

VALIDUS HOLDINGS LTD
Form 10-K
February 19, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
Commission file number 001-33606
VALIDUS HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

BERMUDA

(State or other jurisdiction of
incorporation or organization)

98-0501001

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

29 Richmond Road, Pembroke, Bermuda HM 08
(Address of principal executive offices and zip code)
(441) 278-9000

(Registrant's telephone number, including area code)

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

Title of Each Class:
Common Shares, \$0.175 par value per share

Name of Each Exchange on Which Registered:
New York Stock Exchange

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

None

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer
(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

Edgar Filing: VALIDUS HOLDINGS LTD - Form 10-K

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2013 was \$2,735.5 million computed upon the basis of the closing sales price of the Common Shares on June 30, 2013. For the purposes of this computation, shares held by directors and officers of the registrant have been excluded. Such exclusion is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of February 14, 2014, there were 93,363,830 outstanding Common Shares, \$0.175 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates information from certain portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended December 31, 2013.

<u>PART I</u>		<u>1</u>
<u>Item 1.</u>	<u>Business</u>	<u>1</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>28</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>44</u>
<u>Item 2.</u>	<u>Properties</u>	<u>44</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>45</u>
<u>Item 4.</u>	<u>Mine Safety Disclosure—Not Applicable</u>	<u>47</u>
<u>PART II</u>		<u>48</u>
<u>Item 5.</u>	<u>Market for Registrants Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	<u>48</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>51</u>
<u>Item 7.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>53</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>116</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>118</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>118</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>118</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>119</u>
<u>PART III</u>		<u>120</u>
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>120</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>120</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	<u>120</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>120</u>
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	<u>120</u>
<u>PART IV</u>		<u>121</u>
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>121</u>
<u>Signatures</u>		<u>126</u>
<u>Index to Consolidated Financial Statements and Financial Statements Schedules</u>		<u>128</u>

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

PART I

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

Item 1. Business

Overview

Validus Holdings, Ltd. was incorporated under the laws of Bermuda on October 19, 2005. Our initial investor, which we refer to as our founding investor, is Aquiline Capital Partners LLC, a private equity firm dedicated to investing in financial services companies. Other sponsoring investors included private equity funds managed by Goldman Sachs Capital Partners, Vestar Capital Partners, New Mountain Capital and Merrill Lynch Global Private Equity. Hereinafter, “the Company”, “us” or “we” is used to describe any or all of Validus Holdings, Ltd. and its subsidiary companies. The Company conducts its operations worldwide through three operating segments which have been determined under U.S. GAAP segment reporting: Validus Re, AlphaCat and Talbot. Validus Re is a Bermuda-based reinsurance segment focused on short tail lines of reinsurance. AlphaCat is a Bermuda-based investment adviser, managing capital from third parties and the Company in insurance linked securities and other investments in the property catastrophe reinsurance space. Talbot is a specialty insurance segment, primarily operating within the Lloyd’s insurance market through Syndicate 1183.

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

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

- Raising approximately \$1.0 billion of initial equity capital in December 2005 and underwriting \$217.4 million in gross premiums written for the January 2006 renewal season;
- Building a risk analytics staff comprised of over 40 experts, many of whom have PhDs and Masters degrees in related fields;
- Developing Validus Capital Allocation and Pricing System (“VCAPS”), a proprietary computer-based system for modeling, pricing, allocating capital and analyzing catastrophe-exposed risks;
- Acquiring all of the outstanding shares of Talbot Holdings Ltd. on July 2, 2007;
- Completing an initial public offering (“IPO”) on July 30, 2007;
- Acquiring all of the outstanding shares of IPC Holdings Ltd. (“IPC”) on September 4, 2009;
- Raising \$135.0 million of third party initial capital for AlphaCat Re 2011, Ltd. (“AlphaCat Re 2011”) on May 25, 2011 and a further \$60.0 million of additional third party capital on December 23, 2011;
- Raising \$450.0 million of third party capital for PaCRe, Ltd. (“PaCRe”) a Class 4 Bermuda reinsurer formed for the purpose of writing high excess property catastrophe reinsurance, on April 2, 2012 and a further \$58.5 million on May 1, 2013;
- Raising \$43.5 million of third party capital for AlphaCat Re 2012, Ltd. (“AlphaCat Re 2012”) on May 29, 2012;
- Acquiring all of the outstanding shares of Flagstone Reinsurance Holdings, S.A. (“Flagstone”) on November 30, 2012;

Raising \$185.0 million of third party capital for AlphaCat 2013, Ltd. ("AlphaCat 2013") on December 17, 2012;
Raising \$292.2 million of third party subscriptions for AlphaCat Insurance Linked Securities ("ILS") funds;
Raising \$138.0 million of third party capital for AlphaCat 2014, Ltd. ("AlphaCat 2014") on December 20, 2013;
Delivering a 12.7% compounded annual growth in book value per diluted common share plus accumulated dividends from formation to December 31, 2013;
Increasing the annual dividend by 20% from \$1.00 to \$1.20 per common share and per common share equivalent and declaring a \$2.00 special dividend per common share and per common share equivalent on February 6, 2013; and
Repurchasing approximately 59.6 million common shares for an aggregate purchase price of \$1,821.1 million and paying an aggregate amount of \$830.3 million in dividends from formation to February 14, 2014.

Our Operating Subsidiaries -

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

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

- (a) AlphaCat Re 2011, AlphaCat Re 2012, AlphaCat 2013 and AlphaCat 2014 are non-consolidated operating affiliates that are owned 22.3%, 37.9%, 19.7% and 19.6%, respectively by the Company.
- (b) Two of the funds are consolidated and the third is owned 9.1% by the Company.
- (c) The Company has an equity interest of 10% in PaCRe, the remaining 90% interest is held by third party investors.

Operating Segments

Validus Re: Validus Re operates as a Bermuda-based provider of short-tail reinsurance products on a global basis.

Validus Re concentrates on first-party property and other reinsurance risks commonly referred to as short-tail in nature due to the relatively brief period between the occurrence and payment of a claim.

Validus Reinsurance Ltd. was registered as a Class 4 insurer under The Insurance Act 1978 of Bermuda, amendments thereto and related regulations (the "Insurance Act") in November 2005. It commenced operations with approximately \$1.0 billion of equity capital and a balance sheet unencumbered by any historical losses relating to the 2005 hurricane season, the events of September 11, 2001, asbestos or other legacy exposures affecting our industry.

