknown. The fund investment manager provides monthly reported net asset values (NAV) with a one-month delay in its valuation. As a result, the fund investment manager's May 31, 2010 NAV was used as a partial basis for fair value measurement in the Company's June 30, 2010 balance sheet. The fund investment manager's NAV relies on an estimate of the performance of the fund based on the month end positions from the underlying third-party funds. The Company utilizes the fund investment manager's primary market approach estimated NAV that incorporates relevant valuation sources on a timely basis. As this valuation technique incorporates both observable and significant unobservable inputs, the fund of hedge funds is classified as a Level 3 asset. To determine the reasonableness of the estimated NAV, the Company assesses

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Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

the variance between the estimated NAV and the one-month delayed fund investment manager's NAV. Immaterial variances are recorded in the following reporting period.

At June 30, 2010, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Total
U.S. Government and Government Agency	\$	\$ 1,751,516	\$	\$ 1,751,516
Non-U.S. Government and Government Agency		662,062		662,062
States, municipalities, political subdivision		27,210		27,210
Agency residential mortgage-backed securities		500,018		500,018
Non-Agency residential mortgage-backed securities		51,744	75,578	127,322
U.S. corporate		1,294,383		1,294,383
Non-U.S. corporate		432,711		432,711
Catastrophe bonds		63,164		63,164
Asset-backed securities		88,270		88,270
Commercial mortgage-backed securities		28,363		28,363
Total fixed maturities		4,899,441	75,578	4,975,019
Short-term investments	269,216	566		269,782
Hedge fund			19,130	19,130
Mutual funds		6,938		6,938
Total	\$ 269,216	\$ 4,906,945	\$ 94,708	\$ 5,270,869

At December 31, 2009, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Total
U.S. Government and Government Agency	\$	\$ 1,918,811	\$	\$ 1,918,811
Non-U.S. Government and Government Agency		673,680		673,680
States, municipalities, political subdivision		19,359		19,359
Agency residential mortgage-backed securities		551,610		551,610
Non-Agency residential mortgage-backed securities		52,233	85,336	137,569
U.S. corporate		1,027,225		1,027,225
Non-U.S. corporate		409,398		409,398
Catastrophe bonds		52,351		52,351
Asset-backed securities		36,712		36,712
Commercial mortgage-backed securities		42,663		42,663
Total fixed maturities		4,784,042	85,336	4,869,378
Short-term investments	479,552	2,214		481,766
Hedge fund			25,670	25,670
Mutual funds		11,945		11,945
Total	\$ 479,552	\$ 4,798,201	\$ 111,006	\$ 5,388,759

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Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

At June 30, 2010, Level 3 investments totaled \$94,708, representing 1.8% of total investments measured at fair value on a recurring basis. At December 31, 2009, Level 3 investments totaled \$111,006, representing 2.1% of total investments measured at fair value on a recurring basis.

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs as at June 30, 2010 and December 31, 2009:

	Six Months Ended June 30, 2010			
	Fixed Maturity	Other		Total Fair Market
	Investments	Investments	Value	Value
Level 3 investments - Beginning of period	\$ 85,336	\$ 25,670	\$	111,006
Payments and purchases				
Sales and maturities		(7,094)		(7,094)
Realized gains		344		344
Unrealized (losses) gains	(1,634)	210		(1,424)
Amortization	(8,124)			(8,124)
Transfers in				
Level 3 investments End of period	\$ 75,578	\$ 19,130	\$	94,708

	Year Ended December 31, 2009			
	Fixed Maturity	Other		Total Fair Market
	Investments	Investments	Value	Value
Level 3 investments - Beginning of period	\$ 111,318	\$	\$	111,318
Payments and purchases		115,351		115,351
Sales and maturities	(822)	(92,004)		(92,826)
Realized (losses) gains	(1,284)	1,609		325
Unrealized (losses) gains	(7,329)	714		(6,615)
Amortization	(16,547)			(16,547)
Transfers in				
Level 3 investments End of period	\$ 85,336	\$ 25,670	\$	111,006

(b) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Fixed maturities and short-term investments	\$ 36,346	\$ 26,396	\$ 72,101	\$ 52,914

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Cash and cash equivalents	311	1,120	897	1,881
Securities lending income	49	173	119	512
Total gross investment income	36,706	27,689	73,117	55,307
Investment expenses	(1,897)	(726)	(4,009)	(1,572)
Net investment income	\$ 34,809	\$ 26,963	\$ 69,108	\$ 53,735

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Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

(c) Fixed maturity and short-term investments

The following represents an analysis of net realized gains (losses) and the change in net unrealized gains on investments:

	Three Months Ended		Six Months Ended	
	June	June 30,	June	June 30,
	30,	2009	30,	2009
	2010		2010	
Fixed maturities, short-term and other investments and cash equivalents				
Gross realized gains	\$ 15,120	\$ 3,928	\$ 27,885	\$ 13,381
Gross realized (losses)	(2,679)	(6,578)	(4,046)	(39,452)
Net realized gains (losses) on investments	12,441	(2,650)	23,839	(26,071)
Net unrealized (losses) gains on securities lending	(6)	3,214	(1,020)	4,306
Change in net unrealized gains on investments	41,646	34,035	58,073	55,096
Total net realized gains (losses) and change in net unrealized gains on investments	\$ 54,081	\$ 34,599	\$ 80,892	\$ 33,331

The amortized cost, gross unrealized gains and losses and estimated fair value of investments at June 30, 2010 were as follows:

	Amortized	Gross	Gross	Estimated Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
U.S. Government and Government Agency	\$ 1,718,214	\$ 33,540	\$ (238)	\$ 1,751,516
Non-U.S. Government and Government Agency	664,666	13,054	(15,658)	662,062
States, municipalities, political subdivision	26,745	538	(73)	27,210
Agency residential mortgage-backed securities	481,308	18,779	(69)	500,018
Non-Agency residential mortgage-backed securities	164,121	116	(36,915)	127,322
U.S. corporate	1,258,345	37,164	(1,126)	1,294,383
Non-U.S. corporate	431,586	8,175	(7,050)	432,711
Catastrophe bonds	62,924	1,366	(1,126)	63,164
Asset-backed securities	88,788	442	(960)	88,270
Commercial mortgage-backed securities	27,750	617	(4)	28,363
Total fixed maturities	4,924,447	113,791	(63,219)	4,975,019
Total short-term investments	269,782			269,782

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Total other investments	24,948	1,120		26,068
Total	\$ 5,219,177	\$ 114,911	\$ (63,219)	\$ 5,270,869

The amortized cost, gross unrealized gains and losses and estimated fair value of investments at December 31, 2009 were as follows:

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(Expressed in thousands of U.S. dollars, except share and per share information)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and Government Agency	\$ 1,912,081	\$ 12,308	\$ (5,578)	\$ 1,918,811
Non-U.S. Government and Government Agency	678,555	7,552	(12,427)	673,680
States, municipalities, political subdivision	19,310	105	(56)	19,359
Agency residential mortgage-backed securities	537,876	14,643	(909)	551,610
Non-Agency residential mortgage-backed securities	176,853	481	(39,765)	137,569
U.S. corporate	1,004,464	23,895	(1,134)	1,027,225
Non-U.S. corporate	411,499	4,781	(6,882)	409,398
Catastrophe bonds	51,236	1,244	(129)	52,351
Asset-backed securities	36,828	411	(527)	36,712
Commercial mortgage-backed securities	41,693	971	(1)	42,663
Total fixed maturities	4,870,395	66,391	(67,408)	4,869,378
Total short-term investments	482,632	33	(899)	481,766
Total other investments	35,941	1,674		37,615
Total	\$ 5,388,968	\$ 68,098	\$ (68,307)	\$ 5,388,759

The following table sets forth certain information regarding the investment ratings of the Company's fixed maturities portfolio as at June 30, 2010 and December 31, 2009. Investment ratings are the lower of Moody's or Standard & Poor's rating for each investment security, presented in Standard & Poor's equivalent rating. For investments where Moody's and Standard & Poor's ratings are not available, Fitch ratings are used and presented in Standard & Poor's equivalent rating.

	June 30, 2010		December 31, 2009	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
AAA	\$ 3,111,753	62.5%	\$ 3,287,879	67.5%
AA	490,443	9.9%	487,364	10.0%
A	1,158,636	23.3%	925,532	19.0%
BBB	49,042	1.0%	14,416	0.3%
Investment grade	4,809,874	96.7%	4,715,191	96.8%
BB	52,701	1.0%	45,191	0.9%

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B	35,087	0.7%	59,116	1.2%
CCC	72,574	1.5%	45,194	1.0%
D/NR	4,783	0.1%	4,686	0.1%
Non-Investment grade	165,145	3.3%	154,187	3.2%
Total Fixed Maturities	\$ 4,975,019	100.0%	\$ 4,869,378	100.0%

The amortized cost and estimated fair value amounts for fixed maturity securities held at June 30, 2010 and December 31, 2009 are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

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	June 30, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 453,392	\$ 453,706	\$ 269,889	\$ 270,688
Due after one year through five years	3,538,674	3,602,572	3,498,792	3,521,167
Due after five years through ten years	170,314	174,656	306,065	306,502
Due after ten years	100	112	2,399	2,467
	4,162,480	4,231,046	4,077,145	4,100,824
Asset-backed and mortgage-backed securities	761,967	743,973	793,250	768,554
Total	\$ 4,924,447	\$ 4,975,019	\$ 4,870,395	\$ 4,869,378

The Company has a five year, \$500,000 secured letter of credit facility provided by a syndicate of commercial banks. At June 30, 2010, approximately \$239,056 (December 31, 2009: \$225,823) of letters of credit were issued and outstanding under this facility for which \$321,018 of investments were pledged as collateral (December 31, 2009: \$314,857). In 2007, the Company entered into a \$100,000 standby letter of credit facility which provides Funds at Lloyd's (the Talbot FAL Facility). On November 19, 2009, the Company entered into a Second Amendment to the Talbot FAL Facility to reduce the commitment from \$100,000 to \$25,000. At June 30, 2010, \$25,000 (December 31, 2009: \$25,000) of letters of credit were issued and outstanding under the Talbot FAL Facility for which \$45,682 of investments were pledged as collateral (December 31, 2009: \$128,798). In addition, \$1,575,617 of investments were held in trust at June 30, 2010 (December 31, 2009: \$1,517,249). Of those, \$1,421,260 were held in trust for the benefit of Talbot's cedants and policyholders, and to facilitate the accreditation as an alien insurer/reinsurer by certain regulators (December 31, 2009: \$1,408,084).

The Company assumed two letters of credit facilities as part of the acquisition of IPC. A \$250,000 Credit Agreement between IPC Holdings, Ltd., IPCRe Limited, the Lenders party thereto and Wachovia Bank, National Association (the IPC Syndicated Facility) and a \$350,000 Letters of Credit Master Agreement between Citibank N.A. and IPCRe Limited (the IPC Bi-Lateral Facility). At March 31, 2010, the IPC Syndicated Facility was closed. At June 30, 2010, the IPC Bi-Lateral Facility had \$77,603 (December 31, 2009: \$96,047) letters of credit issued and outstanding for which \$103,526 (December 31, 2009: \$219,004) of investments were held in an associated collateral account.

(d) Securities lending

The Company participates in a securities lending program whereby certain securities from its portfolio are loaned to third parties for short periods of time through a lending agent. The Company retains all economic interest in the securities it lends and receives a fee from the borrower for the temporary use of the securities. Collateral in the form of cash, government securities and letters of credit is required at a rate of 102% of the market value of the loaned securities and is held by a third party. As at June 30, 2010, the Company had \$97,550 (December 31, 2009: \$88,146) in securities on loan. During the three months ended June 30, 2010, the Company recorded a \$6 unrealized loss on this collateral on its Statements of Operations (June 30, 2009: unrealized gain \$3,214). During the six months ended June 30, 2010, the Company recorded a \$1,020 unrealized loss on this collateral on its Statements of Operations (June 30, 2009: unrealized gain \$4,306).

Securities lending collateral reinvested is primarily comprised of corporate floating rate securities and overnight repo with an average reset period of 11.5 days (December 31, 2009: 26.1 days). As at June 30, 2010, the securities lending collateral reinvested by the Company in connection with its securities lending program was allocated between Levels 1, 2 and 3 as follows:

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	Level 1	Level 2	Level 3	Total
Corporate	\$	\$ 5,204	\$	\$ 5,204
Agency				
Short-term investments	61,217	32,803		94,020
Total	\$ 61,217	\$ 38,007	\$	\$ 99,224

As at December 31, 2009, the securities lending collateral reinvested lending by the Company in connection with its securities program was allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Total
Corporate	\$	\$ 14,123	\$	\$ 14,123
Agency		9,363		9,363
Asset-backed securities		6,153		6,153
Short-term investments	730	59,981		60,711
Total	\$ 730	\$ 89,620	\$	\$ 90,350

The following table sets forth certain information regarding the investment ratings of the Company's securities lending collateral reinvested as at June 30, 2010 and December 31, 2009. Investment ratings are the lower of Moody's or Standard & Poor's rating for each investment security, presented in Standard & Poor's equivalent rating. For investments where Moody's and Standard & Poor's ratings are not available, Fitch ratings are used and presented in Standard & Poor's equivalent rating.

	June 30, 2010		December 31, 2009	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
AAA	\$ 14,009	14.1%	\$ 33,501	37.1%
AA+	13,012	13.1%	12,011	13.3%
AA		0.0%	4,998	5.5%
AA-	2,993	3.0%	19,910	22.0%
A+		0.0%	9,999	11.1%
A	7,798	7.9%	9,006	10.0%
NR	195	0.2%	195	0.2%
	38,007	38.3%	89,620	99.2%
NR- Short-term investments (1)	61,217	61.7%	730	0.8%
Total	\$ 99,224	100.0%	\$ 90,350	100.0%

(1) This amount relates to

short-term
investments and
is therefore not
a rated security.

The amortized cost and estimated fair value amounts for securities lending collateral reinvested by the Company at June 30, 2010 and December 31, 2009 are shown by contractual maturity below. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

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	June 30, 2010		December 31, 2009	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 97,000	\$ 97,029	\$ 68,895	\$ 70,074
Due after one year through five years	3,000	2,195	21,211	20,276
Total	\$ 100,000	\$ 99,224	\$ 90,106	\$ 90,350

4. Reserve for losses and loss expenses

Reserves for losses and loss expenses are based in part upon the estimation of case losses reported from brokers, insureds and ceding companies. The Company also uses statistical and actuarial methods to estimate ultimate expected losses and loss expenses. The period of time from the occurrence of a loss, the reporting of a loss to the Company and the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. As these factors become apparent, case reserves will be adjusted, sometimes requiring an increase or decrease in the overall reserves of the Company, and at other times requiring a reallocation of incurred but not reported reserves to specific case reserves. These estimates are reviewed regularly, and such adjustments, if any, are reflected in earnings in the period in which they become known. While management believes that it has made a reasonable estimate of ultimate losses, there can be no assurances that ultimate losses and loss expenses will not exceed the total reserves.

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid loss expenses as at June 30, 2010 and December 31, 2009:

	Six Months Ended	Year ended
	June 30, 2010	December 31, 2009
Reserve for losses and loss expenses, beginning of period	\$ 1,622,134	\$ 1,305,303
Losses and loss expenses recoverable	(181,765)	(208,796)
Net reserves for losses and loss expenses, beginning of period	1,440,369	1,096,507
Net reserves acquired in purchase of IPC		304,957
Increase (decrease) in net losses and loss expenses incurred in respect of losses occurring in:		
Current year	749,717	625,810
Prior years	(76,292)	(102,053)
Total incurred losses and loss expenses	673,425	523,757
Total net paid losses	(306,084)	(507,435)
Foreign exchange	(23,184)	22,583
Net reserve for losses and loss expenses, end of period	1,784,526	1,440,369
Losses and loss expenses recoverable	193,604	181,765
Reserve for losses and loss expenses, end of period	\$ 1,978,130	\$ 1,622,134

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5. Reinsurance

The Company enters into reinsurance and retrocession agreements in order to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits, and increase its aggregate capacity. The cession of insurance and reinsurance does not legally discharge the Company from its primary liability for the full amount of the policies, and the Company is required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocession agreement. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

a) Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At June 30, 2010, 99.2% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or better and included \$84,216 of IBNR recoverable (December 31, 2009: \$99,587). Reinsurance recoverables by reinsurer are as follows:

	June 30, 2010		December 31, 2009	
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total
Top 10 reinsurers	\$ 169,005	77.6%	170,810	86.9%
Other reinsurers balances > \$1 million	38,635	17.8%	19,818	10.1%
Other reinsurers balances < \$1 million	10,097	4.6%	5,919	3.0%
Total	\$ 217,737	100.0%	196,547	100.0%

Top 10 Reinsurers	Rating	June 30, 2010	
		Reinsurance Recoverable	% of Total
Fully collateralized reinsurers	NR	\$ 40,591	24.0%
Lloyd's Syndicates	A+	37,641	22.3%
Hannover Re	AA-	14,973	8.9%
Montpelier Re	A-	15,000	8.9%
Munich Re	AA-	12,276	7.3%
Tokio Millenium	AA	10,000	5.9%
Flagstone	A-	9,745	5.8%
Transatlantic Re	A+	9,711	5.7%
Everest Re	A-	9,695	5.7%
Aspen	A	9,373	5.5%
Total		\$ 169,005	100.0%

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Top 10 Reinsurers	Rating	December 31, 2009	
		Reinsurance recoverable	% of Total
Fully collateralized reinsurers	NR	\$ 50,840	29.8%
Lloyd's Syndicates	A+	33,103	19.4%
Munich Re	AA-	19,921	11.7%
Hannover Re	AA-	13,427	7.8%
Aspen	A	11,417	6.7%
Allianz	AA	9,645	5.6%
Swiss Re	A+	8,995	5.3%
Transatlantic Re	A+	8,804	5.1%
Brit Insurance Limited	A	8,159	4.8%
Platinum Underwriters	A	6,499	3.8%
Total		\$ 170,810	100.0%

At June 30, 2010 and December 31, 2009, the provision for uncollectible reinsurance relating to losses recoverable was \$5,505 and \$3,477, respectively. To estimate the provision for uncollectible reinsurance recoverable, the reinsurance recoverable must first be allocated to applicable reinsurers. This determination is based on a process rather than an estimate, although an element of judgment must be applied. As part of this process, ceded IBNR is allocated by reinsurer. Of the \$217,737 reinsurance recoverable at June 30, 2010, \$40,591 was fully collateralized (December 31, 2009: \$50,840).