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

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

On November 30, 2012, the Company acquired all of the outstanding shares of Flagstone, strengthening the Company's leading property catastrophe reinsurance and short-tail specialty insurance platform. The primary lines in which Flagstone conducted business were property catastrophe reinsurance, property pro rata and per-risk excess and short tail specialty and casualty reinsurance such as aviation, energy, personal accident and health, satellite, marine and workers' compensation catastrophe. For segmental reporting purposes, the results of Flagstone's operations since the acquisition date have been included within the Validus Re segment in the Consolidated Financial Statements. As part of this acquisition, the Company acquired Flagstone Reassurance Suisse, SA and renamed it Validus Reinsurance (Switzerland) Ltd. ("Validus Re Swiss"). Validus Re Swiss is based in Zurich, Switzerland. Through this local presence, the Company is in a position to closely follow and respond effectively to the changing needs of the various European and Bermuda insurance markets. Validus Re Swiss is licensed by the Swiss Financial Market Supervisory Authority, or FINMA, in Switzerland. Validus Re Swiss is also licensed as a permit company in Bermuda under the Companies Act and is registered in Bermuda as a Class 4 insurer under the Insurance Act, operating through its Bermuda branch, which complements our Swiss-based underwriters with a separate Bermuda underwriting platform. The following are the primary lines in which Validus Re conducts its business. Details of gross premiums written by line of business, are provided below:

(Dollars in thousands)	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011		
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
Property	\$744,630	59.9	% \$771,617	68.2	% \$786,937	70.6	%
Marine	194,001	15.6	% 257,469	22.7	% 232,401	20.9	%
Specialty	303,891	24.5	% 102,873	9.1	% 95,155	8.5	%
Total	\$1,242,522	100.0	% \$1,131,959	100.0	% \$1,114,493	100.0	%

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

Property catastrophe: Property catastrophe reinsurance provides reinsurance for insurance companies' exposures to an accumulation of property and related losses from separate policies, typically relating to natural disasters or other catastrophic events. Property catastrophe reinsurance is generally written on an excess of loss basis, which provides coverage to insurance companies when aggregate claims and claim expenses from a single occurrence for a covered peril exceed a certain amount specified in a particular contract. Under these contracts, the Company provides protection to an insurer for a portion of the total losses in excess of a specified loss amount, normally up to a maximum amount per loss and/or an aggregate amount across multiple losses, as specified in the contract. In the event of a loss, most contracts provide for coverage of a second occurrence following the payment of a premium to reinstate the coverage under the contract, which is referred to as a reinstatement premium. The coverage provided under excess of loss reinsurance contracts may be on a worldwide basis or limited in scope to specific regions or geographical areas. Coverage can also vary from "all property" perils, which is the most expansive form of coverage, to more limited coverage of specified perils such as windstorm-only coverage. Property catastrophe reinsurance contracts are typically "all risk" in nature, providing protection against losses from earthquakes and hurricanes, as well as other natural and man-made catastrophes such as floods, tornadoes, fires and storms. The predominant exposures covered are losses stemming from property damage and business interruption coverage resulting from a covered peril. Certain risks, such as war or nuclear contamination may be excluded, partially or wholly, from certain contracts. Gross premiums written

on property catastrophe business during the year ended December 31, 2013 were \$620.4 million.

Property per risk: Property per risk reinsurance provides reinsurance for insurance companies' excess retention on individual property and related risks, such as highly-valued buildings. Per risk reinsurance protects insurance companies on their primary insurance risks on a "single risk" basis. A "risk" in this context might mean the insurance coverage on one

3

building or a group of buildings or the insurance coverage under a single policy which the reinsured treats as a single risk. Coverage is usually triggered by a large loss sustained by an individual risk rather than by smaller losses which fall below the specified retention of the reinsurance contract. Such property per risk coverages are generally written on an excess of loss basis, which provides the reinsured with protection beyond a specified amount up to the limit set within the reinsurance contract. Gross premiums written on property per risk business during the year ended December 31, 2013 were \$26.2 million.

Property pro rata: Property pro rata contracts require that the reinsurer share the premiums as well as the losses and loss expenses in an agreed proportion with the cedant. Gross premiums written on property pro rata business during the year ended December 31, 2013 were \$98.1 million.

Marine: Validus Re underwrites reinsurance on marine risks covering damage to or losses of marine vessels and cargo, third-party liability for marine accidents and physical loss and liability from principally offshore energy properties. Validus Re underwrites marine on an excess of loss basis and on a pro rata basis. Gross premiums written on marine business during the year ended December 31, 2013 were \$194.0 million.

Specialty: Validus Re underwrites other lines of business depending on an evaluation of pricing and market conditions, which include aerospace and aviation, agriculture, financial, terrorism, life, accident & health, nuclear, workers' compensation, crisis management, contingency, motor, technical lines and composite lines. The Company seeks to underwrite specialty lines with very limited exposure correlation with its property, marine and energy portfolios. With the exception of the aerospace and aviation, agriculture and financial lines of business, which have a meaningful portion of its gross premiums written volume on a proportional basis, the Company's other specialty lines are written on an excess of loss basis. Gross premiums written on specialty business during the year ended December 31, 2013 were \$303.9 million.

AlphaCat: The AlphaCat segment manages strategic relationships that leverage the Company's underwriting and investment expertise and earns management, performance and underwriting fees. AlphaCat Managers, Ltd. ("AlphaCat Managers"), formed in 2008, is a core element within the Company's strategic initiative to expand into capital market activities by participating in the market for Insurance Linked Securities ("ILS"). ILS are financial instruments whose fundamental value is determined by insurance losses caused by natural catastrophes such as major earthquakes and hurricanes. As the returns on ILS are primarily driven by natural catastrophes, when carefully structured, they are generally uncorrelated with the overall financial markets, making ILS an attractive asset class for capital market investors.

AlphaCat helps investors take advantage of this uncorrelated asset class through various funds and sidecars, currently accessing the market via AlphaCat Reinsurance Ltd., a Bermuda provider of fully collateralized property catastrophe reinsurance and retrocession capacity and AlphaCat Master Fund, a Bermuda investment fund investing in reinsurance-related capital markets transactions. AlphaCat invests in private reinsurance transactions, as well as catastrophe bonds, a common type of ILS issued by insurance and reinsurance companies. AlphaCat leverages the Company's extensive business sourcing, underwriting, research and analytic capabilities to construct ILS portfolios subject to prudent risk constraints. The AlphaCat segment also includes the results of PaCRe since its formation in 2012.

During the first quarter of 2012, to better align the Company's operating and reporting structure with its strategy, there was a change in the Company's segment structure. This change included reporting the AlphaCat group of companies as a separate operating segment. The AlphaCat segment currently also includes AlphaCat Re 2011, AlphaCat Re 2012, AlphaCat 2013, AlphaCat 2014, PaCRe and AlphaCat ILS funds.

The following are the primary line items for the AlphaCat segment:

(Dollars in thousands)	Year ended December 31,				
	2013	Change	2012	Change	2011
Managed gross premiums written	\$ 143,146	(4,945)	\$ 148,091	72,364	\$ 75,727
Other income	26,424	3,195	23,229	11,763	11,466
Income from operating affiliates	14,289	1,709	12,580	12,580	—

Managed gross premiums written: Managed gross premiums written includes gross premiums written by our non-consolidated affiliates, AlphaCat Re 2011 and AlphaCat Re 2012. A reconciliation of managed gross premiums written to gross premiums written, the most comparable U.S. GAAP financial measure, is presented in the section

entitled "Non-GAAP Financial Measures." Managed gross premiums written for the year ended December 31, 2013 were \$143.1 million.

4

Other income: Other income includes third party and related party management fee income. Other income for the year ended December 31, 2013 was \$26.4 million.

Income from operating affiliates: AlphaCat's operating affiliates, at December 31, 2013 were AlphaCat Re 2011, AlphaCat Re 2012, AlphaCat 2013, AlphaCat 2014 and one of the AlphaCat ILS funds. Further detail on each of the operating affiliates can be seen at Item 15 (a) of this Report in the Consolidated Financial Statements of Validus Holdings, Ltd. and the Notes thereto. Income from operating affiliates for the year ended December 31, 2013 was \$14.3 million.

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

The Company has expanded and diversified its business through Syndicate 1183's access to Lloyd's license agreements with regulators around the world. Talbot Underwriting Risk Services Ltd. (London), Talbot Underwriting Services, (U.S.) Ltd. (New York), Talbot Underwriting (MENA) Ltd. (Dubai), Validus Reasegueros, Inc. (Miami), Validus Re Chile S.A. (Chile), Talbot Risk Services (Labuan) Pte Limited (Malaysia), and Talbot Risk Services Pte, Ltd. (Singapore), act as approved Lloyd's coverholders for Syndicate 1183.

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

	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011		
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
Property	\$345,831	31.7 %	\$324,910	30.1 %	\$306,317	30.2 %	
Marine	381,238	34.9 %	396,207	36.7 %	341,821	33.7 %	
Specialty	364,821	33.4 %	357,519	33.2 %	365,984	36.1 %	
Total	\$1,091,890	100.0 %	\$1,078,636	100.0 %	\$1,014,122	100.0 %	

Property: The main sub-classes within the property class are international and North American direct and facultative contracts, lineslips and binding authorities, together with a book of business written on a treaty reinsurance basis. The business written is mostly commercial and industrial insurance. Coverage provided includes all risks of direct physical loss or damage, business interruption and natural catastrophe perils. Property also includes onshore energy and construction business. Within the onshore energy sector, covered occupancies include oil, gas, petrochemicals, chemical, power generation and utilities and process industries. Coverage is typically all risks and includes machinery breakdown and business interruption where required. The primary focus within the construction line is on major capital projects, placed on a direct or facultative subscription basis. The business is mainly short-tail with premiums for reinsurance and direct and facultative business, substantially earned within 12 months and premiums for lineslips and binding authorities mainly earned within 12 months of the expiry of the contract, however there are a minority of risks with long-term policies. Gross premiums written on property business during the year ended December 31, 2013 were \$345.8 million, including \$89.4 million of treaty reinsurance.

Marine: The main types of business within the marine class are hull, cargo, offshore energy, marine and energy liabilities, yachts and a book of business written on a treaty reinsurance basis. Hull consists primarily of ocean going vessels and cargo and covers worldwide risks on an all risks or total loss only basis. Cargo consists of worldwide transits with a particular emphasis on oil cargo, project cargo, pre-launch satellite and space risks, specie, fine art and

high value motor vehicles. Offshore energy covers a variety of oil and gas industry exploration and production risks. The marine and energy liability account provides cover for protection and indemnity clubs and a wide range of companies operating in the marine and energy sectors. Each of the sub-classes within the marine class has a different profile of contracts written. Some, such as energy, derive up to 40.0% of their business through writing facultative contracts while others, such as cargo, only derive 18.0% through this method. Each of the sub-classes also has a different geographical risk allocation. Most business written

is short-tail, enabling a quicker and more accurate picture of expected profitability than is the case for long-tail business. The marine and energy liability account, which makes up \$61.5 million of the \$381.2 million of gross premiums written during the year ended December 31, 2013, is the primary long-tail business in this class.

Specialty: This class consists of war (comprising marine & aviation war, political risks and political violence, including war on land), financial institutions, contingency, accident and health, aviation direct and aviation treaty. With the exception of aviation treaty, most of the business within the specialty class is written on a direct or facultative basis or under a binding authority through a coverholder. Gross premiums written on the specialty business during the year ended December 31, 2013 were \$364.8 million.

War: The marine & aviation war account covers physical damage to aircraft and marine vessels caused by acts of war and terrorism. The political risk account deals primarily with expropriation, contract frustration/trade credit, kidnap and ransom, and malicious and accidental product tamper. The political violence account mainly insures physical loss to property or goods anywhere in the world, caused by war, terrorism or civil unrest. This class is often written in conjunction with cargo, specie, property, energy, contingency and political risk. The period of the risks can extend up to 36 months and beyond. Gross premiums written on war business during the year ended December 31, 2013 were \$186.5 million.

Aviation: The aviation account insures major airlines, airport operations, aviation products and airports (aviation direct), general aviation and satellites. The coverage includes excess of loss treaties with medium to high attachment points. Gross premiums written on aviation business during the year ended December 31, 2013 were \$95.3 million.

Financial Institutions: Talbot's financial institutions team underwrites bankers blanket bond, professional indemnity and directors' and officers' coverage for various types of financial institutions and similar companies. Bankers blanket bond insurance products are specifically designed to protect against direct financial loss caused by fraud/criminal actions and mitigate the damage such activities may have on the asset base of the insured. Professional indemnity insurance protects businesses in the event that legal action is taken against them by third parties claiming professional negligence. Directors' and officers' insurance protects directors and officers against personal liability for losses incurred by a third party due to negligent performance by a director or officer. The financial institutions account is longer tail business as the periods of time between the occurrence, reporting and settlement of claims can be several years. Gross premiums written on financial institutions business for the year ended December 31, 2013 were \$38.2 million, comprising:

(Dollars in thousands)	Year Ended December 31, 2013		
	Gross Premiums Written	Gross Premiums Written (%)	
Bankers blanket bond	\$23,972	62.7	%
Professional indemnity	12,435	32.5	%
Directors' and Officers'	1,819	4.8	%
Total	\$38,226	100.0	%

The risks covered in financial institutions are primarily fraud related and are principally written on an excess of loss basis. Talbot's financial institutions account is concentrated on non-U.S. based clients, with 41.8% of gross premiums written in 2013 generated in Europe, 11.7% from the U.S. and 46.5% from other geographical regions. In addition, Talbot seeks to write regional accounts rather than global financial institutions with exposure in multiple jurisdictions and has only limited participation in exposures to publicly listed U.S. companies.

Accident and Health: The accident and health account provides insurance in respect of individuals in both their personal and business activity together with corporations where they have an insurable interest relating to death or disability of employees or those under contract. Gross premiums written on accident and health business during the year ended December 31, 2013 were \$24.6 million.

Contingency: The main types of covers written under the contingency account are event cancellation, non-appearance and prize indemnity business. Gross premiums written on contingency business during the year ended December 31, 2013 were \$20.0 million.