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.

6. Share capital**a) Authorized and issued**

The Company's authorized share capital is 571,428,571 voting and non-voting shares with a par value of \$0.175 each. The holders of common voting shares are entitled to receive dividends and are allocated one vote per share, provided that, if the controlled shares of any shareholder or group of related shareholders constitute more than 9.09 percent of the outstanding common shares of the Company, their voting power will be reduced to 9.09 percent.

The Company may from time to time repurchase its securities, including common shares and Junior Subordinated Deferrable Debentures. In November 2009, the Board of Directors of the Company authorized an initial \$400,000 share repurchase program. On February 17, 2010, the Board of Directors of the Company authorized the Company to return up to \$750,000 to shareholders. This amount is in addition to, and in excess of, the \$135,494 of common shares purchased by the Company through February 17, 2010 under its previously authorized \$400,000 share repurchase program. On May 6, 2010, the Board of Directors authorized a self tender offer pursuant to which the Company has repurchased \$300,000 in common shares.

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

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The following table is a summary of the common shares issued and outstanding:

	Common Shares
Common shares outstanding, December 31, 2009	128,459,478
Restricted share awards vested, net of shares withheld	281,512
Restricted share units vested, net of shares withheld	57,192
Employee seller shares vested, net of shares withheld	
Options exercised	51,534
Warrants exercised	
Shares repurchased	(17,441,723)
 Common shares outstanding, June 30, 2010	 111,407,993

	Common Shares
Common shares outstanding, December 31, 2008	75,624,697
IPC acquisition issuance	54,556,762
Restricted share awards vested, net of shares withheld	423,746
Restricted share units vested, net of shares withheld	360,383
Employee seller shares vested, net of shares withheld	248,085
Options exercised	164,834
Warrants exercised	237,842
Shares repurchased	(3,156,871)
 Common shares outstanding, December 31, 2009	 128,459,478

b) Warrants

During the three and six months ended June 30, 2010, no warrants were exercised. During the three and six months ended June 30, 2009, 728,010 warrants were exercised which resulted in the net share issuance of 237,842 common shares.

c) Deferred share units

Under the terms of the Company's Director Stock Compensation Plan, non-management directors may elect to receive their director fees in deferred share units rather than cash. The number of share units distributed in case of election under the plan is equal to the amount of the annual retainer fee otherwise payable to the director on such payment date divided by 100% of the fair market value of a share on such payment date. Additional deferred share units are issued in lieu of dividends that accrue on these deferred share units. The total outstanding deferred share units at June 30, 2010 were 4,655 (December 31, 2009: 4,577).

d) Dividends

On May 5, 2010, the Company announced a quarterly cash dividend of \$0.22 (2009: \$0.20) per common share and \$0.22 per common share equivalent for which each outstanding warrant is then exercisable, payable on June 30, 2010 to holders of record on June 15, 2010.

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7. Stock plans**a) Long Term Incentive Plan and Short Term Incentive Plan**

The Company's Long Term Incentive Plan (LTIP) provides for grants to employees of options, stock appreciation rights (SARs), restricted shares, restricted share units, performance shares, performance units, dividend equivalents or other share-based awards. In addition, the Company may issue restricted share awards or restricted share units in connection with awards issued under its annual Short Term Incentive Plan (STIP). The total number of shares reserved for issuance under the LTIP and STIP are 13,126,896 shares of which 7,757,232 shares are remaining. The LTIP and STIP are administered by the Compensation Committee of the Board of Directors. No SARs or performance shares have been granted to date. Grant prices are established at the fair market value of the Company's common shares at the date of grant.

i. Options

Options may be exercised for voting common shares upon vesting. Options have a life of 10 years and vest either ratably or at the end of the required service period from the date of grant. All options granted in 2009 were as a result of the IPC Acquisition. Grant prices are established at the estimated fair value of the Company's common shares at the date of grant using the Black-Scholes option-pricing model. The following weighted average assumptions were used for all grants to date:

Year	Weighted average risk free interest rate	Weighted average dividend yield	Expected life (years)	Expected volatility
2007 and prior years	4.5%	0.0%	7	30.0%
2008	3.5%	3.2%	7	30.0%
2009	3.9%	3.7%	2	34.6%

Expected volatility is based on stock price volatility of comparable publicly-traded companies. The Company used the simplified method consistent with U.S. GAAP authoritative guidance on stock compensation expenses to estimate expected lives for options granted during the period as historical exercise data was not available and the options met the requirement as set out in the guidance.

Share compensation expenses of \$1,036 were recorded for the three months ended June 30, 2010 (2009: \$918). Share compensation expenses of \$2,074 were recorded for the six months ended June 30, 2010 (2009: \$1,975). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to the options for the six months ended June 30, 2010 was as follows:

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2009	3,278,015	\$ 6.83	\$ 19.88
Options granted			
Options exercised	(51,534)	5.72	22.34
Options forfeited	(4,317)	10.30	20.39
Options outstanding, June 30, 2010	3,222,164	\$ 6.84	\$ 19.84
Options exercisable at June 30, 2010	2,549,805	\$ 6.05	\$ 20.10

Activity with respect to options for the six months ended June 30, 2009 was as follows:

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	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2008	2,799,938	\$ 7.57	\$ 18.23
Options granted			
Options exercised			
Options forfeited	(6,536)	10.30	20.39
Options outstanding, June 30, 2009	2,793,402	\$ 7.56	\$ 18.22
Options exercisable at June 30, 2009	1,531,092	\$ 7.52	\$ 17.92

At June 30, 2010, there were \$2,610 (December 31, 2009: \$4,713) of total unrecognized share compensation expenses that are expected to be recognized over a weighted-average period of 1.0 years (December 31, 2009: 1.3 years).

ii. Restricted share awards

Restricted shares granted under the LTIP and STIP vest either ratably or at the end of the required service period and contain certain restrictions for the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. Share compensation expenses of \$4,735 were recorded for the three months ended June 30, 2010 (2009: \$4,074). Share compensation expenses of \$9,061 were recorded for the six months ended June 30, 2010 (2009: \$8,386). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested restricted shares for the six months ended June 30, 2010 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2009	2,525,958	\$ 23.43
Restricted share awards granted	439,114	26.17
Restricted share awards vested	(323,520)	23.91
Restricted share awards forfeited	(22,609)	23.07
Restricted share awards outstanding, June 30, 2010	2,618,943	\$ 23.83

Activity with respect to unvested restricted share awards for the six months ended June 30, 2009 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2008	2,307,402	\$ 22.73
Restricted share awards granted	280,073	24.70
Restricted share awards vested	(291,328)	22.00

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Restricted share awards forfeited	(3,989)		21.29
Restricted share awards outstanding, June 30, 2009	2,292,158	\$	23.06

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At June 30, 2010, there were \$38,750 (December 31, 2009: \$38,395) of total unrecognized share compensation expenses that are expected to be recognized over a weighted-average period of 2.5 years (December 31, 2009: 2.8 years).

iii. Restricted share units

Restricted share units under the LTIP and STIP vest either ratably or at the end of the required service period and contain certain restrictions for the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. Share compensation expenses of \$61 were recorded for the three months ended June 30, 2010 (2009: \$21) related to restricted share units. Share compensation expenses of \$234 were recorded for the six months ended June 30, 2010 (2009: \$37) related to restricted share units. The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested restricted share units for the six months ended June 30, 2010 was as follows:

	Restricted Share Units		Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2009	78,591	\$	24.84
Restricted share units granted	7,952		26.07
Restricted share units vested	(59,019)		24.76
Restricted share units forfeited	(1,094)		21.49
Restricted share units outstanding, June 30, 2010	26,430	\$	25.51

Activity with respect to unvested restricted share units for the six months ended June 30, 2009 was as follows:

	Restricted Share Units		Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2008	11,853	\$	25.28
Restricted share units granted	4,044		25.03
Restricted share units vested	(1,569)		24.84
Restricted share units forfeited			
Restricted share units outstanding, June 30, 2009	14,328	\$	25.25

At June 30, 2010, there were \$541 (December 31, 2009: \$578) of total unrecognized share compensation expenses that are expected to be recognized over a weighted-average period of 2.2 years (December 31, 2009: 2.5 years). Additional restricted share units are issued in lieu of accrued dividends for each unvested restricted share unit. As at June 30, 2010, unvested restricted share units issued in lieu of dividends were \$1,117 (December 31, 2009: 858).

b) Employee seller shares

Pursuant to the Share Sale Agreement for the purchase of Talbot Holdings, Ltd. (Talbot), the Company issued 1,209,741 restricted shares to Talbot employees (the employee seller shares). Upon consummation of the

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acquisition, the employee seller shares were validly issued, fully-paid and non-assessable and entitled to vote and participate in distributions and dividends in accordance with the Company's By-laws. However, the employee seller shares are subject to a restricted period during which they are subject to forfeiture (as implemented by repurchase by the Company for a nominal amount). Forfeiture of employee seller shares will generally occur in the event that any such Talbot employee's employment terminates, with certain exceptions, prior to the end of the restricted period. The restricted period will end for 25% of the employee seller shares on each anniversary of the closing date of July 2, 2007 for all Talbot employees other than Talbot's Chairman, such that after four years forfeiture will be completely extinguished.

Share compensation expenses of \$1,014 were recorded for the three months ended June 30, 2010 (2009: \$619). Share compensation expenses of \$2,053 were recorded for the six months ended June 30, 2010 (2009: \$2,588). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested employee seller shares for the six months ended June 30, 2010 was as follows:

	Employee Seller Shares	Weighted Average Grant Date Fair Value
Employee seller shares outstanding, December 31, 2009	410,667	\$ 22.01
Employee seller shares granted		
Employee seller shares vested		
Employee seller shares forfeited	(3,551)	(22.01)
Employee seller shares outstanding, June 30, 2010	407,116	\$ 22.01

Activity with respect to unvested employee seller shares for the six months ended June 30, 2009 was as follows:

	Employee Seller Shares	Weighted Average Grant Date Fair Value
Employee seller shares outstanding, December 31, 2008	663,375	\$ 22.01
Employee seller shares granted		
Employee seller shares vested	(42,349)	22.01
Employee seller shares forfeited	(3,799)	22.01
Employee seller shares outstanding, June 30, 2009	617,227	\$ 22.01

At June 30, 2010, there were \$4,083 (December 31, 2009: \$6,135) of total unrecognized share compensation expenses that are expected to be recognized over a weighted-average period of 1.0 years (December 31, 2009: 1.5 years).

c) Total share compensation expenses

The breakdown of share compensation expenses was as follows:

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	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Options	\$ 1,036	\$ 918	\$ 2,074	\$ 1,975
Restricted share awards	4,735	4,074	9,061	8,386
Restricted share units	61	21	234	37
Employee seller shares	1,014	619	2,053	2,588
Total	\$ 6,846	\$ 5,632	\$ 13,422	\$ 12,986

8. Debt and financing arrangements**a) Financing structure and finance expenses**

The financing structure at June 30, 2010 was:

	Commitment	Outstanding (1)	Drawn
9.069% Junior Subordinated Deferrable Debentures	\$ 150,000	\$ 150,000	\$ 150,000
8.480% Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
8.875% Senior Notes due 2040	250,000	250,000	246,820
\$340,000 syndicated unsecured letter of credit facility	340,000		
\$60,000 bilateral unsecured letter of credit facility	60,000		
\$500,000 secured letter of credit facility	500,000	239,056	
Talbot FAL Facility (2)	25,000	25,000	
\$350,000 IPC Bi-Lateral Facility	350,000	77,603	
Total	\$ 1,875,000	\$ 881,459	\$ 536,620

The financing structure at December 31, 2009 was:

	Commitment	Outstanding (1)	Drawn
9.069% Junior Subordinated Deferrable Debentures	\$ 150,000	\$ 150,000	\$ 150,000
8.480% Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
\$200,000 unsecured letter of credit facility	200,000		
\$500,000 secured letter of credit facility	500,000	225,823	
Talbot FAL Facility (2)	25,000	25,000	
\$250,000 IPC Syndicated Facility	16,537	16,537	
\$350,000 IPC Bi-Lateral Facility	350,000	96,047	
Total	\$ 1,441,537	\$ 653,207	\$ 289,800

(1) Indicates utilization of

commitment
amount, not
drawn
borrowings.

- (2) Talbot operates in Lloyd's through a corporate member, Talbot 2002 Underwriting Capital Ltd (T02), which is the sole participant in Syndicate 1183. Lloyd's sets T02's required capital annually based on syndicate 1183's business plan, rating environment, reserving environment together with input arising from

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Lloyd's
discussions
with, inter alia,
regulatory and
rating agencies.
Such capital,
called Funds at
Lloyd's (FAL),
comprises: cash,
investments and
undrawn letters
of credit
provided by
various banks.

Finance expenses consist of interest on our junior subordinated deferrable debentures, the amortization of debt offering costs, fees relating to our credit facilities and the costs of FAL as follows:

	Three Months Ended		Six Months Ended	
	June	June 30,	June	June 30,
	30,	2009	30,	2009
	2010		2010	
9.069% Junior Subordinated Deferrable Debentures	\$ 3,589	\$ 3,589	7,177	7,177
8.480% Junior Subordinated Deferrable Debentures	3,028	3,348	6,057	6,696
8.875% Senior Notes due 2040	5,597		9,575	
Credit facilities	1,109	476	2,420	840
Talbot FAL Facility	(89)	42	333	105
Talbot other interest	(16)		59	
Talbot third party FAL facility		3,297	2,748	3,657
Total	\$ 13,218	\$ 10,752	\$ 28,369	\$ 18,475

(b) \$250,000 8.875% Senior Notes due 2040

On January 21, 2010, the Company offered and sold \$250,000 of Senior Notes due 2040 (the 8.875% Senior Notes) in a registered public offering. The 8.875% Senior Notes mature on January 26, 2040, and are redeemable at the Company's option in whole any time or in part from time to time at a make-whole redemption price. The Company may redeem the notes in whole, but not in part, at any time upon the occurrence of certain tax events as described in the notes prospectus supplement. The 8.875% Senior Notes bear interest at the rate of 8.875% per annum from January 26, 2010 to maturity or early redemption. Interest on the 8.875% Senior Notes is payable semi-annually in arrears on January 26 and July 26 of each year, commencing on July 26, 2010. The net proceeds of \$243,967 from the sale of the 8.875% Senior Notes, after the deduction of commissions paid to the underwriters in the transaction and other expenses, was used by the Company for general corporate purposes, which included the repurchase of its outstanding capital stock and dividends to shareholders. Debt issuance costs of \$2,808 were deferred as an asset and amortized over the life of the 8.875% Senior Notes.

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The 8.875% Senior Notes are unsecured and unsubordinated obligations and rank equally in right of payment with all of the Company's existing and future unsecured and unsubordinated indebtedness. The 8.875% Senior Notes will be effectively junior to all of the Company's future secured debt, to the extent of the value of the collateral securing such debt, and will rank senior to all our existing and future subordinated debt. The 8.875% Senior Notes will be structurally subordinated to all obligations of the Company's subsidiaries.