Enterprise Risk Management

Risk Management Framework: The Company believes in having a culture that embraces sound risk management practices at all levels of the organization. We have therefore implemented an Enterprise Risk Management (“ERM”) framework (the “Framework”) that is aligned with the Company’s culture and responds to the needs of the business. The Framework has been established to identify, assess, quantify and manage risks and opportunities. In particular it is designed to:

- Establish the principles by which the Company can evaluate the risk/reward trade-offs associated with key strategic and tactical decisions.

- Establish a risk governance structure that, in respect of all activities related to ERM, with clearly defines roles and responsibilities.

- Establish minimum requirements that must be met by each of the Company’s segments.

- Identify and assess all risks and causes of risks arising out of the Company’s strategic initiatives, internal processes, and external environment.

- Establish a set of responses to manage the Company’s risks within its stated risk appetite and risk tolerances.

- Establish procedures through which near miss and actual incidents, that either have the potential to impact or have impacted the Company, are reported and reviewed in order to inform the risk identification and assessment process.

Risk Governance: Our risk governance philosophy reflects the overall governance of the Company, with the segments given broad autonomy over the management of their business, while adhering to the overall strategy of the Company. Similarly, the segments have broad operational latitude over their risk management functions while staying within the parameters set by the Company.

The Company’s Board of Directors has established a separate Risk Committee that is responsible for, among other things, approving the Framework, working with management to ensure ongoing, effective implementation of the Framework and reviewing the Company’s specific risk limits as defined in the Framework, including limits related to major categories of risk. The management committee of the Company that oversees risk management is the Group Risk Management Committee (“GRMC”).

Risk Appetite: The Company’s risk appetite is expressed through a series of qualitative and quantitative statements, principles, limits, and tolerances that, in the aggregate, convey the Company’s risk and reward preferences and set the risk parameters within which the Company and its segments operate. The risk appetite is proposed by management and approved by the Board of Directors.

The significant quantitative measures include meeting minimum returns on capital and risk-adjusted capital over a full insurance industry cycle, managing the probability of break-even or better and meeting or exceeding budgeted net income over a calendar year, and managing the probability of losing specified percentages of shareholders’ equity in a calendar year. They also include probability thresholds in respect of maintaining a buffer above regulatory and rating agency capital levels.

The Company also sets levels of concentration risks within its risk appetite, including those related to probable maximum losses, zonal aggregates and the contribution of various risk categories to the overall assessment of the Company’s risk capital.

Risk Classification: Risks are broadly divided into those that the Company assumes explicitly and from which it derives income and those that are a by-product of the operating and business environment, from which the Company does not earn income.

The risks assumed are categorized as catastrophe, reserve and premium risks (also together referred to as insurance risk), market (or investment) risk and credit risk. The Company’s goal is to get adequately compensated for these risks, while creating optimal insurance and investment portfolios subject to the constraints of the Company’s risk appetite. The remaining risks are categorized as operational and strategic risks, which typically include emerging risks, for which the Company’s goal is to identify, assess and mitigate to the extent considered appropriate.

Risk Ownership: The Company’s risk management philosophy is to entrust risk identification and control activities with the employees who have the responsibility for and expertise in the areas giving rise to each risk. This not only creates workflow efficiencies but also promotes awareness of and accountability for risk at all levels of the Company. As such, primary risk ownership is assigned to the managers of functional areas. The risk identification and control

activities are embedded in the job descriptions of risk owners and control operators and monitored by the GRMC.

7

Risk Assessment, Control and Mitigation: The Company performs a regular risk assessment process that considers the likelihood and impact of causes of risk, both before and after the existence of relevant controls. The approaches used to identify and update causes of risk include scenario building, incident and near-miss reporting and market intelligence. Controls have been established to appropriately manage the likelihood and impact of risks, focused on those with the most significance and after considering the tolerance level established for each risk. New controls may also be designed as a result of the incident reporting process.

The Company also has in place policies, including underwriting, investment, and credit policies, to manage the assumption of risk. These policies provide for the Company's risk limits, tolerance levels and other guidelines, as well as the processes for ensuring compliance with the desired risk profile of the Company. The Company has at its disposal a variety of risk mitigation tools, including the purchase of reinsurance and retrocessional coverage, which it uses to ensure that its risk profile stays within prescribed limits and tolerance levels.

Exposure Management: In order to manage the assumption of insurance risk, the Company has established risk limits through both qualitative and quantitative considerations, including factors such as market share, history of and expertise in a class of business or jurisdiction, transparency and symmetry of available information, reliability of pricing models and availability and cost of reinsurance. These limits are reviewed at least annually and aligned to the overall risk appetite established by the Company's Board of Directors.

Three tools are used to measure and manage exposures:

• **Absolute maximum limits** - these are defined based on the underlying peril or coverage and include measures such as zonal aggregates, which convey the maximum contractual loss exposure.

• **Probable maximum loss** - these are defined where probabilistic event sets exist for underlying perils and are established for most natural catastrophe, aviation and offshore energy coverage, and conveys an extreme but likely loss exposure.

• **Realistic disaster scenarios ("RDSs")** - these are either prescribed by third parties or developed internally and convey a more intuitive view of potential loss outcome.

The Company will often use multiple tools to validate its exposure measurement and ensures that at least one of these tools is available for each class of business.

Portfolio Optimization: The Company has developed a comprehensive and integrated Economic Capital Model ("ECM") framework to facilitate the consistent assessment of risk, including risks classified as operational. This framework includes assessment at the individual operating company level, as well as across the group. Using the ECM framework, the Company is able to assess the impact on risk appetite metrics of key strategic and tactical decisions as well as the risk return trade-offs associated with these decisions, including growth strategy, new product launch, business mix and retrocession strategy, mergers and acquisitions, planning and budgeting, investment strategy and capital management.

It is the goal of the Company to make the most efficient use of its capital and to achieve an adequate return for its shareholders. To that end, the Company seeks to maximize net income given the amount of capital at risk and subject to the risk limits, tolerance levels and other constraints that are imposed by our business, regulatory, and rating agency environments. The Company has therefore put in place portfolio optimization procedures, including the integrated use of the ECM within the annual planning process, in order to help shape portfolios that optimize their respective risk return profiles.

Underwriting Risk Management

The Company's underwriters manage risk by paying close attention to a number of qualitative and quantitative indicators. Our in-house pricing platform, VCAPS, provides reinsurance underwriters with a real-time view of the risk-adjusted profitability of each account. This allows them to examine the effects of contract terms and conditions as well as analyze the contribution of a contract to our overall risk capital and its impact on the projected incurred loss for one of our key stress scenarios. In addition, Talbot maintains a suite of pricing models for the direct and facultative underwriting teams that includes VCAPS and other proprietary models, as well as models licensed from third parties. The Company believes that giving our underwriters the tools to make sound decisions at every turn is critical to our long-term success. To that end, we strive to create an environment that promotes close cooperation between our underwriting, catastrophe modeling, risk, claims, and actuarial functions.

All of the Company's underwriters adhere to a strict set of underwriting guidelines and letters of authority that specifically address the limits of their underwriting authority and their referral criteria. The Company's current underwriting guidelines and letters of authority include:

8

- lines of business that a particular underwriter is authorized to write;
- exposure limits by line of business;
- contractual exposures and limits requiring mandatory referrals; and
- levels of analysis to be performed by lines of business.

In general, our underwriting approach is to:

- seek high quality clients who have demonstrated superior performance over an extended period;
- evaluate our clients' exposures and make adjustments where their exposure is not adequately reflected;
- apply the comprehensive knowledge and experience of our entire underwriting team to make progressive and cohesive decisions about the business they underwrite; and
- employ our well-founded and carefully maintained market contacts within the group to enhance our robust distribution capabilities.

Our underwriters have the responsibility to analyze all submissions and determine if the related potential exposures meet with both the Company's risk profile line size and aggregate limitations, in line with the business plan. In order to ensure compliance, we run appropriate management information reports and all lines are subject to regular audits.

All of the companies managed by AlphaCat are subject to investment or underwriting guidelines. These guidelines are established in the offering documentation of each AlphaCat company. AlphaCat manages investment portfolios in accordance with guidelines, which are subject to oversight by the respective company's board of directors. AlphaCat leverages the Company's underwriting and analytical resources. However, all investment and underwriting decisions are ultimately made by AlphaCat. When services are provided to AlphaCat by the Company's underwriting teams, the relevant underwriting risk management framework outlined in this section applies.

Use of Models

A pivotal factor in determining whether to found and fund the Company was the opportunity for differentiation based upon superior risk management expertise; specifically, managing catastrophe risk and optimizing our portfolio to generate attractive returns on capital while controlling our exposure to risk, and assembling a management team with the experience and expertise to do so. The Company's proprietary models are current with emerging scientific trends. This has enabled the Company to gain a competitive advantage over those reinsurers who rely exclusively on commercial models for pricing and portfolio management. The Company has made a significant investment in expertise in the risk modeling area to capitalize on this opportunity. The Company has assembled an experienced group of professional experts who operate in an environment designed to allow them to use their expertise as a competitive advantage. While the Company uses both proprietary and commercial probabilistic models, catastrophe risk is ultimately subject to absolute aggregate limitations as discussed above.

Commercial Vendor Models: The Company has global licenses for all three major commercial vendor models (RMS, AIR and EQECAT), to assess the adequacy of risk pricing and to monitor its overall exposure to risk in correlated geographic zones. Commencing in January 2012, the Company incorporated RMS version 11 into its vendor models. The vendor models enable the Company to aggregate exposures by correlated event loss scenarios, which are probability-weighted. This enables the generation of exceedance probability curves for the portfolio and major geographic areas. Once exposures are modeled using one of the vendor models, the other two models are used as a reasonability check and validation of the loss scenarios developed and reported by the first. The three commercial models each have unique strengths and weaknesses. For example, it is sometimes necessary to impose changes to frequency and severity ahead of changes made by the model vendors.

The Company also uses its quantitative expertise to improve the reliability of the vendor model outputs in the following areas:

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

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

- To properly quantify risk, we frequently adjust vendor models based on the latest scientific studies and claims data.

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

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

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

VCAPS takes into account annual limits, event/franchise/annual aggregate deductibles, and reinstatement premiums.

This allows for more accurate evaluation of treaties with a broad range of features, including both common (reinstatement premium and annual limits) and complex features (second or third event coverage, aggregate excess of loss, attritional loss components, covers with varying attachment across different geographical zones or lines of businesses and covers with complicated structures); and

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

In addition to VCAPS, the Company uses other proprietary models and other data in evaluating exposures. The Company cannot assure that the models and assumptions used by the software will accurately predict losses. Further, the Company cannot assure that the software is free of defects in the modeling logic or in the software code. In addition, the Company has not been granted copyright or other legal protection for VCAPS.

Geographic Diversification

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

The following table sets forth the gross premiums written allocated to the territory of coverage:

(Dollars in thousands)	Year Ended December 31, 2013						%	%
	Gross Premiums Written							
	Validus Re	AlphaCat	Talbot	Eliminations	Total			
United States	\$466,555	\$50,848	\$93,357	\$(10,673)	\$600,087	25.1	%	
Worldwide excluding United States	71,421	14,801	142,294	(9,263)	219,253	9.1	%	
(a)								
Australia and New Zealand	22,882	2,216	11,097	(607)	35,588	1.5	%	
Europe	68,685	2,533	51,667	(4,270)	118,615	4.9	%	
Latin America and Caribbean	7,225	—	155,798	(8,970)	154,053	6.4	%	
Japan	43,055	653	5,971	(979)	48,700	2.0	%	
Canada	4,277	818	10,768	(1,406)	14,457	0.6	%	
Rest of the world (b)	29,401	—	92,652	(5,065)	116,988	4.9	%	
Sub-total, non United States	246,946	21,021	470,247	(30,560)	707,654	29.4	%	
Worldwide including United States	179,709	75,140	80,538	(11,166)	324,221	13.5	%	
Other locations non-specific (c)	349,312	—	447,748	(27,916)	769,144	32.0	%	
Total	\$1,242,522	\$147,009	\$1,091,890	\$(80,315)	\$2,401,106	100.0	%	

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

(b) Represents risk in one geographic zone.

The Other locations non-specific category refers to business for which an analysis of exposure by geographic zone (c) is not applicable, such as marine and aerospace risks, since these exposures can span multiple geographic areas and, in some instances, are not fixed locations.

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

Reinsurance Management

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

Validus Re Retrocession: Validus Re monitors the opportunity to purchase retrocessional coverage on a continual basis and employs the VCAPS modeling system to evaluate the effectiveness of risk mitigation and exposure management relative to the cost. This coverage may be purchased on an indemnity basis as well as on an index basis (e.g., industry loss warranties ("ILWs")). Validus Re also considers and at times uses alternative retrocessional structures, including collateralized quota share facilities ("sidecars") and other capital markets products (e.g., catastrophe bonds), where the pricing and terms are attractive.

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

AlphaCat: AlphaCat has ceded only a minimal level of business to third parties and will typically write contracts on a net retention basis only, since most contracts are fully collateralized.

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

The review and any subsequent modification to the program is based upon the following:

- budgeted underwriting for the coming year;
- loss experience from prior years;
- loss information from the coming year's individual capital assessment calculations;
- expected changes to risk limits and aggregation limits and any other changes to Talbot's risk tolerance;
- scenario planning;
- changes to capital requirements; and
- RDSs prescribed by Lloyd's.

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

The type, quantity and cost of cover of the proposed reinsurance program is discussed and reviewed by the Chief Executive Officer of the Talbot group, and ultimately authorized by the Talbot Underwriting Ltd ("TUL") Board. Once this has occurred, the reinsurance program is purchased in the months prior to the beginning of the covered period. All reinsurance contracts arranged are authorized for purchase by the Managing Director. Slips are developed prior to inception to ensure that optimum cover is achieved. After purchase, cover notes are reviewed by the relevant class underwriters and presentations made to all underwriting staff to ensure they are aware of the boundaries of the cover.