Future expected payments of interest on the 8.875% Senior Notes are as follows:

2010	\$ 11,094
2011	22,187
2012	22,187
2013	22,187
2014 and thereafter	587,970
Total minimum future payments	\$ 665,625

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***(c) Junior
subordinated
deferrable
debentures***

On June 15, 2006, the Company participated in a private placement of \$150,000 of junior subordinated deferrable interest debentures due 2036 (the 9.069% Junior Subordinated Deferrable Debentures). The 9.069% Junior Subordinated Deferrable Debentures mature on June 15, 2036, are redeemable at the Company's option at par beginning June 15, 2011, and require quarterly interest payments by the Company to the holders of the 9.069% Junior Subordinated Deferrable Debentures. Interest is payable at 9.069% per annum through June 15, 2011, and thereafter at a floating rate of three-month LIBOR plus 355 basis points, reset quarterly. The proceeds of \$150,000 from the sale of the 9.069% Junior Subordinated Deferrable Debentures, after the deduction of commissions paid to the placement agents in the transaction and other expenses, were used by the Company to fund Validus Re segment operations and for general working capital purposes. Debt issuance costs of \$3,750 were deferred as an asset and are amortized to income over the five year optional redemption period.

On June 21, 2007, the Company participated in a private placement of \$200,000 of junior subordinated deferrable interest debentures due 2037 (the 8.480% Junior Subordinated Deferrable Debentures). The 8.480% Junior Subordinated Deferrable Debentures mature on June 15, 2037, are redeemable at the Company's option at par beginning June 15, 2012, and require quarterly interest payments by the Company to the holders of the 8.480% Junior Subordinated Deferrable Debentures. Interest will be payable at 8.480% per annum through June 15, 2012, and thereafter at a floating rate of three-month LIBOR plus 295 basis points, reset quarterly. The proceeds of \$200,000 from the sale of the 8.480% Junior Subordinated Deferrable Debentures, after the deduction of commissions paid to the placement agents in the transaction and other expenses, were used by the Company to fund the purchase of Talbot Holdings Ltd. Debt issuance costs of \$2,000 were deferred as an asset and are amortized to income over the five year optional redemption period.

On April 29, 2008, the Company repurchased from an unaffiliated financial institution \$45,700 principal amount of its 8.480% Junior Subordinated Deferrable Debentures due 2037 at an aggregate price of \$36,560, plus accrued and unpaid interest of \$474. The repurchase resulted in the recognition of a realized gain of \$8,752 for the year ended December 31, 2008.

On December 1, 2009, the Company repurchased from an unaffiliated financial institution \$14,500 principal amount of its 8.480% Junior Subordinated Deferrable Debentures due 2037 at an aggregate price of \$9,933, plus accrued and unpaid interest of \$246. The repurchase resulted in the recognition of a realized gain of \$4,444 for the year ended December 31, 2009.

Future expected payments of interest and principal on the 9.069% and 8.480% Junior Subordinated Deferrable Debentures are as follows:

2010	\$ 12,729
2011	168,657
2012	145,727
2013 and thereafter	
Total minimum future payments	\$ 327,113

(d) Credit facilities

(i) \$340,000 syndicated unsecured letter of credit facility, \$60,000 bilateral unsecured letter of credit facility and \$500,000 secured letter of credit facility

On March 12, 2007, the Company entered into a \$200,000 three-year unsecured facility, as subsequently amended on October 25, 2007 and September 4, 2009. The facility was refinanced at maturity on March 12, 2010 with a three-year \$340,000 syndicated unsecured letter of credit facility and a \$60,000 bilateral unsecured letter of credit facility which provides for letter of credit availability for Validus Re and our other subsidiaries and revolving credit

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availability for the Company (the Three Year Facilities) (the full \$400,000 of which is available for letters of credit and/or revolving loans).

On March 12, 2007, the Company entered into a \$500,000 five-year secured letter of credit facility, as subsequently amended on October 25, 2007, July 24, 2009, and March 12, 2010, which provides for letter of credit availability for Validus Re and our other subsidiaries (the Five Year Facility and, together with the Three Year Facilities, the Credit Facilities). The Credit Facilities were provided by a syndicate of commercial banks arranged by J.P. Morgan Securities Inc. and Deutsche Bank Securities Inc. On October 25, 2007, the Company entered into the First Amendment to the Credit Facilities to provide for, among other things, additional capacity to incur up to \$100,000 under a new Funds at Lloyd s Letter of Credit Facility (as described below) to support underwriting capacity provided to Talbot 2002 Underwriting Ltd through Syndicate 1183 at Lloyd s of London for the 2008 and 2009 underwriting years of account. The amendment also modified certain provisions in the Credit Facilities in order to permit dividend payments on existing and future preferred and hybrid securities notwithstanding certain events of default.

On September 4, 2009, the Company announced that it had entered into Amendments to each of its \$500,000 five-year secured letter of credit facility; \$200,000 three-year unsecured facility and \$100,000 Talbot FAL facility to amend a specific investment restriction clause to permit the completion of the IPC Acquisition. The amendment also modified and updated certain pricing and covenant terms.

As amended, the Credit Facilities contain covenants that include, among other things, (i) the requirement that the Company initially maintain a minimum level of consolidated net worth of at least 70% of consolidated net worth (\$2,925,590) and, commencing with the end of the fiscal quarter ending December 31, 2009 to be increased quarterly by an amount equal to 50% of its consolidated net income (if positive) for such quarter plus 50% of any net proceeds received from any issuance of common shares during such quarter, (ii) the requirement that the Company maintain at all times a consolidated total debt to consolidated total capitalization ratio not greater than 0.35:1.00, and (iii) the requirement that Validus Re and any other material insurance subsidiaries maintain a financial strength rating by A.M. Best of not less than B++ (Fair). For purposes of covenant compliance (i) net worth is calculated with investments carried at amortized cost and (ii) consolidated total debt does not include the Company s junior subordinated deferrable debentures. The credit facilities also contain restrictions on our ability to pay dividends and other payments in respect of equity interests at any time that we are otherwise in default with respect to certain provisions under the credit facilities, make investments, incur debt at our subsidiaries, incur liens, sell assets and merge or consolidate with others.

As of June 30, 2010, there was \$239,056 in outstanding letters of credit under the Five Year Facility (December 31, 2009: \$225,823) and \$nil outstanding under the Three Year Facilities (December 31, 2009: \$nil).

As of June 30, 2010 and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Credit Facilities.

(ii) Talbot FAL Facility

On November 28, 2007, Talbot entered into a \$100,000 standby Letter of Credit facility (the Talbot FAL Facility) to provide Funds at Lloyd s for the 2008 and 2009 underwriting years of account; this facility is guaranteed by the Company and is secured against the assets of Validus Re. The Talbot FAL Facility was provided by a syndicate of commercial banks arranged by Lloyds TSB Bank plc and ING Bank N.V., London Branch.

On November 19, 2009, the Company entered into an Amendment and Restatement of the Talbot FAL Facility to reduce the commitment from \$100,000 to \$25,000, and to extend the support to the 2010 and 2011 underwriting years of account.

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As amended, the Talbot FAL Facility contains affirmative covenants that include, among other things, (i) the requirement that we initially maintain a minimum level of consolidated net worth of at least 70% of consolidated net worth (\$2,607,219), and commencing with the end of the fiscal quarter ending September 30, 2009 to be increased quarterly by an amount equal to 50% of our consolidated net income (if positive) for such quarter plus 50% of any net proceeds received from any issuance of common shares during such quarter, and (ii) the requirement that we maintain at all times a consolidated total debt to consolidated total capitalization ratio not greater than 0.35:1.00.

The Talbot FAL Facility also contains restrictions on our ability to incur debt at our subsidiaries, incur liens, sell assets and merge or consolidate with others. Other than in respect of existing and future preferred and hybrid securities, the payment of dividends and other payments in respect of equity interests are not permitted at any time that we are in default with respect to certain provisions under the Credit Facilities. As of June 30, 2010 the Company had \$25,000 in outstanding letters of credit under this facility.

As of June 30, 2010 and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Talbot FAL Facility.

(iii) IPC Syndicated Facility and IPC Bi-Lateral Facility

IPC obtained letters of credit through the IPC Syndicated Facility and the IPC Bi-Lateral Facility (the IPC Facilities). In July, 2009, certain terms of these facilities were amended including suspending IPCRe s ability to increase existing letters of credit or to issue new letters of credit. With respect to the IPC Syndicated Facility, IPCRe provides the banks security by depositing cash in the amount of 103% of the aggregate letters of credit outstanding. Effective March 31, 2010, the IPC Syndicated Facility was closed. As of June 30, 2010, \$77,603 of outstanding letters of credit were issued from the IPC Bi-Lateral Facility.

As of June 30, 2010 and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the IPC Facilities.

9. Commitments and contingencies***a) Concentrations of credit risk***

The Company s investments are managed following prudent standards of diversification. The Company attempts to limit its credit exposure by purchasing high quality fixed income investments to maintain an average portfolio credit quality of AA- or higher with mortgage and commercial mortgage-backed issues having an aggregate weighted average credit quality of triple-A. In addition, the Company limits its exposure to any single issuer to 3% or less, excluding treasury and agency securities. The minimum credit rating of any security purchased is Baa3/BBB- and where investments are downgraded, the Company permits a holding of up to 2% in aggregate market value, or 10% with written pre-authorization. At June 30, 2010, 3.1% of the investment portfolio had a split rating below Baa3/BBB- and the Company did not have an aggregate exposure to any single issuer of more than 1.5% of its investment portfolio, other than with respect to government and agency securities.

b) Funds at Lloyd s

The amounts provided under the Talbot FAL Facility would become a liability of the Company in the event of the syndicate declaring a loss at a level which would call on this arrangement.

Talbot operates in Lloyd s through a corporate member, Talbot 2002 Underwriting Capital Ltd (T02), which is the sole participant in Syndicate 1183. Lloyd s sets T02 s required capital annually based on syndicate 1183 s business plan, rating environment, reserving environment together with input arising from Lloyd s discussions with, inter alia, regulatory and rating agencies. Such capital, called Funds at Lloyd s (FAL), comprises: cash,

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investments and undrawn letters of credit provided by various banks. The amounts of cash, investments and letters of credit at June 30, 2010 amounted to \$452,000 (December 31, 2009: \$452,000) of which \$25,000 is provided under the Talbot FAL Facility (December 31, 2009: \$25,000).

c) Lloyd's Central Fund

Whenever a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. This levy is affected by the split of sterling and US dollar business expected to be written by the syndicate. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2010 estimated underwriting capacity at Lloyd's of £600,000, the June 30, 2010 exchange rate of £1 equals \$1.5067 and assuming the maximum 3% assessment, the Company would be assessed approximately \$27,121.

10. Related party transactions

a) On December 8, 2005, the Company entered into agreements with BlackRock Financial Management, Inc. (BlackRock) under which BlackRock provides investment management services for part of the Company's investment portfolio. Merrill Lynch is a shareholder of Blackrock. Merrill Lynch entities, which are now wholly-owned subsidiaries of Bank of America Corp, own 5,714,285 non-voting shares and 658,614 voting shares in the Company, hold warrants to purchase 1,067,187 shares and during a portion of 2009 had an employee on the Company's Board of Directors who did not receive compensation from the Company. For the three and six months ended June 30, 2010, BlackRock was no longer a related party. Investment management fees earned by Blackrock for the three and six months ended June 30, 2009 were \$527 and \$978.

b) On December 8, 2005, the Company entered into agreements with Goldman Sachs Asset Management and its affiliates (GSAM) under which GSAM provides investment management services for a portion of the Company's investment portfolio. Goldman Sachs entities, own 14,057,137 non-voting shares in the Company, hold warrants to purchase 1,604,410 non-voting shares, and have an employee on the Company's Board of Directors who does not receive compensation from the Company. Investment management fees earned by GSAM for the three and six months ended June 30, 2010 were \$241 (2009: \$368), and \$733 (2009: \$726), of which \$390 was included in accounts payable and accrued expenses at June 30, 2010 (December 31, 2009: \$371). Management believes that the fees charged were consistent with those that would have been charged in arm's-length transactions with unrelated third parties. Sumit Rajpal, a director of the Company, serves as Managing Director of Goldman, Sachs and Co., GSAM's parent company.

c) Vestar Capital entities own 8,571,427 shares in the Company, hold warrants to purchase 972,810 shares and have an employee on the Company's Board of Directors who does not receive compensation from the Company. During 2009, Vestar Capital entities were shareholders of PARIS RE Holdings, Limited (Paris Re). On July 4, 2009, PartnerRe Ltd. (PartnerRe) acquired the outstanding shares of Paris Re and subsequently Paris Re was not a related party of the Company during the three and six months ended June 30, 2010. However, for the three and six months ended June 30, 2009, pursuant to reinsurance agreements with Paris Re, the Company recognized gross premiums written of \$28 and \$6,634 and earned premium adjustments of \$1,710 and \$3,416. Sander M. Levy, a director of the Company, serves as Managing Director of Vestar Capital Partners.

d) Aquiline Capital Partners, LLC and its related companies (Aquiline), which own 6,886,342 shares in the Company, hold warrants to purchase 3,193,865 shares, and have three employees on the Board of Directors who do not receive compensation from the Company, are shareholders of Group Ark Insurance Holdings Ltd. (Group Ark). Pursuant to reinsurance agreements with a subsidiary of Group Ark, the Company recognized \$601 (2009: \$nil) and \$1,341 (2009: \$nil) of gross premiums written during the three and six months ended June 30, 2010, of which \$954 was included in premiums receivable at June 30, 2010 (December 31, 2009: \$nil). The Company also recognized \$606 (2009: \$nil) of reinsurance premiums ceded during the six months ended June 30, 2010, and \$213

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(2009: \$nil) and \$881 (2009: \$800) of earned premium adjustments during the three and six months ended June 30, 2010, of which \$333 was included in reinsurance balances payable at June 30, 2010 (December 31, 2009: \$nil).

Christopher E. Watson, a director of the Company, also serves as a director of Group Ark.

Aquiline is also a shareholder of Tiger Risk Partners LLC (Tiger Risk). Pursuant to certain reinsurance contracts, the Company recognized brokerage expenses paid to Tiger Risk of \$1,432 (2009: \$nil) and \$1,469 (2009: \$nil) during the three and six months ended June 30, 2010, of which \$1,366 was included in accounts payable and accrued expenses at June 30, 2010 (December 31, 2009: \$643). Christopher E. Watson, a director of the Company serves as a director of Tiger Risk.

On November 24, 2009, the Company entered into an Investment Management Agreement with Conning, Inc. (Conning) to manage a portion of the Company s investment portfolio. Aquiline acquired Conning on June 16, 2009. John J. Hendrickson and Jeffrey W. Greenberg, directors of the Company, each serve as a director of Conning Holdings Corp., the parent company of Conning. Investment management fees earned by Conning for the three and six months ended June 30, 2010 were \$100 and \$186, of which \$100 was included in accounts payable and accrued expenses at June 30, 2010.

11. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2010 and 2009:

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2010	2009	2010	2009
Basic earnings per share				
Income	\$ 179,782	\$ 137,563	\$ 61,404	\$ 232,470
less: Dividends and distributions declared on outstanding warrants	(1,749)	(1,590)	(3,498)	(3,326)
Income available to common shareholders	\$ 178,033	\$ 135,973	\$ 57,906	\$ 229,144
Weighted average number of common shares outstanding	121,009,553	76,138,038	123,821,415	75,941,308
Basic earnings per share	\$ 1.47	\$ 1.79	\$ 0.47	\$ 3.02
Diluted earnings per share				
Income	\$ 179,782	\$ 137,563	\$ 61,404	\$ 232,470
less: Dividends and distributions declared on outstanding warrants			(3,498)	
Income available to common shareholders	\$ 179,782	\$ 137,563	\$ 57,906	\$ 232,470

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Weighted average number of common shares outstanding	121,009,553	76,138,038	123,821,415	75,941,308
Share equivalents:				
Warrants	2,339,922	1,806,372		2,056,733
Stock options	794,625	300,405	840,067	333,955
Unvested restricted shares	1,008,200	697,250	1,000,247	690,359
Weighted average number of common shares outstanding	125,152,300	78,942,065	125,661,729	79,022,355
Diluted earnings per share	\$ 1.44	\$ 1.74	\$ 0.46	\$ 2.94

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Share equivalents that would result in the issuance of common shares of 218,497 and 198,500 were outstanding for three months ended June 30, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share because the effect would be antidilutive. Share equivalents that would result in the issuance of common shares of 194,812 and 179,713 were outstanding for six months ended June 30, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share because the effect would be antidilutive.

12. Subsequent events

On August 4, 2010, the Company announced a quarterly cash dividend of \$0.22 per common share and \$0.22 per common share equivalent for which each outstanding warrant is then exercisable, payable on September 30, 2010 to shareholders and warrant holders of record as of September 15, 2010.

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Validus Holdings, Ltd.

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13. Segment information

The Company conducts its operations worldwide through two wholly-owned subsidiaries, Validus Reinsurance, Ltd. and Talbot Holdings Ltd. from which two operating segments have been determined under U.S. GAAP segment reporting. The Company's operating segments are strategic business units that offer different products and services. They are managed and have capital allocated separately because each business requires different strategies.

Validus Re

The Validus Re segment is focused on short-tail lines of reinsurance. The primary lines in which the segment conducts business are property, marine and specialty which includes agriculture, aerospace, nuclear, terrorism, life and accident & health and workers' compensation catastrophe.

Talbot

The Talbot segment focuses on a wide range of marine and energy, war, political violence, commercial property, financial institutions, contingency, bloodstock & livestock, accident & health and aerospace classes of business on an insurance or facultative reinsurance basis and principally property, aerospace and marine classes of business on a treaty reinsurance basis.

Corporate and other reconciling items

The Company has a Corporate function, which includes the activities of the parent company, and which carries out certain functions for the group. Corporate includes non-core underwriting expenses, predominantly general and administrative and stock compensation expenses. Corporate also denotes the activities of certain key executives such as the Chief Executive Officer and Chief Financial Officer. For internal reporting purposes, Corporate is reflected separately, however Corporate is not considered an operating segment under these circumstances. Other reconciling items include, but are not limited to, the elimination of intersegment revenues and expenses and unusual items that are not allocated to segments.

Table of Contents**Validus Holdings, Ltd.**

Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

The following tables summarize the underwriting results of our operating segments and corporate segment:

Three Months Ended June 30, 2010	Validus Re	Talbot	Corporate & Eliminations	Total
Gross premiums written	\$ 284,328	\$ 253,710	\$ (21,177)	\$ 516,861
Reinsurance premiums ceded	(41,175)	(47,728)	21,177	(67,726)
Net premiums written	243,153	205,982		449,135
Change in unearned premiums	18,888	(30,079)		(11,191)
Net premiums earned	262,041	175,903		437,944
Losses and loss expenses	123,793	71,101		194,894
Policy acquisition costs	37,979	38,647	(2,500)	74,126
General and administrative expenses	10,983	24,960	16,436	52,379
Share compensation expenses	1,749	1,468	3,629	6,846
Underwriting income (loss)	\$ 87,537	\$ 39,727	\$ (17,565)	\$ 109,699
Net investment income	29,914	7,251	(2,356)	34,809
Net realized gains on investments	10,363	2,078		12,441
Net unrealized gains on investments	35,697	5,943		41,640
Foreign exchange (losses)	(843)	(3,243)	(13)	(4,099)
Other income	1,477	3,084	(1,864)	2,697
Finance expenses	(1,107)	105	(12,216)	(13,218)
Net income (loss) before taxes	163,038	54,945	(34,014)	183,969
Tax (expense) benefit	(94)	(4,094)	1	(4,187)
Net income (loss)	\$ 162,944	\$ 50,851	\$ (34,011)	\$ 179,782
Selected ratios (1)				
Losses and loss expenses	47.2%	40.4%		44.5%
Policy acquisition costs	14.5%	22.0%		16.9%
General and administrative expenses	4.9%	15.0%		13.5%
Expense ratio	19.4%	37.0%		30.4%
Combined ratio	66.6%	77.4%		74.9%
Total assets	\$ 5,057,693	\$ 2,507,586	\$ 49,344	\$ 7,614,623

- (1) Ratios are based on net premiums earned. The general and administrative expense ratio includes share compensation expenses.

Table of Contents**Validus Holdings, Ltd.**

Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

Three months ended June 30, 2009	Validus Re	Talbot	Corporate & Eliminations	Total
Gross premiums written	\$ 199,560	\$ 235,113	\$ (9,641)	\$ 425,032
Reinsurance premiums ceded	(43,070)	(28,862)	9,641	(62,291)
Net premiums written	156,490	206,251		362,741
Change in unearned premiums	7,207	(41,748)		(34,541)
Net premiums earned	163,697	164,503		328,200
Losses and loss expenses	41,121	83,630		124,751
Policy acquisition costs	29,120	36,114	(796)	64,438
General and administrative expenses	14,149	21,927	5,124	41,200
Share compensation expenses	1,548	2,098	1,986	5,632
Underwriting income (loss)	\$ 77,759	\$ 20,734	\$ (6,314)	\$ 92,179
Net investment income	20,783	7,693	(1,513)	26,963
Net realized (losses) on investments	(2,140)	(510)		(2,650)
Net unrealized gains on investments	35,793	1,456		37,249
Foreign exchange gains	1,827	6,549	56	8,432
Other income	902	911	(796)	1,017
Finance expenses	(477)	(3,339)	(6,936)	(10,752)
Transaction expenses			(15,851)	(15,851)
Net income (loss) before taxes	134,447	33,494	(31,354)	136,587
Income tax (expense) benefit	(28)	1,004		976
Net income (loss)	\$ 134,419	\$ 34,498	\$ (31,354)	\$ 137,563
Selected ratios (1):				
Loss and loss expense ratio	25.1%	50.8%		38.0%
Policy acquisition cost ratio	17.8%	22.0%		19.6%
General and administrative expense ratio	9.6%	14.6%		14.3%
Expense ratio	27.4%	36.6%		33.9%
Combined ratio	52.5%	87.4%		71.9%
Total assets	\$ 3,013,433	\$ 1,988,037	\$ 6,980	\$ 5,008,450

- (1) Ratios are based on net premiums earned. The general and administrative expense ratio includes share compensation expenses.

Table of Contents**Validus Holdings, Ltd.**

Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

The following tables summarize the underwriting results of our operating segments and corporate segment:

Six months ended June 30, 2010	Validus Re	Talbot	Corporate & Eliminations	Total
Gross premiums written	\$ 924,623	\$ 524,251	\$ (61,079)	\$ 1,387,795
Reinsurance premiums ceded	(54,285)	(165,259)	61,079	(158,465)
Net premiums written	870,338	358,992		1,229,330
Change in unearned premiums	(324,376)	(9,316)		(333,692)
Net premiums earned	545,962	349,676		895,638
Losses and loss expenses	472,713	200,712		673,425
Policy acquisition costs	81,482	73,592	(4,772)	150,302
General and administrative expenses	27,295	50,508	28,145	105,948
Share compensation expenses	3,378	3,027	7,017	13,422
Underwriting (loss) income	\$ (38,906)	\$ 21,837	\$ (30,390)	\$ (47,459)
Net investment income	59,159	14,571	(4,622)	69,108
Net realized gains on investments	20,142	3,697		23,839
Net unrealized gains on investments	47,892	9,161		57,053
Other income (loss)	2,555	5,059	(4,029)	3,585
Finance expenses	(2,400)	(3,140)	(22,829)	(28,369)
Foreign exchange (losses)	(5,982)	(6,842)	(39)	(12,863)
Net income (loss) before taxes	82,460	44,343	(61,909)	64,894
Tax (expense)	(185)	(3,299)	(6)	(3,490)
Net income (loss)	\$ 82,275	\$ 41,044	\$ (61,915)	\$ 61,404
Selected ratios (1)				
Losses and loss expenses	86.6%	57.4%		75.2%
Policy acquisition costs	14.9%	21.0%		16.8%
General and administrative expenses	5.6%	15.3%		13.3%
Expense ratio	20.5%	36.3%		30.1%
Combined ratio	107.1%	93.7%		105.3%
Total assets	\$ 5,057,693	\$ 2,507,586	\$ 49,344	\$ 7,614,623

- (1) Ratios are based on net premiums earned. The general and administrative expense ratio includes share compensation expenses.

Table of Contents**Validus Holdings, Ltd.**

Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

Six months ended June 30, 2009	Validus Re	Talbot	Corporate & Eliminations	Total
Gross premiums written	\$ 609,686	\$ 463,033	\$ (37,795)	\$ 1,034,924
Reinsurance premiums ceded	(56,359)	(116,239)	37,795	(134,803)
Net premiums written	553,327	346,794		900,121
Change in unearned premiums	(215,183)	(37,979)		(253,162)
Net premiums earned	338,144	308,815		646,959
Losses and loss expenses	96,583	160,002		256,585
Policy acquisition costs	57,697	69,271	(1,081)	125,887
General and administrative expenses	27,941	42,141	9,197	79,279
Share compensation expenses	3,220	4,433	5,333	12,986
Underwriting income (loss)	\$ 152,703	\$ 32,968	\$ (13,449)	\$ 172,222
Net investment income	41,569	15,187	(3,021)	53,735
Net realized (losses) on investments	(19,679)	(6,392)		(26,071)
Net unrealized gains on investments	54,800	4,602		59,402
Foreign exchange (losses) gains	(1,380)	5,556	56	4,232
Other income (loss)	1,187	1,668	(1,081)	1,774
Finance expenses	(840)	(3,762)	(13,873)	(18,475)
Transaction expenses			(15,851)	(15,851)
Net income (loss) before taxes	228,360	49,827	(47,219)	230,968
Income tax (expense) benefit	(66)	1,568		1,502
Net income (loss)	\$ 228,294	\$ 51,395	\$ (47,219)	\$ 232,470
Selected ratios (1)				
Loss and loss expense ratio	28.6%	51.8%		39.7%
Policy acquisition cost ratio	17.1%	22.4%		19.5%
General and administrative expense ratio	9.2%	15.1%		14.3%
Expense ratio	26.3%	37.5%		33.8%
Combined ratio	54.9%	89.3%		73.5%
Total assets	\$ 3,013,433	\$ 1,988,037	\$ 6,980	\$ 5,008,450

- (1) Ratios are based on net premiums earned. The general and administrative expense ratio includes share compensation expenses.

Table of Contents**Validus Holdings, Ltd.**

Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

The Company's exposures are generally diversified across geographic zones. The following tables set forth the gross premiums written allocated to the territory of coverage exposure for the periods indicated:

Three Months Ended June 30, 2010
Gross premiums written

	Validus Re	Talbot	Eliminations	Total	%
United States	\$ 186,653	\$ 29,691	\$ (2,020)	\$ 214,324	41.5%
Worldwide excluding United States (1)	4,830	58,806	(2,086)	61,550	11.9%
Europe	10,757	12,832	(504)	23,085	4.4%
Latin America and Caribbean	15,036	29,368	(12,766)	31,638	6.1%
Japan	19,250	2,901	(72)	22,079	4.3%
Canada	72	3,367	(72)	3,367	0.7%
Rest of the world (2)	25,168			25,168	4.9%
Sub-total, non United States Worldwide including United States (1)	75,113	107,274	(15,500)	166,887	32.3%
Marine and Aerospace (3)	2,032	15,911	(504)	17,439	3.3%
Total	\$ 284,328	\$ 253,710	\$ (21,177)	\$ 516,861	100.0%

Three Months Ended June 30, 2009
Gross premiums written

	Validus Re	Talbot	Eliminations	Total	%
United States	\$ 132,788	\$ 24,480	\$ (259)	\$ 157,009	36.9%
Worldwide excluding United States (1)	11,754	67,581	(1,593)	77,742	18.3%
Europe	7,357	17,595	(551)	24,401	5.8%
Latin America and Caribbean	7,560	15,646	(6,631)	16,575	3.9%
Japan	14,807	3,256		18,063	4.2%
Canada	112	2,219	(112)	2,219	0.5%
Rest of the world (2)	8,660			8,660	2.0%
Sub-total, non United States Worldwide including United States (1)	50,250	106,297	(8,887)	147,660	34.7%
Marine and Aerospace (3)	6,321	16,461	(393)	22,389	5.3%
Total	\$ 199,560	\$ 235,113	\$ (9,641)	\$ 425,032	100.0%

(1)

Represents risks
in two or more
geographic
zones.

(2) Represents risks
in one
geographic
zone.

(3) Not classified as
geographic area
as marine and
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Table of Contents**Validus Holdings, Ltd.**

Notes to Consolidated Financial Statements (unaudited)

(Expressed in thousands of U.S. dollars, except share and per share information)

The Company's exposures are generally diversified across geographic zones. The following tables set forth the gross premiums written allocated to the territory of coverage exposure for the periods indicated:

Six Months Ended June 30, 2010**Gross premiums written**

	Validus Re	Talbot	Eliminations	Total	%
United States	\$ 420,220	\$ 54,974	\$ (5,491)	\$ 469,703	33.8%
Worldwide excluding United States (1)	44,594	134,824	(5,918)	173,500	12.5%
Europe	91,233	28,370	(961)	118,642	8.5%
Latin America and Caribbean	43,775	46,595	(28,553)	61,817	4.5%
Japan	19,900	3,609	(137)	23,372	1.7%
Canada	137	7,003	(137)	7,003	0.5%
Rest of the world (2)	25,168			25,168	1.8%
Sub-total, non United States Worldwide including United States (1)	224,807	220,401	(35,706)	409,502	29.5%
Marine and Aerospace (3)	78,267	28,687	(2,234)	104,720	7.6%
Total	\$ 924,623	\$ 524,251	\$ (61,079)	\$ 1,387,795	100.0%

Six Months Ended June 30, 2009**Gross premiums written**

	Validus Re	Talbot	Eliminations	Total	%
United States	\$ 297,999	\$ 46,893	\$ (5,087)	\$ 339,805	32.8%
Worldwide excluding United States (1)	33,942	127,191	(9,282)	151,851	14.7%
Europe	46,582	37,908	(3,213)	81,277	7.9%
Latin America and Caribbean	18,456	32,596	(14,893)	36,159	3.5%
Japan	14,807	3,707		18,514	1.8%
Canada	652	6,378	(652)	6,378	0.6%
Rest of the world (2)	20,875			20,875	2.0%
Sub-total, non United States Worldwide including United States (1)	135,314	207,780	(28,040)	315,054	30.5%
Marine and Aerospace (3)	36,706	31,062	(2,287)	65,481	6.3%
Total	\$ 609,686	\$ 463,033	\$ (37,795)	\$ 1,034,924	100.0%

(1)

Represents risks
in two or more
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zones.

(2) Represents risks
in one
geographic
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(3) Not classified as
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Table of Contents**ITEM 2. 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 and six months ended June 30, 2010 and 2009 and the Company's consolidated financial condition, liquidity and capital resources at June 30, 2010 and December 31, 2009. This discussion and analysis should be read in conjunction with the audited consolidated financial statements and related notes for the fiscal year ended December 31, 2009, the discussions of critical accounting policies and the qualitative and quantitative disclosure about market risk contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

The Company was formed on October 19, 2005 and completed the acquisitions of Talbot Holdings Ltd. (Talbot) and IPC Holdings, Ltd. (IPC) on July 2, 2007 and September 4, 2009, respectively. For a variety of reasons, the Company's historical financial results may not accurately indicate future performance. See Cautionary Note Regarding Forward-Looking Statements. The Risk Factors set forth in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 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 segments, Validus Re and Talbot. Validus Re, the Company's principal reinsurance operating segment, operates as a Bermuda-based provider of short-tail reinsurance products on a global basis. Talbot, the Company's principal insurance operating segment, operates through its two underwriting platforms: Talbot Underwriting Ltd, which manages Syndicate 1183 at Lloyd's of London (Lloyd's) and which writes short-tail insurance products on a worldwide basis, and Underwriting Risk Services Ltd, which is an underwriting agency writing primarily yacht and onshore energy business on behalf of the Talbot syndicate and others.

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

On September 4, 2009, the Company acquired all of the outstanding shares of IPC (the IPC Acquisition) in exchange for common shares and cash. IPC's operations focused on short-tail lines of reinsurance. The primary lines in which IPC conducted business were property catastrophe reinsurance and, to a limited extent, property-per-risk excess, aviation (including satellite) and other short-tail reinsurance on a worldwide basis. The IPC Acquisition was undertaken to increase the Company's capital base and gain a strategic advantage in the current reinsurance market. This acquisition created a leading Bermuda carrier in the short-tail reinsurance market that facilitates stronger relationships with major reinsurance intermediaries.

Business Outlook and Trends

The Company was formed in October 2005 in response to the supply/demand imbalance resulting from the large industry losses in 2004 and 2005. In the aggregate, the Company observed substantial increases in premium rates in 2006 compared to 2005 levels. During the years ended December 31, 2007 and 2008, the Company 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 increased the supply of insurance and reinsurance which resulted in a softening of rates in most lines. However, during 2008, the insurance and reinsurance industry incurred material losses and capital declines due to Hurricanes Ike and Gustav and the global financial crisis. In the wake of these events, the January 2009 renewal season saw decreased competition and increased premium rates due to

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relatively scarce capital and increased demand. During 2009, the Company observed reinsurance demand stabilization and industry capital recovery from investment portfolio gains. In 2009, there were few notable large losses affecting the worldwide (re)insurance industry and no major hurricanes making landfall in the United States.

The January 2010 renewal period saw business being withdrawn from the market, notably catastrophe excess of loss, resulting in the Company writing less business in these lines and reducing the Company's aggregate loss exposure. Despite the elevated level of catastrophe activity during the first quarter of 2010, principally the Chilean earthquake which stands among the most costly industry losses in history outside of the United States, the Company continues to see increased competition and decreased premium rates in most classes of business. During the July 2010 renewal period, Validus Re experienced continued rate decreases in the U.S. The Talbot segment, has also experienced pricing pressures in most classes of business, with the exception of the property treaty, offshore energy, financial institution and political risk lines, which have been experiencing favorable renewal terms and conditions following recent losses.

Financial Measures

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

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

	Three Months Ended June 30,	
	2010	2009
Annualized return on average equity	19.5%	26.4%

The decrease in annualized return on average equity for the three months ended June 30, 2010 was driven primarily by an increase in notable loss events incurred. Notable loss events for the three months ended June 30, 2010 were \$70.5 million as compared to \$11.0 million for the three months ended June 30, 2009. Net income for the three months ended June 30, 2010 increased by \$42.2 million, or 30.7% compared to the three months ended June 30, 2009.