Distribution

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

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

(Dollars in thousands) Name of Broker	Year Ended December 31, 2013 Gross Premiums Written						%
	Validus Re	AlphaCat	Talbot	Eliminations	Total		
Aon Benfield Group Ltd.	\$504,389	\$39,114	\$177,596	\$(9,708)	\$711,391	29.6	%
Marsh & McLennan	288,013	37,724	199,435	(12,029)	513,143	21.4	%
Willis Group Holdings Ltd.	259,089	43,605	164,784	(9,008)	458,470	19.1	%
Sub-total	1,051,491	120,443	541,815	(30,745)	1,683,004	70.1	%
All Others/Direct	191,031	26,566	550,075	(49,570)	718,102	29.9	%
Total	\$1,242,522	\$147,009	\$1,091,890	\$(80,315)	\$2,401,106	100.0	%

Reserve for losses and loss expenses

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

The following tables show certain information with respect to the Company’s gross and net reserves:

(Dollars in thousands)	As at December 31, 2013		
	Gross Case Reserves	Gross Incurred But Not Reported Reserves	Total Gross Reserve for Losses and Loss Expenses
Property	\$795,143	\$643,051	\$1,438,194
Marine	486,087	421,633	907,720
Specialty	256,651	427,834	684,485
Total	\$1,537,881	\$1,492,518	\$3,030,399

(Dollars in thousands)	As at December 31, 2013		
	Net Case Reserves	Net Incurred But Not Reported Reserves	Total Net Reserve for Losses and Loss Expenses
Property	\$699,491	\$548,400	\$1,247,891
Marine	439,005	386,992	825,997
Specialty	226,071	360,286	586,357
Total	\$1,364,567	\$1,295,678	\$2,660,245

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

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

The tables below present the development of the Company's unpaid losses and loss expense reserves on both a net and gross basis. The cumulative redundancy (deficiency) calculated on a net basis differs from that calculated on a gross basis. As different reinsurance programs cover different underwriting years, net and gross loss experience will not develop proportionately. The top line of each table shows the estimated liability, net and gross of reinsurance recoveries, as at the balance sheet date for each of the indicated years. This represents the estimated amounts of losses and loss expenses, including IBNR, arising in the current and all prior years that are unpaid at that date. The tables also show the re-estimated amount of the previously recorded reserve liability based on experience as of the balance sheet date of each succeeding year. The estimate changes as more information becomes known about the frequency and severity of claims for individual years. The cumulative redundancy (deficiency) represents the aggregate change with respect to that liability originally estimated, as of December 31, 2013. The lower portion of each table also reflects the cumulative paid losses relating to these reserves. Conditions and trends that have affected development of liabilities in the past may not necessarily occur in the future.

Analysis of Losses and Loss Expense Reserve Development Net of Recoveries

Years Ended December 31,

(Dollars in thousands)	2006	2007	2008	2009	2010	2011	2012 (b)	2013
Estimated liability for unpaid losses and loss expense, net of reinsurance recoverable	\$77,363	\$791,713	\$1,096,507	\$1,440,369	\$1,752,839	\$2,258,658	\$3,077,606	\$2,660,245
Net loss reserves disposed							(36,519)	
Liability re-estimated as of: (c)								
One year later	60,106	722,010	1,018,930	1,283,759	1,596,720	2,083,378	2,835,639	
Two years later	54,302	670,069	937,696	1,181,987	1,451,448	1,954,084		
Three years later	50,149	606,387	902,161	1,085,664	1,404,349			
Four years later	46,851	584,588	847,935	1,053,327				
Five years later	45,946	547,965	827,153					
Six years later	45,199	544,656						
Seven years later	44,567							
Cumulative redundancy (deficiency) (a)	32,796	247,057	269,354	387,042	348,490	304,574	205,448	
Cumulative paid losses, net of reinsurance recoveries, as of: (c)								
One year later	\$27,180	\$216,469	\$353,476	\$384,828	\$476,779	\$631,889	\$916,796	
Two years later	34,935	320,803	562,831	634,041	741,940	1,047,879		
Three years later	39,520	350,521	662,319	744,324	902,507			
Four years later	41,746	374,788	722,652	818,184				
Five years later	41,901	390,895	753,899					
Six years later	43,571	403,540						
Seven years later	43,794							

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

(b) The reserves for losses and loss expenses of Flagstone are consolidated from the November 30, 2012 date of acquisition.

(c) The impact of foreign currency exchange rate movements is excluded from the re-estimated liability and from paid losses.

Analysis of Losses and Loss Expense Reserve Development Gross of Recoveries

Years Ended December 31,

(Dollars in thousands)	2006	2007	2008	2009	2010	2011	2012 (b)	2013
Estimated gross liability for unpaid losses and loss expense	\$77,363	\$926,117	\$1,305,303	\$1,622,134	\$2,035,973	\$2,631,143	\$3,517,573	\$3,030,399
Gross loss reserves disposed							(36,590)	
Liability re-estimated as of:								
(c)								
One year later	60,106	846,863	1,223,018	1,484,646	1,854,565	2,422,343	3,266,832	
Two years later	54,302	791,438	1,164,923	1,385,533	1,705,995	2,257,704		
Three years later	50,149	745,624	1,134,043	1,288,915	1,648,273			
Four years later	46,851	721,730	1,079,842	1,252,042				
Five years later	45,946	675,884	1,055,033					
Six years later	45,199	668,266						
Seven years later	44,567							
Cumulative redundancy (deficiency)(a)	32,796	257,851	250,270	370,092	387,700	373,439	214,151	
Cumulative paid losses, gross of reinsurance recoveries, as of:								
(c)								
One year later	\$27,180	\$245,240	\$437,210	\$455,182	\$557,894	\$807,296	\$1,065,485	
Two years later	34,935	394,685	706,249	709,309	878,406	1,279,820		
Three years later	39,520	452,559	825,159	864,918	1,057,705			
Four years later	41,746	480,277	898,338	950,013				
Five years later	41,901	496,511	933,825					
Six years later	43,571	509,513						
Seven years later	43,794							

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

(b) The reserves for losses and loss expenses of Flagstone are consolidated from the November 30, 2012 date of acquisition.

(c) The impact of foreign currency exchange rate movements is excluded from the re-estimated liability and from paid losses.