Diluted book value per common share is considered by management to be an appropriate measure of our returns to common shareholders, as we believe growth in our book value on a diluted basis ultimately translates into growth of our stock price. Diluted book value per common share increased by \$1.64, or 5.7%, from \$28.66 at March 31, 2010 to \$30.30 at June 30, 2010. The increase was substantially due to the earnings generated in the three months ended June 30, 2010, partially offset by dividends of \$0.22 per share and per share equivalent paid in the period. Diluted book value per common share is a Non-GAAP financial measure. The most comparable U.S. GAAP financial measure is book value per common share. Diluted book value per common share is calculated based on total shareholders equity plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares, options and warrants outstanding (assuming their exercise). A reconciliation of diluted book value per common share to book value per common share is presented below in the section entitled *Non-GAAP Financial Measures*.

Cash dividends per common share are an integral part of the value created for shareholders. The Company declared a quarterly cash dividend of \$0.22 per common share in the second quarter of 2010. On August 4, 2010, the Company announced a quarterly cash dividend of \$0.22 per each common share and \$0.22 per common share equivalent for which each outstanding warrant is then exercisable, payable on September 30, 2010 to holders of record on September 15, 2010.

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Underwriting income measures the performance of the Company's core underwriting function, excluding revenues and expenses such as net investment income (loss), other income, finance expenses, net realized and unrealized gains (losses) on investments, foreign exchange gains (losses) and gain on bargain purchase, net of expenses. The Company believes the reporting of underwriting income enhances the understanding of our results by highlighting the underlying profitability of the Company's core insurance and reinsurance operations. Underwriting income for the three months ended June 30, 2010 and 2009 was \$109.7 million and \$92.2 million, respectively. The increase was primarily due to an increase in net premiums earned, partially offset by an increase in loss and loss expenses during the three months ended June 30, 2010. 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

There are certain accounting policies that the Company considers to be critical due to the judgment and uncertainty inherent in the application of those policies. In calculating financial statement estimates, the use of different assumptions could produce materially different estimates. The Company believes the following critical accounting policies affect significant estimates used in the preparation of our consolidated financial statements:

Reserve for losses and loss expenses;

Premiums;

Reinsurance premiums ceded and reinsurance recoverable; and

Investment valuation.

Critical accounting policies and estimates are discussed further in Item 7, *Management's Discussion and Analysis of Results of Operations and Financial Condition* in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

Segment Reporting

Management has determined that the Company operates in two reportable segments. The two significant operating segments are Validus Re and Talbot.

Results of Operations

Validus Re commenced operations on December 16, 2005. The Company's fiscal year ends on December 31. Financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) for interim financial information.

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The following table presents results of operations for the three and six months ended June 30, 2010 and 2009:

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009 (a)	Pro Forma 2009 (c)	2010	2009 (a)	Pro Forma 2009 (c)
Gross premiums written	\$ 516,861	\$ 425,032	\$ 552,581	\$ 1,387,795	\$ 1,034,924	\$ 1,396,818
Reinsurance premiums ceded	(67,726)	(62,291)	(64,486)	(158,465)	(134,803)	(138,467)
Net premiums written	449,135	362,741	488,095	1,229,330	900,121	1,258,351
Change in unearned premiums	(11,191)	(34,541)	(63,697)	(333,692)	(253,162)	(416,486)
Net premiums earned	437,944	328,200	424,398	895,638	646,959	841,865
Losses and loss expenses	194,894	124,751	116,334	673,425	256,585	287,277
Policy acquisition costs	74,126	64,438	74,344	150,302	125,887	145,631
General and administrative expenses	52,379	41,200	51,108	105,948	79,279	99,341
Share compensation expenses	6,846	5,632	8,107	13,422	12,986	17,950
Total underwriting deductions	328,245	236,021	249,893	943,097	474,737	550,199
Underwriting income (loss) (b)	109,699	92,179	174,505	(47,459)	172,222	291,666
Net investment income	34,809	26,963	44,540	69,108	53,735	88,987
Other income	2,697	1,017	1,036	3,585	1,774	1,800
Finance expenses	(13,218)	(10,752)	(10,752)	(28,369)	(18,475)	(18,858)
Operating income (loss) before taxes (b)	133,987	109,407	209,329	(3,135)	209,256	363,595
Tax (expense) benefit	(4,187)	976	976	(3,490)	1,502	1,502
Net operating income (loss) (b)	129,800	110,383	210,305	(6,625)	210,758	365,097
Net realized gains (losses) on investments	12,441	(2,650)	2,430	23,839	(26,071)	(24,909)
Net unrealized gains on investments	41,640	37,249	109,554	57,053	59,402	100,053
Foreign exchange (losses) gains	(4,099)	8,432	10,111	(12,863)	4,232	2,765
Transaction expenses		(15,851)			(15,851)	
Net income	\$ 179,782	\$ 137,563	\$ 332,400	\$ 61,404	\$ 232,470	\$ 443,006
Selected ratios:						
Net premiums written / Gross premiums written	86.9%	85.3%	88.3%	88.6%	87.0%	90.1%
Losses and loss expenses	44.5%	38.0%	27.4%	75.2%	39.7%	34.1%
Policy acquisition costs	16.9%	19.6%	17.5%	16.8%	19.5%	17.3%
General and administrative expenses (d)	13.5%	14.3%	14.0%	13.3%	14.3%	13.9%
Expense ratio	30.4%	33.9%	31.5%	30.1%	33.8%	31.2%

Combined ratio	74.9%	71.9%	58.9%	105.3%	73.5%	65.3%
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- a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.
- b) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income (loss) and operating income (loss) 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) measure to
net income, the
most comparable
U.S. GAAP
financial
measure, is
presented in the
section below
entitled
Underwriting
Income.

- c) Pro Forma
combined
Validus
Holdings, Ltd.
and IPC
Holdings Ltd.
income
statement for the
three months
and six months
ended June 30,
2009.
- d) The general and
administrative
ratio includes
share
compensation
expenses.

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(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009 (a)	Pro Forma 2009 (c)	2010	2009 (a)	Pro Forma 2009 (c)
Validus Re						
Gross premiums written	\$ 284,328	\$ 199,560	\$ 327,109	\$ 924,623	\$ 609,686	\$ 971,580
Reinsurance premiums ceded	(41,175)	(43,070)	(45,265)	(54,285)	(56,359)	(60,023)
Net premiums written	243,153	156,490	281,844	870,338	553,327	911,557
Change in unearned premiums	18,888	7,207	(21,949)	(324,376)	(215,183)	(378,507)
Net premiums earned	262,041	163,697	259,895	545,962	338,144	533,050
Losses and loss expenses	123,793	41,121	32,704	472,713	96,583	127,275
Policy acquisition costs	37,979	29,120	39,026	81,482	57,697	77,441
General and administrative expenses	10,983	14,149	24,057	27,295	27,941	48,003
Share compensation expenses	1,749	1,548	4,023	3,378	3,220	8,184
Total underwriting deductions	174,504	85,938	99,810	584,868	185,441	260,903
Underwriting income (loss) (b)	87,537	77,759	160,085	(38,906)	152,703	272,147
Talbot						
Gross premiums written	\$ 253,710	\$ 235,113	\$ 235,113	\$ 524,251	\$ 463,033	\$ 463,033
Reinsurance premiums ceded	(47,728)	(28,862)	(28,862)	(165,259)	(116,239)	(116,239)
Net premiums written	205,982	206,251	206,251	358,992	346,794	346,794
Change in unearned premiums	(30,079)	(41,748)	(41,748)	(9,316)	(37,979)	(37,979)
Net premiums earned	175,903	164,503	164,503	349,676	308,815	308,815
Losses and loss expenses	71,101	83,630	83,630	200,712	160,002	160,002
Policy acquisition costs	38,647	36,114	36,114	73,592	69,271	69,271
General and administrative expenses	24,960	21,927	21,927	50,508	42,141	42,141
Share compensation expenses	1,468	2,098	2,098	3,027	4,433	4,433
Total underwriting deductions	136,176	143,769	143,769	327,839	275,847	275,847

Underwriting income (b)	39,727	20,734	20,734	21,837	32,968	32,968
Corporate & Eliminations						
Gross premiums written	\$ (21,177)	\$ (9,641)	\$ (9,641)	\$ (61,079)	\$ (37,795)	\$ (37,795)
Reinsurance premiums ceded	21,177	9,641	9,641	61,079	37,795	37,795
Net premiums written						
Change in unearned premiums						
Net premiums earned						
Losses and loss expenses						
Policy acquisition costs	(2,500)	(796)	(796)	(4,772)	(1,081)	(1,081)
General and administrative expenses	16,436	5,124	5,124	28,145	9,197	9,197
Share compensation expenses	3,629	1,986	1,986	7,017	5,333	5,333
Total underwriting deductions	17,565	6,314	6,314	30,390	13,449	13,449
Underwriting (loss) (b)	(17,565)	(6,314)	(6,314)	(30,390)	(13,449)	(13,449)
Total underwriting income (loss) (b)	\$ 109,699	\$ 92,179	\$ 174,505	\$ (47,459)	\$ 172,222	\$ 291,666

a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

b) 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.

- c) Pro Forma
combined
Validus
Holdings, Ltd.
and IPC
Holdings Ltd.
income
statement for the
three and six
months ended
June 30, 2009.

Table of Contents**Three Months Ended June 30, 2010 compared to Three Months Ended June 30, 2009**

Net income for the three months ended June 30, 2010 was \$179.8 million compared to net income of \$137.6 million for the three months ended June 30, 2009, an increase of \$42.2 million or 30.7%. The primary factors driving the increase in net income were:

Increase in underwriting income of \$17.5 million due primarily to an increase in net premiums earned of \$109.7 million primarily relating to the IPC Acquisition. This was partially offset by an increase in underwriting deductions of \$92.2 million including \$70.5 million of notable loss events included in loss and loss expenses. Underwriting deductions also include policy acquisition costs, general and administrative expenses and share compensation expenses;

Decrease in transaction expenses of \$15.9 million relating to the IPC Acquisition that were absent in the three months ended June 30, 2010;

Increase in net investment income and net realized gains on investments of \$7.8 million and \$15.1 million respectively, and;

Increase in net unrealized gains on investments of \$4.4 million.

The above items were partially offset by the following factor:

An adverse movement in foreign exchange of \$12.5 million.

The change in net income for the three months ended June 30, 2010 of \$42.2 million as compared to the three months ended June 30, 2009 is described in the following table:

(Dollars in thousands)	Three Months Ended June 30, 2010			
	Increase (Decrease) Over the Three Months Ended June 30, 2009			
	Corporate and			
	Validus		Eliminations	Total (a)
	Re (a)	Talbot		
Notable losses net loss and loss expenses (c)	\$ (59,571)	\$ (10,920)	\$	\$ (70,491)
Notable losses net reinstatement premiums (c)	7,721	(4,420)		3,301
Other underwriting income (loss)	61,628	34,333	(11,251)	84,710
Underwriting income (loss) (b)	9,778	18,993	(11,251)	17,520
Net investment income	9,131	(442)	(843)	7,846
Other income	575	2,173	(1,068)	1,680
Finance expenses	(630)	3,444	(5,280)	(2,466)
	18,854	24,168	(18,442)	24,580
Taxes	(66)	(5,098)	1	(5,163)
	18,788	19,070	(18,441)	19,417
Transaction expenses			15,851	15,851
Net realized gains (losses) on investments	12,503	2,588		15,091
Net unrealized gains on investments	(96)	4,487		4,391
Foreign exchange (losses) gains	(2,670)	(9,792)	(69)	(12,531)
Net income (loss)	\$ 28,525	\$ 16,353	\$ (2,659)	\$ 42,219

- (a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

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(b) 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.

(c)

Notable losses for the three months ended include: Deepwater Horizon, Aban Pearl, Bangkok riots, and Perth hailstorm.

Gross Premiums Written

Gross premiums written for the three months ended June 30, 2010 were \$516.9 million compared to \$425.0 million for the three months ended June 30, 2009, an increase of \$91.8 million or 21.6%. The increase in gross premiums written was driven primarily by the impact of the IPC Acquisition. The property and marine lines increased by \$84.8 million and \$7.9 million, respectively, while the specialty lines decreased by \$1.0 million. Details of gross premiums written by line of business are provided below.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
(Dollars in thousands)					
Property	\$ 340,289	65.8%	\$ 255,442	60.1%	33.2%
Marine	92,380	17.9%	84,431	19.9%	9.4%
Specialty	84,192	16.3%	85,159	20.0%	(1.1)%
Total	\$ 516,861	100.0%	\$ 425,032	100.0%	21.6%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Validus Re. Validus Re gross premiums written for the three months ended June 30, 2010 were \$284.3 million compared to \$199.6 million for the three months ended June 30, 2009, an increase of \$84.8 million or 42.5%. Details of Validus Re gross premiums written by line of business are provided below.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
(Dollars in thousands)					
Property	\$ 261,568	92.0%	\$ 183,898	92.1%	42.2%
Marine	15,410	5.4%	3,957	2.0%	289.4%
Specialty	7,350	2.6%	11,705	5.9%	(37.2)%

Total	\$ 284,328	100.0%	\$ 199,560	100.0%	42.5%
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- (a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

The impact of the IPC Acquisition has been the primary driver for the increase in gross premiums written. The additional capacity was used to increase lines on renewing deals and to write new business totaling \$47.3 million. The Singapore branch of Validus Re commenced writing business in January 2010 and contributed an additional \$10.2 million in gross premiums written during the three months ended June 30, 2010.

The increase in gross premiums written in the property lines of \$77.7 million was due to primarily to a \$48.9 million increase in new and renewing business and the \$10.2 million in new premiums contributed by the Singapore branch, as described above. There was \$6.3 million increase in earned premium adjustments. The increase in gross premiums written of \$11.5 million in the marine lines was due primarily to a \$7.9 million increase in reinstatement premiums mainly relating to the Aban Pearl and Deepwater Horizon events. The decrease in gross premiums written in specialty lines of \$4.4 million was primarily due to a \$3.1 million decrease in premiums in new and renewing business.

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Gross premiums written under the quota share, surplus treaty and excess of loss contracts between Validus Re and Talbot increased by \$11.6 million on the property lines, \$0.2 million on the marine lines and decreased by \$0.3 million of the specialty lines as compared to the three months ended June 30, 2009. These reinsurance agreements with Talbot are eliminated upon consolidation.

Talbot. Talbot gross premiums written for the three months ended June 30, 2010 were \$253.7 million compared to \$235.1 million for the three months ended June 30, 2009, an increase of \$18.6 million or 7.9%. The \$253.7 million of gross premiums written translated at 2009 rates of exchange would have been \$255.7 million during the three months ended June 30, 2010, an increase of \$2.0 million. Details of Talbot gross premiums written by line of business are provided below.

(Dollars in thousands)	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		% Change
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
Property	\$ 97,529	38.4%	\$ 78,769	33.5%	23.8%
Marine	79,355	31.3%	82,657	35.2%	(4.0)%
Specialty	76,826	30.3%	73,687	31.3%	4.3%
Total	\$ 253,710	100.0%	\$ 235,113	100.0%	7.9%

The increase in gross premiums written in the property lines of \$18.8 million was primarily due to \$16.1 million of gross premiums written on the onshore energy lines. The onshore energy team starting writing business during the first quarter of 2009 which is the main reason for the increase over the three months ended June 30, 2009. In addition, there was a \$4.9 million increase in gross premiums written in the property treaty lines, most of which was written by Validus Reaseguros, Inc., which acts as an approved Lloyd's cover holder for Syndicate 1183 targeting the Latin American and Caribbean markets. This was offset by a reduction of \$2.6 million on the property direct lines.

Reinsurance Premiums Ceded

Reinsurance premiums ceded for the three months ended June 30, 2010 were \$67.7 million compared to \$62.3 million for the three months ended June 30, 2009, an increase of \$5.4 million or 8.7%. Reinsurance premiums ceded on the marine and specialty lines increased by \$8.3 million and \$0.6 million respectively, partially offset by a decrease in the property lines of \$3.4 million, as described below.

(Dollars in thousands)	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	
Property	\$ 53,828	79.5%	\$ 57,238	91.9%	(6.0)%
Marine	10,923	16.1%	2,633	4.2%	314.8%
Specialty	2,975	4.4%	2,420	3.9%	22.9%
Total	\$ 67,726	100.0%	\$ 62,291	100.0%	8.7%

(a)

The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Validus Re. Validus Re reinsurance premiums ceded for the three months ended June 30, 2010 were \$41.2 million compared to \$43.1 million for the three months ended June 30, 2009, a decrease of \$1.9 million or 4.4%.