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

(Dollars in thousands)	Years Ended December 31,		
	2013	2012	2011
Reserve for losses and loss expenses, beginning of year	\$3,517,573	\$2,631,143	\$2,035,973
Losses and loss expenses recoverable	(439,967)	(372,485)	(283,134)
Net reserves for losses and loss expenses, beginning of year	3,077,606	2,258,658	1,752,839
Net loss reserves (disposed) acquired	(36,519)	639,641	—
Increase (decrease) in net losses and loss expenses incurred in respect of losses occurring in:			
Current year	999,380	1,174,415	1,400,520
Prior years	(205,448)	(174,969)	(156,119)
Total incurred losses and loss expenses	793,932	999,446	1,244,401
Less net losses and loss expenses paid in respect of losses occurring in:			
Current year	(244,682)	(182,146)	(266,247)
Prior years	(916,796)	(653,874)	(476,779)
Total net paid losses	(1,161,478)	(836,020)	(743,026)
Foreign exchange	(13,296)	15,881	4,444
Net reserve for losses and loss expenses, end of year	2,660,245	3,077,606	2,258,658
Losses and loss expenses recoverable	370,154	439,967	372,485
Reserve for losses and loss expenses, end of year	\$3,030,399	\$3,517,573	\$2,631,143

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

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

Loss reserves represent estimates, including actuarial and statistical projections at a given point in time, of the expectations of the ultimate settlement and administration costs of claims incurred. Such estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends in loss severity and frequency and other variable factors such as inflation, litigation and tort reform. This uncertainty is heightened by the low frequency high severity nature of the business written by Validus Re and AlphaCat, thereby providing limited claims loss emergence patterns that directly pertain to Validus Re's and AlphaCat's operations. This continues to necessitate the partial use of industry loss emergence patterns in deriving IBNR, which contribute to the inherent uncertainty within the loss reserve estimation process and therefore will differ from actual experience.

Further, expected losses and loss ratios are typically developed in part by using outputs from vendor and proprietary computer models and these expected losses and loss ratios are a significant component in the calculation of IBNR. Finally, the uncertainty surrounding estimated costs is greater in cases where large, unique events have been reported

and the associated claims are in early stages of resolution. As a result of these uncertainties, it is likely that the ultimate liability will differ from such estimates, perhaps materially.

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

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

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

In respect of the risks related to the reserve for losses and loss expenses for all segments, see Part I, Item 1A, "Risk Factors" Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Cautionary Note Regarding Forward-Looking Statements." Loss reserves are reviewed regularly and adjustments to reserves, if any, will be recorded in earnings in the period in which they are determined. Even after such adjustments, the ultimate liability may exceed or be less than the revised estimates.

Notable losses: For disclosure purposes, only those loss events which aggregate to more than a certain threshold on a consolidated basis ("notable loss events" or "notable losses") are disclosed separately and included in the reserve for notable loss events and reserve for potential development on notable loss events tables. Notable loss events are first determined at the respective operating segments based on segment thresholds and are then aggregated and only disclosed if it is determined that they reach the consolidated threshold for notable loss disclosure. The Company increased the consolidated threshold for disclosure of notable losses effective January 1, 2011, from \$5.0 million to \$15.0 million. The Company further increased the threshold for disclosure of notable losses effective January 1, 2013 from \$15.0 million to \$30.0 million.

During 2010 and 2011, given the complexity and severity of notable loss events in each of those years, an explicit reserve for potential development on notable loss events ("RDE") was included within the Company's IBNR reserving process. As uncertainties surrounding initial estimates on notable loss events have developed, this reserve has been allocated to specific notable loss events, to the point where the reserve had been fully allocated at December 31, 2013. No RDE has been established for 2012 or 2013 notable losses.

The requirement for a reserve for potential development on notable loss events in a period is a function of (a) the number of significant events occurring in that period and (b) the complexity and volatility of those events. Complexity and volatility factors considered include the following:

- Contract complexity;
- Nature and number of perils arising from an event;
- Limits and sub limits exposed;
- Quality, timing and flow of information received from each loss;
- Timing of receipt of information to the Company;
- Information regarding retrocessional covers;
- Assumptions, both explicit and implicit, regarding future paid and reported loss development patterns;
- Frequency and severity trends;

- Claims settlement practices; and
- Potential changes in the legal environment.

Each of these factors may lead to associated volatility for each notable loss event as well as consideration of the total reserve for loss events in the aggregate. Consequently, all of these factors are considered in the aggregate for the events occurring in the period, recognizing that it is more likely that one or some of the events may deteriorate significantly, rather

than all deteriorating proportionately. The establishment of each period's requirement for a reserve for potential development on notable loss events takes place as part of the quarterly evaluation of the Company's overall reserve requirements. It is not directly linked in isolation to any one significant/notable loss. The reserve for potential development on notable loss events is evaluated by our in-house actuaries as part of their normal process of setting indicated reserves at the end of each reporting period. In ensuing periods, senior management and the in-house actuaries revisit and re-estimate certain events previously considered in the catastrophe loss event process as well as events that have subsequently emerged in the most recent period. To the extent that there has been adverse development on a notable loss event, if there is RDE remaining from that accident year, an allocation from the respective accident year RDE will be made to the notable loss event. If there is no remaining RDE relating to the accident year of the loss, then adverse development will be recorded for the notable loss event through the Statements of Comprehensive Income.

Changes to the reserve for potential development on notable loss events are considered in light of changes to previous loss estimates from notable losses in this re-estimation process. To the extent that there are continued complexity and volatility factors relating to notable loss events in the aggregate, additions to the RDE may be established for a specific accident year, as illustrated in the RDE roll forward table which can be found in Item. 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Investment Management

The Company manages its investment portfolio on a consolidated basis. As we provide predominantly short-tail insurance and reinsurance coverage, we could become liable to pay substantial claims on short notice. Accordingly, we follow a conservative investment strategy designed to emphasize the preservation of invested assets and provide sufficient liquidity for the prompt payment of claims. Our Board of Directors, led by our Finance Committee and Chief Investment Officer, oversees our investment strategy and, in consultation with BlackRock Financial Management, Inc., Conning, Inc. and Pinebridge Investments Europe Ltd., our portfolio advisors, has established investment guidelines for us. The investment guidelines dictate the portfolio's overall objectives, benchmark portfolios, eligible securities, duration, use of derivatives, inclusion of foreign securities, diversification requirements and average portfolio rating. Management and the Finance Committee periodically review these guidelines in light of our investment goals and consequently they may change at any time.

Substantially all of the fixed maturity investments held at December 31, 2013 were publicly traded. At December 31, 2013, the average duration of the Company's fixed maturity portfolio was 1.60 years (2012: 1.34 years). Management emphasizes capital preservation for the portfolio and maintains a significant allocation of short-term investments. At December 31, 2013, the average rating of the portfolio was AA- (2012: AA-). At December 31, 2013, the total fixed maturity portfolio was \$5,542.3 million (2012: \$5,085.3 million), of which \$788.5 million (2012: \$1,062.8 million) was rated AAA.

Claims Management

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

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

Talbot: Where Talbot is the lead syndicate on business written, the claims adjusters will, in accordance with the respective policies, assess, investigate, appoint third party experts (including attorneys, loss adjusters or other experts) as required and communicate the Company's actions or findings to the Broker who represents the insured. The Company will also establish adequate reserves and promptly pay valid claims in accordance with the applicable "Lloyd's Claims Scheme" and "Lloyd's Claims Management Principles and Minimum Standards."