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	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	
(Dollars in thousands)					
Property	\$ 33,933	82.4%	\$ 42,705	99.1%	(20.5)%
Marine	7,242	17.6%	209	0.5%	NM
Specialty		0.0%	156	0.4%	(100.0)%
Total	\$ 41,175	100.0%	\$ 43,070	100.0%	(4.4)%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

NM: Not meaningful

Reinsurance premiums ceded on the property lines decreased by \$8.8 million, primarily due to a reduction of \$11.2 million in U.S. property cover, offset by an increase of \$5.4 million in international property cover. Reinsurance premiums ceded on the marine lines increased by \$7.0 million, due to the purchase of \$6.3 million in industry loss warranties.

Talbot. Talbot reinsurance premiums ceded for the three months ended June 30, 2010 were \$47.7 million compared to \$28.9 million for the three months ended June 30, 2009, an increase of \$18.9 million or 65.4%. This increase was primarily due to an increase in quota share costs following the increase in premiums written under the energy-on shore lines, additional surplus and quota share costs following the increase in premiums written through Talbot's overseas offices.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		% Change
	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	Reinsurance Premiums Ceded	Reinsurance Premiums Ceded (%)	
(Dollars in thousands)					
Property	\$ 38,702	81.1%	\$ 21,758	75.3%	77.9%
Marine	6,066	12.7%	4,607	16.0%	31.7%
Specialty	2,960	6.2%	2,497	8.7%	18.5%
Total	\$ 47,728	100.0%	\$ 28,862	100.0%	65.4%

Reinsurance premiums ceded on the property lines increased by \$16.9 million. The increase was due primarily to the increased premiums written under the onshore energy lines. In addition, reinsurance premiums ceded under third party

quota share, surplus treaty and excess of loss contracts on the property lines increased by \$5.4 million, as compared to the three months ended June 30, 2009. Reinsurance premiums ceded under the quota share, surplus treaty and excess of loss contracts with Validus Re for the three months ended June 30, 2010 were \$21.2 million compared to \$9.6 million for the three months ended June 30, 2009, an increase of \$11.6 million. These reinsurance agreements with Validus Re are eliminated upon consolidation.

Net Premiums Written

Net premiums written for the three months ended June 30, 2010 were \$449.1 million compared to \$362.7 million for the three months ended June 30, 2009, an increase of \$86.4 million, or 23.8%. The ratios of net premiums written to gross premiums written for the three months ended June 30, 2010 and 2009 were 86.9% and 85.3%, respectively. Details of net premiums written by line of business are provided below.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	
(Dollars in thousands)					
Property	\$ 286,463	63.8%	\$ 198,204	54.7%	44.5%
Marine	81,455	18.1%	81,798	22.5%	(0.4)%
Specialty	81,217	18.1%	82,739	22.8%	(1.8)%
Total	\$ 449,135	100.0%	\$ 362,741	100.0%	23.8%

(a) The results of operations for operations for IPC are consolidated only from the September 2009 date of acquisition.

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Validus Re. Validus Re net premiums written for the three months ended June 30, 2010 were \$243.2 million compared to \$156.5 million for the three months ended June 30, 2009, an increase of \$86.7 million or 55.4%. Details of net premiums written by line of business are provided below.

(Dollars in thousands)	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	
Property	\$ 227,635	93.6%	\$ 141,193	90.2%	61.2%
Marine	8,168	3.4%	3,748	2.4%	117.9%
Specialty	7,350	3.0%	11,549	7.4%	(36.4)%
Total	\$ 243,153	100.0%	\$ 156,490	100.0%	55.4%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

The increase in Validus Re 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 were 85.5% and 78.4% for the three months ended June 30, 2010 and 2009, respectively, reflecting the increase in gross premiums written while reinsurance premiums ceded remained relatively stable.

Talbot. Talbot net premiums written for the three months ended June 30, 2010 were \$206.0 million compared to \$206.3 million for the three months ended June 30, 2009, a decrease of \$0.3 million or 0.1%. Details of net premiums written by line of business are provided below:

(Dollars in thousands)	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		% Change
	Net Premiums Written	Net Premiums Written (%)	Net Premiums Written	Net Premiums Written (%)	
Property	\$ 58,827	28.5%	\$ 57,011	27.6%	3.2%
Marine	73,289	35.6%	78,050	37.9%	(6.1)%
Specialty	73,866	35.9%	71,190	34.5%	3.8%
Total	\$ 205,982	100.0%	\$ 206,251	100.0%	(0.1)%

The decrease in net premiums written was driven by the factors highlighted above in respect of gross premiums written and reinsurance premiums ceded, in particular the lower net premium resulting from the increase in reinsurance premiums. The ratios of net premiums written to gross premiums written for the three months ended June 30, 2010 and 2009 were 81.2% and 87.7%, respectively, reflecting the significant increase in quota share costs

on the onshore energy lines.

Change in Unearned Premiums

Change in unearned premiums for the three months ended June 30, 2010 was (\$11.2) million compared to (\$34.5) million for the three months ended June 30, 2009, a change of \$23.3 million or 67.6%.

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	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (a)	% Change
(Dollars in thousands)	Change in Unearned Premiums	Change in Unearned Premiums	
Change in gross unearned premium	\$ (93,012)	\$ (60,905)	52.7%
Change in prepaid reinsurance premium	81,821	26,364	210.4%
Net change in unearned premium	\$ (11,191)	\$ (34,541)	(67.6)%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Validus Re. Validus Re's net change in unearned premiums for the three months ended June 30, 2010 were \$18.9 million compared to \$7.2 million for the three months ended June 30, 2009, a change of \$11.7 million or 162.1%.

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (a)	% Change
(Dollars in thousands)	Change in Unearned Premiums	Change in Unearned Premiums	
Change in gross unearned premium	\$ (75,680)	\$ (19,410)	289.9%
Change in prepaid reinsurance premium	94,568	26,617	255.3%
Net change in unearned premium	\$ 18,888	\$ 7,207	162.1%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

The Validus Re net change in unearned premium has increased for the three months ended June 30, 2010 primarily due to the earning effect from historical IPC gross premiums written.

Talbot. The Talbot net change in unearned premiums for the three months ended June 30, 2010 was (\$30.1) million compared to (\$41.7) million for the three months ended June 30, 2009, a change of \$11.7 million, or 28.0%.

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	
	Change in Unearned	Change in Unearned	
(Dollars in thousands)	Premiums	Premiums	% Change
Change in gross unearned premium	\$ (17,332)	\$ (41,495)	(58.2)%
Change in prepaid reinsurance premium	(12,747)	(253)	NM
Net change in unearned premium	\$ (30,079)	\$ (41,748)	(28.0)%

NM: Not meaningful

The Talbot net change in unearned premium has decreased for the three months ended June 30, 2010 primarily due to the seasonality of earnings of gross premiums written previously to the current quarter.

Net Premiums Earned

Net premiums earned for the three months ended June 30, 2010 were \$437.9 million compared to \$328.2 million for the three months ended June 30, 2009, an increase of \$109.7 million or 33.4%. The increase in net premiums earned was driven by increased premiums earned of \$98.3 million and \$11.4 million in the Validus Re and Talbot segments, respectively.

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	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Net Premiums	Net Premiums Earned (%)	Net Premiums	Net Premiums Earned (%)	
(Dollars in thousands)	Earned		Earned		
Property	\$ 223,597	51.0%	\$ 143,843	43.8%	55.4%
Marine	111,565	25.5%	100,953	30.8%	10.5%
Specialty	102,782	23.5%	83,404	25.4%	23.2%
Total	\$ 437,944	100.0%	\$ 328,200	100.0%	33.4%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Validus Re. Validus Re net premiums earned for the three months ended June 30, 2010 were \$262.0 million compared to \$163.7 million for the three months ended June 30, 2009, an increase of \$98.3 million or, 60.1%.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Net Premiums	Net Premiums Earned (%)	Net Premiums	Net Premiums Earned (%)	
(Dollars in thousands)	Earned		Earned		
Property	\$ 186,444	71.1%	\$ 110,185	67.3%	69.2%
Marine	48,154	18.4%	33,584	20.5%	43.4%
Specialty	27,443	10.5%	19,928	12.2%	37.7%
Total	\$ 262,041	100.0%	\$ 163,697	100.0%	60.1%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

The increase in net premiums earned was due primarily to \$18.8 million of historical IPC premiums earned from business in force at the time of the IPC Acquisition, and an increase of \$54.4 million of premiums earned on contracts incepting in the first quarter of the year which is consistent with the increase in new and renewing premiums

compared to the three months ended June 30, 2009. In addition, there was a \$8.3 million increase in reinstatement premiums earned, and a \$9.2 million increase in related party premiums earned through the Talbot quota share, surplus treaty and excess of loss.

Talbot. Talbot net premiums earned for the three months ended June 30, 2010 were \$175.9 million compared to \$164.5 million for the three months ended June 30, 2009, an increase of \$11.4 million or 6.9%.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009		% Change
	Net Premiums Earned	Net Premiums Earned (%)	Net Premiums Earned	Net Premiums Earned (%)	
(Dollars in thousands)					
Property	\$ 37,152	21.1%	\$ 33,658	20.4%	10.4%
Marine	63,413	36.1%	67,369	41.0%	(5.9)%
Specialty	75,338	42.8%	63,476	38.6%	18.7%
Total	\$ 175,903	100.0%	\$ 164,503	100.0%	6.9%

The increase in net premiums earned is due primarily to the increased levels of gross premiums written by the onshore energy, aviation and other treaty classes over the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, as discussed above.

Losses and Loss Expenses

Losses and loss expenses for the three months ended June 30, 2010 were \$194.9 million compared to \$124.8 million for the three months ended June 30, 2009, an increase of \$70.1 million or 56.2%. The loss ratios, defined as losses and loss expenses divided by net premiums earned, for the three months ended June 30, 2010 and 2009 were 44.5% and 38.0%, respectively. Details of loss ratios by line of business are provided below.

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	Three Months Ended	Three Months Ended	% Change
	June 30, 2010	June 30, 2009 (a)	
Property	31.3%	16.8%	14.5
Marine	76.0%	48.6%	27.4
Specialty	38.9%	61.8%	(22.9)
All lines	44.5%	38.0%	6.5

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the three months ended June 30, 2010:

(Dollars in thousands)	Three Months Ended June 30, 2010			
	Validus	Talbot	Eliminations	Total
Gross reserves at period beginning	\$ 1,025,073	\$ 1,164,550	\$ (212,734)	\$ 1,976,889
Losses recoverable at period beginning	(57,480)	(354,210)	212,734	(198,956)
Net reserves at period beginning	967,593	810,340		1,777,933
Incurring losses current period	141,670	102,787		244,457
Incurring losses change in prior accident years	(17,877)	(31,686)		(49,563)
Incurring losses	123,793	71,101		194,894
Paid losses	(112,582)	(65,850)		(178,432)
Foreign exchange	(9,471)	(398)		(9,869)
Net reserves at period end	969,333	815,193		1,784,526
Losses recoverable	60,145	327,522	(194,063)	193,604
Gross reserves at period end	1,029,478	1,142,715	(194,063)	1,978,130

The amount of recorded reserves represents management's best estimate of expected losses and loss expenses on premiums earned. Favorable loss development on prior years totaled \$49.6 million. \$17.9 million of the favorable loss development on prior years related to the Validus Re segment and \$31.7 million related to the Talbot segment. Favorable loss reserve development benefitted the Company's loss ratio by 11.3 percentage points for the three months ended June 30, 2010. For the three months ended June 30, 2010, the Company incurred \$70.5 million from notable

loss events described below, which represented 16.1 percentage points of the loss ratio. During the three months ended June 30, 2010, the Company also incurred \$20.0 million for a reserve for potential development on 2010 events, which represented 4.6 percentage points on the loss ratio. For the three months ended June 30, 2009, the Company incurred \$11.0 million of losses attributable to a commercial flight loss, which represented 3.4 percentage points of the loss ratio. The Company's loss ratio, excluding prior year development and notable loss events for the three months ended June 30, 2010 and 2009 were 39.7% and 38.6%, respectively.

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

At June 30, 2010 and 2009, 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 in Item 7, *Management's Discussion and Analysis of Results of Operations and Financial Condition* in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. The Company did not make any significant changes in the assumptions or methodology used in its reserving process for the three months ended June 30, 2010.

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(Dollars in thousands)	As at June 30, 2010		
	Gross Case Reserves	Gross IBNR	Total Gross Reserve for Losses and Loss Expenses
Property	\$ 487,032	\$ 472,328	\$ 959,360
Marine	314,443	295,970	610,413
Specialty	150,746	257,611	408,357
Total	\$ 952,221	\$ 1,025,909	\$ 1,978,130

(Dollars in thousands)	As at June 30, 2010		
	Net Case Reserves	Net IBNR	Total Net Reserve for Losses and Loss Expenses
Property	\$ 457,214	\$ 459,665	\$ 916,879
Marine	256,096	266,363	522,459
Specialty	129,523	215,665	345,188
Total	\$ 842,833	\$ 941,693	\$ 1,784,526

During the three months ended June 30, 2010, the Company incurred and estimated \$70.5 million of losses in connection with the notable loss events below, which represented 16.1 percentage points of the loss ratio. During the three months ended June 30, 2009, the Company incurred \$11.0 million in connection with notable events, which represented 3.4 percentage points of the loss ratio.

Second Quarter 2010 Notable Loss Events (1)		Three months ended June 30, 2010					
		Validus Re		Talbot		Total	
(Dollars in thousands)	Description	Losses and Loss Expenses (2)	% of NPE	Losses and Loss Expenses (2)	% of NPE	Losses and Loss Expenses (2)	% of NPE
Deepwater Horizon	Oil rig and spill	\$ 33,681	12.9%	\$ 10,420	5.9%	\$ 44,101	10.1%
Aban Pearl	Oil rig	10,000	3.8%	500	0.3%	10,500	2.4%
Bangkok riots	Terrorism	7,500	2.9%			7,500	1.7%
Perth hailstorm	Hailstorm	8,390	3.1%			8,390	1.9%
Total		\$ 59,571	22.7%	\$ 10,920	6.2%	\$ 70,491	16.1%

Second Quarter 2009 Notable Loss Events		Three months ended June 30, 2009					
		Validus Re		Talbot		Total	
(Dollars in thousands)	Description	Losses and Loss Expenses (2)	% of NPE	Losses and Loss Expenses (2)	% of NPE	Losses and Loss Expenses (2)	% of NPE

(Dollars in thousands)	Description	Loss Expenses (2)	% of NPE	Loss Expenses (2)	% of NPE	Loss Expenses (2)	% of NPE
	Commercial Flight	\$ 2,715	1.7%	\$ 8,300	5.0%	\$ 11,015	3.4%
	Specialty loss						
	Total	\$ 2,715	1.7%	\$ 8,300	5.0%	\$ 11,015	3.4%

(1) These 2010 notable loss event amounts are based on management's estimates following a review of the Company's potential exposure and discussions with certain clients and brokers. Given the magnitude and recent occurrence of these events, and other uncertainties inherent in loss estimation, meaningful uncertainty remains regarding losses from these events and the Company's actual ultimate net losses from these events may vary materially from these estimates.

(2) Net of reinsurance but not net of reinstatement premiums. Reinstatement

premiums were
\$3.3 million for
the three months
ended June 30,
2010.

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Validus Re. Validus Re losses and loss expenses for the three months ended June 30, 2010 were \$123.8 million compared to \$41.1 million for the three months ended June 30, 2009, an increase of \$82.7 million or 201.0%. The loss ratio, defined as losses and loss expenses divided by net premiums earned, was 47.2% and 25.1% for the three months ended June 30, 2010 and 2009, respectively. Favorable loss development on prior years totaled \$17.9 million and benefited the Validus Re loss ratio by 6.8 percentage points. For the three months ended June 30, 2010, Validus Re incurred notable loss events as identified above of \$59.6 million, which represented 22.7 percentage points of the loss ratio. For the three months ended June 30, 2009, Validus Re incurred \$2.7 million of notable losses, which represented 1.7 percentage points of the loss ratio. Validus Re segment loss ratios, excluding prior year development and notable loss events identified above, for the three months ended June 30, 2010 and 2009 were 31.4% and 25.2%, respectively. Details of loss ratios by line of business and period of incurrence are provided below.

		Three Months Ended June 30,		
		2010	2009 (a)	% Change
Property	current year	40.6%	21.2%	19.4
Property	change in prior accident years	(7.3)%	(2.7)%	(4.6)
Property	loss ratio	33.3%	18.5%	14.8
Marine	current year	117.5%	39.7%	77.8
Marine	change in prior accident years	(7.5)%	0.0%	(7.5)
Marine	loss ratio	110.0%	39.7%	70.3
Specialty	current year	34.3%	37.1%	(2.8)
Specialty	change in prior accident years	(2.3)%	0.0%	(2.3)
Specialty	loss ratio	32.0%	37.1%	(5.1)
All lines	current year	54.1%	26.9%	27.2
All lines	change in prior accident years	(6.9)%	(1.8)%	(5.1)
All lines	loss ratio	47.2%	25.1%	22.1

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

For the three months ended June 30, 2010, Validus Re property lines include \$75.7 million related to current year losses and \$13.6 million of favorable development relating to prior accident years. This favorable development is attributable to reduced loss estimates for the U.K. flood loss and windstorm Kyrill, as well as lower expected claim development elsewhere. For the three months ended June 30, 2010, Validus Re s property lines incurred \$8.4 million of notable losses, which represented 4.5 percentage points of the property line loss ratio. For the three months ended June 30, 2009, Validus Re s property lines did not experience any notable loss events. Validus Re property lines loss

ratios, excluding prior year development and notable loss events identified above, for the three months ended June 30, 2010 and 2009 were 36.1% and 21.2%, respectively.

For the three months ended June 30, 2010, Validus Re marine lines include \$56.6 million related to current year losses and \$3.7 million of favorable development relating to prior accident years. For the three months ended June 30, 2010, Validus Re s marine lines incurred \$43.7 million of notable losses, which represented 90.7 percentage points of the marine lines loss ratio. For the three months ended June 30, 2009, Validus Re s marine lines did not experience any notable loss events. Validus Re marine line loss ratios, excluding prior year development and notable loss events identified above, for the three months ended June 30, 2010 and 2009 were 26.8 and 39.7%, respectively.

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For the three months ended June 30, 2010, Validus Re specialty lines include \$9.4 million related to current year losses and \$0.6 million of favorable development relating to prior accident years. For the three months ended June 30, 2010, Validus Re s specialty lines incurred \$7.5 million of notable losses, which represented 27.3 percentage points of the specialty line loss ratio. For the three months ended June 30, 2009, Validus Re s specialty lines incurred \$2.7 million of notable losses, which represented 13.6 percentage points of the specialty loss ratio. Validus Re specialty lines loss ratios, excluding prior year development and the loss events identified above, for the three months ended June 30, 2010 and 2009 were 7.0% and 23.5%, respectively.

Talbot. Talbot losses and loss expenses for the three months ended June 30, 2010 were \$71.1 million compared to \$83.6 million for the three months ended June 30, 2009, a decrease of \$12.5 million, or 15.0%. The loss ratio was 40.4% and 50.8% for the three months ended June 30, 2010 and 2009, respectively. For the three months ended June 30, 2010 Talbot incurred losses of \$102.8 million related to current year losses and \$31.7 million in favorable development relating to prior accident years. For the three months ended June 30, 2010, Talbot incurred \$10.9 million of notable losses, which represented 6.2 percentage points of the loss ratio. For the three months ended June 30, 2009, Talbot incurred \$8.3 million of notable losses, or 5.0 percentage points of the loss ratio. Talbot loss ratios, excluding prior year loss development and loss events identified above, for the three months ended June 30, 2010 and three months ended June 30, 2009 were 52.2% and 52.0% respectively. Details of loss ratios by line of business and calendar period are provided below.

		Three Months Ended June 30,		
		2010	2009	% Change
Property	current year	48.0%	34.5%	13.5
Property	change in prior accident years	(26.5)%	(23.5)%	(3.0)
Property	loss ratio	21.5%	11.0%	10.5
Marine	current year	67.3%	59.8%	7.5
Marine	change in prior accident years	(17.0)%	(6.7)%	(10.3)
Marine	loss ratio	50.3%	53.1%	(2.8)
Specialty	current year	56.1%	66.2%	(10.1)
Specialty	change in prior accident years	(14.7)%	3.4%	(18.1)
Specialty	loss ratio	41.4%	69.6%	(28.2)
All lines	current year	58.4%	57.0%	1.4
All lines	change in prior accident years	(18.0)%	(6.2)%	(11.8)
All lines	loss ratio	40.4%	50.8%	(10.4)

For the three months ended June 30, 2010, Talbot property lines include \$17.8 million related to current year losses and \$9.8 million of favorable development relating to prior accident years. The favorable development is attributable to lower than expected claim development on the property facultative and binder accounts, together with favorable development on hurricanes Katrina and Ike. Talbot property line loss ratio, excluding prior year development and loss events noted above for the three months ended June 30, 2010 and 2009 were 48.0% and 34.5%, respectively.

For the three months ended June 30, 2010, Talbot marine lines include \$42.7 million related to current year losses and \$10.8 million of favorable development relating to prior accident years. The prior year favorable development is primarily due to lower than expected loss development on the Hull lines. For the three months ended June 30, 2010,

Talbot's marine lines incurred \$10.9 million of notable losses, which represented 17.2 percentage points of the loss ratio. For the three months ended June 30, 2009, Talbot's marine lines did not experience any notable loss events. Talbot marine lines loss ratios, excluding prior year development and loss events noted above, for the three months ended June 30, 2010 and 2009 were 50.1% and 59.8%, respectively.

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For the three months ended June 30, 2010, Talbot specialty lines include \$42.3 million relating to current year losses and \$11.0 million due to favorable development on prior accident years. The favorable development is primarily due to lower than expected claims across most specialty sub classes. For the three months ended June 30, 2009, Talbot's specialty lines incurred \$8.3 million of losses attributable to a commercial flight loss, which represented 13.1 percentage points of the loss ratio. Talbot specialty lines loss ratios, excluding prior year development and the loss events identified above, for the three months ended June 30, 2010 and 2009 were 56.1% and 53.1%, respectively.

Policy Acquisition Costs

Policy acquisition costs for the three months ended June 30, 2010 were \$74.1 million compared to \$64.4 million for the three months ended June 30, 2009, an increase of \$9.7 million or 15.0%. Policy acquisition costs as a percent of net premiums earned for the three months ended June 30, 2010 and 2009 were 16.9% and 19.6%, respectively. The changes in policy acquisition costs are due to the factors described below.

	Three Months Ended June 30, 2010			Three Months Ended June 30, 2009 (a)			% Change
	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	
(Dollars in thousands)	Costs	(%)	Ratio	Costs	(%)	Ratio	
Property	\$ 30,614	41.3%	13.7%	\$ 22,796	35.4%	15.8%	34.3%
Marine	22,982	31.0%	20.6%	23,590	36.6%	23.4%	(2.6)%
Specialty	20,530	27.7%	20.0%	18,052	28.0%	21.6%	13.7%
Total	\$ 74,126	100.0%	16.9%	\$ 64,438	100.0%	19.6%	15.0%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Validus Re. Validus Re policy acquisition costs for the three months ended June 30, 2010 were \$38.0 million compared to \$29.1 million for the three months ended June 30, 2009, an increase of \$8.9 million or 30.4%.

	Three Months Ended June 30, 2010			Three Months Ended June 30, 2009 (a)			% Change
	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	
(Dollars in thousands)	Costs	(%)	Ratio	Costs	(%)	Ratio	
Property	\$ 27,182	71.6%	14.6%	\$ 18,052	62.0%	16.4%	50.6%
Marine	7,707	20.3%	16.0%	8,290	28.5%	24.7%	(7.0)%
Specialty	3,090	8.1%	11.3%	2,778	9.5%	13.9%	11.2%
Total	\$ 37,979	100.0%	14.5%	\$ 29,120	100.0%	17.8%	30.4%

- (a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Policy acquisition costs include brokerage, commission and excise tax and are generally driven by contract terms and are normally a set percentage of premiums and are also net of ceding commission income on retrocessions. Validus Re policy acquisition costs as a percent of net premiums earned for the three months ended June 30, 2010 and 2009 were 14.5% and 17.8%, respectively. The Validus Re policy acquisition ratio decrease on the property and marine lines is primarily due to the effects of the earned premium adjustments and the impact of reinstatement premiums earned with lower related policy acquisition costs for three months ended June 30, 2010. The Validus Re policy acquisition cost ratio decreased on the specialty lines for three months ended June 30, 2010 due primarily to an adjustment to a profit commission in IPC related business.

Talbot. Talbot policy acquisition costs for the three months ended June 30, 2010 were \$38.6 million compared to \$36.1 million for the three months ended June 30, 2009, an increase of \$2.5 million or 7.0%.

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	Three Months Ended June 30, 2010			Three Months Ended June 30, 2009			% Change
	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	Policy Acquisition Costs	Policy Acquisition Costs (%)	Acquisition Cost Ratio	
(Dollars in thousands)	Costs			Costs			
Property	\$ 5,824	15.1%	15.7%	\$ 5,540	15.3%	16.5%	5.1%
Marine	15,314	39.6%	24.1%	15,300	42.4%	22.7%	0.1%
Specialty	17,509	45.3%	23.2%	15,274	42.3%	24.1%	14.6%
Total	\$ 38,647	100.0%	22.0%	\$ 36,114	100.0%	22.0%	7.0%

Policy acquisition costs as a percent of net premiums earned were 22.0% in each of the three months ended June 30, 2010 and 2009.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2010 were \$52.4 million compared to \$41.2 million for the three months ended June 30, 2009, an increase of \$11.2 million or 27.1%. The increase was a result of increased expenses in the Talbot and Corporate segments, offset by a decrease in the Validus Re segment.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	General and Administrative Expenses	General and Administrative Expenses (%)	General and Administrative Expenses	General and Administrative Expenses (%)	
(Dollars in thousands)	Expenses		Expenses		
Validus Re	\$ 10,983	21.0%	\$ 14,149	34.4%	(22.4)%
Talbot	24,960	47.6%	21,927	53.2%	13.8%
Corporate & Eliminations	16,436	31.4%	5,124	12.4%	220.8%
Total	\$ 52,379	100.0%	\$ 41,200	100.0%	27.1%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

General and administrative expenses of \$52.4 million in the three months ended June 30, 2010 represents 12.0% 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 June 30, 2010 were \$11.0 million compared to \$14.1 million for the three months ended June 30, 2009, a decrease of \$3.2 million or 22.4%. General and administrative expenses have decreased primarily as a result of a decrease in salaries and benefits driven by the reallocation of staff into the Corporate segment from the Validus Re segment over the three months ended June 30, 2009. General and administrative expenses are generally comprised of salaries and benefits,

professional fees, rent and office expenses. Validus Re's general and administrative expenses as a percent of net premiums earned for the three months ended June 30, 2010 and 2009 were 4.2% and 8.6%, respectively.

Talbot. Talbot general and administrative expenses for the three months ended June 30, 2010 were \$25.0 million compared to \$21.9 million for the three months ended June 30, 2009, an increase of \$3.0 million or 13.8%. General and administrative expenses have increased primarily as a result of an increase of \$2.0 million in Talbot's syndicate costs, Lloyd's subscription and central fund costs due to higher gross premiums written. Talbot's general and administrative expenses as a percent of net premiums earned for the three months ended June 30, 2010 and 2009 were 14.2% and 13.3%, respectively.

Corporate & Eliminations. Corporate general and administrative expenses for the three months ended June 30, 2010 were \$16.4 million compared to \$5.1 million for the three months ended June 30, 2009, an increase of \$11.3 million or 220.8%. During the first quarter of 2010, to better align the Company's operating and reporting structure with its current strategy, there was a change in segment structure. This change was to allocate all non-core

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underwriting expenses, predominantly general and administration and stock compensation expenses to the Corporate segment. Prior periods have not been restated as the change is immaterial to the Consolidated Financial Statements. 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. In addition, general and administrative expenses have increased as a result of an increase in staff from 66 at June 30, 2009 to 89 at June 30, 2010. There was an increase of \$2.6 million in general legal and corporate expenses for the three months ended June 30, 2010.

Share Compensation Expenses

Share compensation expenses for the three months ended June 30, 2010 were \$6.8 million compared to \$5.6 million for the three months ended June 30, 2009, an increase of \$1.2 million or 21.6%. These expenses are non-cash and have no net effect on total shareholders' equity, as they are balanced by an increase in additional paid-in capital.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)		% Change
	Share Compensation Expenses	Share Compensation Expenses (%)	Share Compensation Expenses	Share Compensation Expenses (%)	
(Dollars in thousands)					
Validus Re	\$ 1,749	25.6%	\$ 1,548	27.4%	13.0%
Talbot	1,468	21.4%	2,098	37.3%	(30.0)%
Corporate & Eliminations	3,629	53.0%	1,986	35.3%	82.7%
Total	\$ 6,846	100.0%	\$ 5,632	100.0%	21.6%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Share compensation expenses of \$6.8 million in the three months ended June 30, 2010 represent 1.5 percentage points of the general and administrative expense ratio.

Validus Re. Validus Re share compensation expenses for the three months ended June 30, 2010 were \$1.7 million compared to \$1.5 million for the three months ended June 30, 2009. Share compensation expenses as a percent of net premiums earned for the three months ended June 30, 2010 and 2009 were 0.7% and 0.9%, respectively.

Talbot. Talbot share compensation expenses for the three months ended June 30, 2010 were \$1.5 million compared to \$2.1 million for the three months ended June 30, 2009. The decrease from the prior year was due to the impact of accelerated vesting during 2009. Share compensation expenses as a percent of net premiums earned for the three months ended June 30, 2010 and 2009 were 0.8% and 1.3%, respectively.

Corporate & Eliminations. Corporate share compensation expenses for the three months ended June 30, 2010 were \$3.6 million compared to \$2.0 million for the three months ended June 30, 2009, an increase of \$1.6 million or 82.7%.

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 (including share

compensation 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 June 30, 2010 and 2009.

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (a)	% Change
Losses and loss expenses	44.5%	38.0%	6.5
Policy acquisition costs	16.9%	19.6%	(2.7)
General and administrative expenses (b)	13.5%	14.3%	(0.8)
Expense ratio	30.4%	33.9%	(3.5)
Combined ratio	74.9%	71.9%	3.0

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	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (a)	% Change
<i>Validus Re</i>			
Losses and loss expenses	47.2%	25.1%	22.1
Policy acquisition costs	14.5%	17.8%	(3.3)
General and administrative expenses (b)	4.9%	9.6%	(4.7)
Expense ratio	19.4%	27.4%	(8.0)
Combined ratio	66.6%	52.5%	14.1

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	Three Months Ended	Three Months Ended	% Change
<i>Talbot</i>	June 30, 2010	June 30, 2009	
Losses and loss expenses	40.4%	50.8%	(10.4)
Policy acquisition costs	22.0%	22.0%	
General and administrative expenses (b)	15.0%	14.6%	0.4
Expense ratio	37.0%	36.6%	0.4
Combined ratio	77.4%	87.4%	(10.0)

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

(b) Includes general and administrative expenses and share compensation expenses.

General and administrative expense ratios for the three months ended June 30, 2010 and 2009 were 13.5% and 14.3%, respectively. General and administrative expense ratio is the sum of general and administrative expenses and share compensation expense divided by net premiums earned.

	Three Months Ended June 30, 2010		Three Months Ended June 30, 2009 (a)	
(Dollars in thousands)	Expenses	Expenses as % of Net Earned Premiums	Expenses	Expenses as % of Net Earned Premiums
General and administrative expenses	\$ 52,379	12.0%	\$ 41,200	12.6%
Share compensation expenses	6,846	1.5%	5,632	1.7%
Total	\$ 59,225	13.5%	\$ 46,832	14.3%

(a) The results of operations for IPC are

consolidated
only from the
September 2009
date of
acquisition.

Underwriting Income

Underwriting income for the three months ended June 30, 2010 was \$109.7 million compared to underwriting income of \$92.2 million for the three months ended June 30, 2009, an increase of \$17.5 million, or 19.0%.

(Dollars in thousands)	Three Months Ended June 30,			% of Sub	% Change
	2010	% of Sub	2009 (a)		
Validus Re	\$ 87,537	68.8%	\$ 77,759	78.9%	12.6%
Talbot	39,727	31.2%	20,734	21.1%	91.6%
Sub-total	127,264	100.0%	98,493	100.0%	29.2%
Corporate & Eliminations	(17,565)		(6,314)		178.2%
Total	\$ 109,699		\$ 92,179		19.0%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

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

(Dollars in thousands)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009 (a)
Underwriting income	\$ 109,699	\$ 92,179
Net investment income	34,809	26,963
Other income	2,697	1,017
Finance expenses	(13,218)	(10,752)
Transaction expenses		(15,851)
Net realized gains (losses) on investments	12,441	(2,650)
Net unrealized gains on investments	41,640	37,249
Foreign exchange (losses) gains	(4,099)	8,432
Net income before tax	\$ 183,969	\$ 136,587

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

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

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

by the compensation committee of our Board of Directors in determining the bonus component of the total annual incentive compensation.

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

Net Investment Income

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Net investment income for the three months ended June 30, 2010 was \$34.8 million compared to \$27.0 million for the three months ended June 30, 2009, an increase of \$7.8 million or 29.1%. Net investment income increased due primarily to a larger fixed maturity portfolio as a result of the IPC Acquisition. Net investment income is comprised of accretion of premium or discount on fixed maturities, interest on coupon-paying bonds, short-term investments and cash and cash equivalents, partially offset by investment management fees. The components of net investment income for the three months ended June 30, 2010 and 2009 are as presented below.

(Dollars in thousands)	Three Months Ended	Three Months Ended	% Change
	June 30, 2010	June 30, 2009 (a)	
Fixed maturities and short-term investments	\$ 36,346	\$ 26,396	37.7%
Cash and cash equivalents	311	1,120	(72.2)%
Securities lending income	49	173	(71.7)%
Total gross investment income	36,706	27,689	32.6%
Investment expenses	(1,897)	(726)	161.3%
Net investment income	\$ 34,809	\$ 26,963	29.1%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Annualized effective investment yield is based on the weighted average investments held calculated on a simple period average and excludes net unrealized gains (losses), foreign exchange gains (losses) on investments and the foreign exchange effect of insurance balances. The Company's annualized effective investment yield was 2.37% and 3.08% for the three months ended June 30, 2010 and 2009, respectively, and the average duration at June 30, 2010 was 2.2 years (December 31, 2009 2.2 years).

Finance Expenses

Finance expenses for the three months ended June 30, 2010 were \$13.2 million compared to \$10.8 million for the three months ended June 30, 2009, an increase of \$2.5 million or 22.9%. The increase was primarily driven by \$5.6 million in interest expense on the 8.875% Senior Notes due 2040 which were issued in the first quarter of 2010, partially offset by a \$3.3 million decrease in payments under the Talbot third party FAL facility.

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

(Dollars in thousands)	Three Months Ended June 30,		% Change
	2010	2009 (a)	
9.069% Junior Subordinated Deferrable Debentures	\$ 3,589	\$ 3,589	0.0%
8.480% Junior Subordinated Deferrable Debentures	3,028	3,348	(9.6)%
8.875% Senior Notes due 2040	5,597		NM

Credit facilities	1,109	476	133.0%
Talbot FAL facility	(89)	42	NM
Talbot other interest	(16)		NM
Talbot third party FAL facility		3,297	NM
Finance expenses	\$ 13,218	\$ 10,752	22.9%

NM: Not Meaningful

- (a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

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

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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. With effect from December 31, 2009, the last year of account supported by the Talbot third party FAL facility closed and all liability, ceased and all third party FAL was returned to its providers.

For each year of account up to and including the 2007 year of account, between 30% and 40% of an amount equivalent to each underwriting year's profit is payable to Talbot third party FAL providers. However, some of these costs are fixed. There are no FAL finance charges related to the 2008, 2009 and 2010 years of account as there were no third party FAL providers in those periods. The FAL finance charges relate to total syndicate profit (underwriting income, investment income and realized and unrealized capital gains and losses).

FAL finance charges are based on syndicate profit but include fixed elements. FAL finance charges for the three months ended June 30, 2010 were \$nil compared to \$3.3 million for the three months ended June 30, 2009, a decrease of \$3.3 million.

Tax (Expense) Benefit

Tax expense for the three months ended June 30, 2010 was (\$4.2) million compared to a benefit of \$1.0 million for the three months ended June 30, 2009, an increase of \$5.2 million. For the three months ended June 30, 2010, Talbot incurred higher UK taxable profits which increased the tax expense by \$0.9 million.

Net Realized Gains (Losses) on Investments

Net realized gains on investments for the three months ended June 30, 2010 were \$12.4 million compared to losses of (\$2.7) million for the three months ended June 30, 2009, an increase of \$15.1 million.

Net Unrealized Gains on Investments

Net unrealized gains on investments for the three months ended June 30, 2010 were \$41.6 million compared to gains of \$37.2 million for the three months ended June 30, 2009 an increase of \$4.4 million or 11.8%. The net unrealized gains in the three months ended June 30, 2010 resulted primarily from improved market conditions for fixed income securities.

Net unrealized gains on investments are recorded as a component of net income. The Company has adopted all authoritative guidance on U.S. GAAP fair value measurements in effect as of the balance sheet date. Consistent with these standards, certain market conditions allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable. Certain non-Agency RMBS securities were identified as trading in inactive markets. The change in fair value for the identified non-Agency RMBS securities was a \$2.6 million decrease in net unrealized loss on investments for the three months ended June 30, 2010. Further details are provided in the Investments section below.

Transaction Expenses

On July 9, 2009, the Company announced that the boards of directors of both the Company and IPC had approved a definitive amalgamation agreement. During the three months ended June 30, 2009, the Company incurred \$15.9 million in relation to the proposed acquisition of and amalgamation agreement with IPC. Transaction expenses are comprised of primarily legal, corporate advisory and audit related services.

Other Income

Other income for the three months ended June 30, 2010 was \$2.7 million compared to \$1.0 million for the three months ended June 30, 2009, an increase of \$1.7 million or 165.2%.

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Foreign Exchange (Losses) Gains

Foreign exchange (losses) for the three months ended June 30, 2010 were (\$4.1) million compared to a gain of \$8.4 million for the three months ended June 30, 2009, an increase of \$12.5 million or 148.6%. The increase in foreign exchange (losses) was due primarily to the decreased value of assets denominated in foreign currencies relative to the U.S. dollar reporting currency for the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. For the three months ended June 30, 2010, Validus Re recognized foreign exchange (losses) of \$(0.8) million and Talbot recognized foreign exchange (losses) of (\$3.2) million.

For the three months ended June 30, 2010, Validus Re segment foreign exchange (losses) were (\$0.8) million compared to gains of \$1.8 million for the three months ended June 30, 2009, in foreign exchange of \$2.7 million. The increase in Validus Re segment foreign exchange (losses) was due to a net long position on premium receivable assets denominated in Euro and British pound sterling. The Euro to U.S. dollar exchange rates were 1.35 and 1.22 at March 31, 2010 and June 30, 2010, respectively, a depreciation of 9.6 percent, while the British pound sterling for the same period remained relatively constant.

For the three months ended June 30, 2010, Talbot segment foreign exchange (losses) were (\$3.2) million compared to gains of \$6.5 million for the three months ended June 30, 2009, (losses) of \$9.8 million or 149.5%. The increase in Talbot segment foreign exchange (losses) was due primarily to revaluation of Euro and overseas deposits. The Euro to U.S. dollar exchange rates were 1.35 and 1.22 at March 31, 2010 and June 30, 2010, respectively, or 9.6 percent depreciation. 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.

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The following table presents results of operations for the three and six months ended June 30, 2010 and 2009:

(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009 (a)	Pro Forma 2009 (c)	2010	2009 (a)	Pro Forma 2009 (c)
Gross premiums written	\$ 516,861	\$ 425,032	\$ 552,581	\$ 1,387,795	\$ 1,034,924	\$ 1,396,818
Reinsurance premiums ceded	(67,726)	(62,291)	(64,486)	(158,465)	(134,803)	(138,467)
Net premiums written	449,135	362,741	488,095	1,229,330	900,121	1,258,351
Change in unearned premiums	(11,191)	(34,541)	(63,697)	(333,692)	(253,162)	(416,486)
Net premiums earned	437,944	328,200	424,398	895,638	646,959	841,865
Losses and loss expenses	194,894	124,751	116,334	673,425	256,585	287,277
Policy acquisition costs	74,126	64,438	74,344	150,302	125,887	145,631
General and administrative expenses	52,379	41,200	51,108	105,948	79,279	99,341
Share compensation expenses	6,846	5,632	8,107	13,422	12,986	17,950
Total underwriting deductions	328,245	236,021	249,893	943,097	474,737	550,199
Underwriting income (loss) (b)	109,699	92,179	174,505	(47,459)	172,222	291,666
Net investment income	34,809	26,963	44,540	69,108	53,735	88,987
Other income	2,697	1,017	1,036	3,585	1,774	1,800
Finance expenses	(13,218)	(10,752)	(10,752)	(28,369)	(18,475)	(18,858)
Operating income (loss) before taxes (b)	133,987	109,407	209,329	(3,135)	209,256	363,595
Tax (expense) benefit	(4,187)	976	976	(3,490)	1,502	1,502
Net operating income (loss) (b)	129,800	110,383	210,305	(6,625)	210,758	365,097
Net realized gains (losses) on investments	12,441	(2,650)	2,430	23,839	(26,071)	(24,909)
Net unrealized gains on investments	41,640	37,249	109,554	57,053	59,402	100,053
Foreign exchange (losses) gains	(4,099)	8,432	10,111	(12,863)	4,232	2,765
Transaction expenses		(15,851)			(15,851)	
Net income	\$ 179,782	\$ 137,563	\$ 332,400	\$ 61,404	\$ 232,470	\$ 443,006
Selected ratios:						
Net premiums written / Gross premiums written	86.9%	85.3%	88.3%	88.6%	87.0%	90.1%
Losses and loss expenses	44.5%	38.0%	27.4%	75.2%	39.7%	34.1%
Policy acquisition costs	16.9%	19.6%	17.5%	16.8%	19.5%	17.3%
General and administrative expenses (d)	13.5%	14.3%	14.0%	13.3%	14.3%	13.9%

Expense ratio	30.4%	33.9%	31.5%	30.1%	33.8%	31.2%
Combined ratio	74.9%	71.9%	58.9%	105.3%	73.5%	65.3%

- a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.
- b) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income (loss) and operating income (loss) 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) measure to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled Underwriting Income.

- c) Pro Forma combined Validus Holdings, Ltd. and IPC Holdings Ltd. income statement for the three months and six months ended June 30, 2009.
- d) The general and administrative ratio includes share compensation expenses.

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(Dollars in thousands)	Three Months Ended June 30,			Six Months Ended June 30,		
	2010	2009 (a)	Pro Forma 2009 (c)	2010	2009 (a)	Pro Forma 2009 (c)
Validus Re						
Gross premiums written	\$ 284,328	\$ 199,560	\$ 327,109	\$ 924,623	\$ 609,686	\$ 971,580
Reinsurance premiums ceded	(41,175)	(43,070)	(45,265)	(54,285)	(56,359)	(60,023)
Net premiums written	243,153	156,490	281,844	870,338	553,327	911,557
Change in unearned premiums	18,888	7,207	(21,949)	(324,376)	(215,183)	(378,507)
Net premiums earned	262,041	163,697	259,895	545,962	338,144	533,050
Losses and loss expenses	123,793	41,121	32,704	472,713	96,583	127,275
Policy acquisition costs	37,979	29,120	39,026	81,482	57,697	77,441
General and administrative expenses	10,983	14,149	24,057	27,295	27,941	48,003
Share compensation expenses	1,749	1,548	4,023	3,378	3,220	8,184
Total underwriting deductions	174,504	85,938	99,810	584,868	185,441	260,903
Underwriting income (loss) (b)	87,537	77,759	160,085	(38,906)	152,703	272,147
Talbot						
Gross premiums written	\$ 253,710	\$ 235,113	\$ 235,113	\$ 524,251	\$ 463,033	\$ 463,033
Reinsurance premiums ceded	(47,728)	(28,862)	(28,862)	(165,259)	(116,239)	(116,239)
Net premiums written	205,982	206,251	206,251	358,992	346,794	346,794
Change in unearned premiums	(30,079)	(41,748)	(41,748)	(9,316)	(37,979)	(37,979)
Net premiums earned	175,903	164,503	164,503	349,676	308,815	308,815
Losses and loss expenses	71,101	83,630	83,630	200,712	160,002	160,002
Policy acquisition costs	38,647	36,114	36,114	73,592	69,271	69,271
General and administrative expenses	24,960	21,927	21,927	50,508	42,141	42,141
Share compensation expenses	1,468	2,098	2,098	3,027	4,433	4,433
Total underwriting deductions	136,176	143,769	143,769	327,839	275,847	275,847

Underwriting income (b)	39,727	20,734	20,734	21,837	32,968	32,968
Corporate & Eliminations						
Gross premiums written	\$ (21,177)	\$ (9,641)	\$ (9,641)	\$ (61,079)	\$ (37,795)	\$ (37,795)
Reinsurance premiums ceded	21,177	9,641	9,641	61,079	37,795	37,795
Net premiums written						
Change in unearned premiums						
Net premiums earned						
Losses and loss expenses						
Policy acquisition costs	(2,500)	(796)	(796)	(4,772)	(1,081)	(1,081)
General and administrative expenses	16,436	5,124	5,124	28,145	9,197	9,197
Share compensation expenses	3,629	1,986	1,986	7,017	5,333	5,333
Total underwriting deductions	17,565	6,314	6,314	30,390	13,449	13,449
Underwriting (loss) (b)	(17,565)	(6,314)	(6,314)	(30,390)	(13,449)	(13,449)
Total underwriting income (loss) (b)	\$ 109,699	\$ 92,179	\$ 174,505	\$ (47,459)	\$ 172,222	\$ 291,666

a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

b) 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.

- c) Pro Forma
combined
Validus
Holdings, Ltd.
and IPC
Holdings Ltd.
income
statement for the
three and six
months ended
June 30, 2009.

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Net income for the six months ended June 30, 2010 was \$61.4 million compared to net income of \$232.5 million for the six months ended June 30, 2009, a decrease of \$171.1 million. The primary factors driving the decrease in net income were:

Decrease in underwriting income of \$219.7 million due primarily to increased notable loss events. For the six months ended June 30, 2010, the Company incurred a \$416.8 million increase in loss and loss expenses over the six months ended June 30, 2009. This was partially offset by a \$248.7 million increase in net premiums earned primarily relating to the IPC Acquisition;

An adverse movement in foreign exchange of \$17.1 million; and

Increase in finance expenses of \$9.9 million.

The items above were partially offset by the following factors:

Decrease in transaction expenses of \$15.9 million relating to the IPC Acquisition that were absent in the three months ended June 30, 2010; and

Increase in net investment income and net realized gains on investments of \$15.4 million and \$49.9 million respectively.

The change in net income for the six months ended June 30, 2010 of \$171.1 million is described in the following table:

Six Months Ended June 30, 2010
(Decrease) increase over the six months ended June 30, 2009
(a)

(Dollars in thousands)	Validus Re	Talbot	Corporate and other reconciling items	Total
Notable losses net losses and loss expenses (c)	\$ (356,262)	\$ (60,805)	\$	\$ (417,067)
Notable losses net reinstatement premiums (c)	27,662	(3,802)		23,860
Other underwriting income (loss)	136,991	53,476	(16,941)	173,526
Underwriting income (b)	(191,609)	(11,131)	(16,941)	(219,681)
Net investment income	17,590	(616)	(1,601)	15,373
Other income	1,368	3,391	(2,948)	1,811
Finance expenses	(1,560)	622	(8,956)	(9,894)
	(174,211)	(7,734)	(30,446)	(212,391)
Taxes	(119)	(4,867)	(6)	(4,992)
	(174,330)	(12,601)	(30,452)	(217,383)
Transaction expenses			15,851	15,851
Net realized gains on investments	39,821	10,089		49,910
Net unrealized (losses) gains on investments	(6,908)	4,559		(2,349)

Foreign exchange (losses)	(4,602)	(12,398)	(95)	(17,095)
Net income	\$ (146,019)	\$ (10,351)	\$ (14,696)	\$ (171,066)

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

(b) 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

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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.

- (c) Notable losses for the six months ended June 30, 2010 include: the Chilean earthquake, Melbourne hailstorm, windstorm Xynthia, Deepwater Horizon, Aban Pearl, Bangkok riots and the Perth hailstorm.

Gross Premiums Written

Gross premiums written for the six months ended June 30, 2010 were \$1,387.8 million compared to \$1,034.9 million for the six months ended June 30, 2009, an increase of \$352.9 million or 34.1%. The increase in gross premiums written was driven primarily by the impact of the IPC Acquisition and the increase in reinstatement premiums relating to the notable loss events for the six months ended June 30, 2010. The property, marine and specialty lines increased by \$273.6 million, \$62.5 million and \$16.8 million, respectively. Details of gross premiums written by line of business are provided below.

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009 (a)		
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	% Change
(Dollars in thousands)	Written	(%)	Written	(%)	

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Property	\$ 817,426	58.9%	\$ 543,808	52.5%	50.3%
Marine	353,005	25.4%	290,531	28.1%	21.5%
Specialty	217,364	15.7%	200,585	19.4%	8.4%
Total	\$ 1,387,795	100.0%	\$ 1,034,924	100.0%	34.1%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

Validus Re. Validus Re gross premiums written for the six months ended June 30, 2010 were \$924.6 million compared to \$609.7 million for the six months ended June 30, 2009, an increase of \$314.9 million or 51.7%. Details of Validus Re gross premiums written by line of business are provided below.

	Six Months Ended June 30, 2010		Six Months Ended June 30, 2009 (a)		% Change
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
(Dollars in thousands)					
Property	\$ 673,976	72.9%	\$ 424,646	69.6%	58.7%
Marine	185,396	20.0%	125,505	20.6%	47.7%
Specialty	65,251	7.1%	59,535	9.8%	9.6%
Total	\$924,623	100.0%	\$ 609,686	100.0%	51.7%

(a) The results of operations for IPC are consolidated only from the September 2009 date of acquisition.

The impact of the IPC Acquisition was the primary driver for the increase in gross premiums written. The additional capacity was used to increase lines on renewing deals and to write new business totaling \$266.8 million for the six months ended June 30, 2010.

Validus Re gross premiums written increased across the property, marine and specialty lines by \$249.3 million, \$59.9 million and \$5.7 million, respectively. The increase in the Validus Re property line was due primarily to a \$200.3 million increase in new and renewing business and an increase of \$13.1 million contributed by the Validus Re Singapore branch, which commenced writing business in January 2010. In addition,