Where Talbot is not the lead syndicate, the claims handling and case reserves are established in accordance with the applicable "Lloyd's Claims Scheme" and "Lloyd's Claims Management Principles and Minimum Standards." Claims and claims movements are reviewed and monitored by the Talbot claims department. Claim financial reports are

received daily from the "Xchanging" system pursuant to a centralized contract with Lloyd's.

18

Competition

The insurance and reinsurance industries are highly competitive. We compete with major U.S., Bermuda, European and other international insurers and reinsurers and certain underwriting syndicates and insurers. We encounter competition in all of our classes of business but there is less competition in those of our lines where we are a specialist underwriter. The Company competes with insurance and reinsurance providers such as:

Alleghany Corporation, Allied World Assurance Company Holdings, Limited., Arch Capital Group, Limited., Argo Group International Holdings, Ltd., Aspen Insurance Holdings Limited, AXIS Capital Holdings Limited, Endurance Specialty Holdings Ltd., Everest Re Group Limited, Montpelier Re Holdings Ltd., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., and RenaissanceRe Holdings Ltd.;

Amlin plc, Catlin Group Limited, Hiscox and others in the Lloyd's market;

Asset managers and reinsurers who provide collateralized reinsurance and retrocessional coverage;

Treaty and direct insurers, in not only the London but also the global market, that compete with Lloyd's on a worldwide basis;

Various capital markets participants who access insurance and reinsurance business in securitized form, including through special purpose entities or derivative transactions; and

Government-sponsored insurers and reinsurers.

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

Premiums charged and other terms and conditions offered;

Services provided;

Financial ratings assigned by independent rating agencies;

Speed of claims payment;

Reputation;

Perceived financial strength; and

The experience of the underwriter in the line of insurance or reinsurance written.

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

Regulation

The following is a discussion of the regulatory environment and key requirements in the jurisdictions of our significant operating subsidiaries.

Bermuda

General: As a holding company, Validus Holdings, Ltd. is not subject to Bermuda insurance regulation. However, the Insurance Act 1978 (the "Insurance Act") regulates the Company's operating insurance subsidiaries in Bermuda, and it provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the "BMA") under the Insurance Act. The Insurance Act makes no distinction between insurance and reinsurance business. The Company has eight Bermuda based insurance subsidiaries, Validus Reinsurance, Ltd., a Class 4 insurer, Validus Reinsurance (Switzerland), Ltd. (Bermuda Branch) ("Validus Re Swiss") (formerly known as Flagstone Reassurance Swiss S.A. (Bermuda Branch)), a Class 4 insurer, PaCRe, Ltd., a Class 4 insurer, IPCRe Limited. ("IPCRe") (formerly known as Validus Re Americas, Ltd.), a Class 3A insurer, Validus Re Americas, Ltd., a Class 3A insurer, Talbot Insurance (Bermuda), Ltd. ("TIBL"), a Class 3 insurer, AlphaCat Reinsurance, Ltd., a Class 3 insurer, Mont Fort Re Ltd., a Class 3 insurer. The Company also has investments in two Bermuda-based insurance affiliates, AlphaCat Re 2011, Ltd. and AlphaCat Re 2012, Ltd., both licensed as Special Purpose Insurers ("SPI") under the Insurance Act.

Regulation of Class 3 and 4 insurers: Significant aspects of the Bermuda insurance regulatory framework and requirements imposed on Class 3 and Class 4 insurers are noted below.

Principal Representative and Principal Office: The Insurance Act requires that every insurer, including the Bermuda insurance subsidiaries of the Company, appoint and maintain a principal representative resident in Bermuda and maintain a principal office in Bermuda. It is the duty of the principal representative on his reaching a view that there is a likelihood of

the insurer for which the principal representative acts becoming insolvent or that a reportable event has, to the principal representative's knowledge, occurred, to immediately notify the BMA and to make a report in writing to the BMA within 14 days of the prior notification setting out all the particulars of the case that are available to the principal representative.

Where there has been a significant loss which is reasonably likely to cause the insurer to fail to comply with its enhanced capital requirement, the principal representative must also furnish the BMA with a capital and solvency return reflecting an enhanced capital requirement prepared using post-loss data. The principal representative must provide this within 45 days of notifying the BMA regarding the loss.

Furthermore, where a notification has been made to the BMA regarding a material change to an insurer's business or structure (including merger or amalgamation), the principal representative has 30 days from the date of such notification to furnish the BMA with unaudited interim statutory financial statements in relation to such period as the Authority may require, together with a general business solvency certificate in respect of those statements.

Approved Independent Auditor: Class 3 and 4 insurers must appoint an independent auditor who will annually audit and report on the statutory financial statements and the statutory financial return of the insurer, all of which, in the case of all registered insurers in Bermuda, are required to be filed annually with the BMA. The independent auditor must be approved by the BMA.

Approved Loss Reserve Specialist: Class 3 and 4 insurers are required to submit an opinion of their approved loss reserve specialist with their statutory financial return in respect of their loss and loss expense provisions. The loss reserve specialist, who will normally be a qualified casualty actuary, must be approved by the BMA.

Annual Financial Statements, Annual Statutory Financial Return and Annual Capital and Solvency Return: Class 3 and 4 insurers must prepare annual statutory financial statements as prescribed in the Insurance Act. The statutory financial statements are separate from the annual U.S. GAAP-basis financial statements discussed further below. Class 3 and 4 insurers are also required to prepare and file with the BMA statutory financial returns unless granted an exemption under section 56 of the Insurance Act. The statutory financial return includes, among other items, a report of the approved independent auditor on the statutory financial statements of such insurer, solvency certificates, the statutory financial statements, the opinion of the loss reserve specialist, a schedule of reinsurance ceded, and a special purpose business solvency certificate in relation to any special purpose business undertaken. Class 4 insurers are also required to file audited U.S. GAAP annual financial statements, which are made available to the public. In addition, Class 4 insurers are required to file a capital and solvency return in respect of their general business which shall include the regulatory risk based capital model, a schedule of net reserves for losses and loss expense provisions by line of business, a schedule of premiums written by line of business, a schedule of risk management and schedules of fixed income securities.

Minimum Solvency Margins: The value of the general business assets of licensed insurers must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin ("MSM,") being equal to the greater of:

Class 4:

(a)\$100,000,000;

(b)50% of net premiums written (being gross premiums written less any premiums ceded by the insurer for reinsurance, but the insurer may not deduct more than 25% of gross premiums when computing net premiums written);

(c)15% of net losses and loss expense provisions and other insurance reserves (general business); or

(d)25% of the insurer's enhanced capital requirement.

Class 3:

(a)\$1,000,000;

(b)20% of net premiums written up to \$6,000,000 (being gross premiums written less any premiums ceded by the insurer for reinsurance); or where net premiums written exceed \$6,000,000, \$1,200,000 plus 15% of the net premiums written in excess of \$6,000,000; or

(c)15% of net losses and loss expense provisions and other insurance reserves (general business).

Minimum Liquidity Ratio: The Insurance Act provides a minimum liquidity ratio for general business insurers. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the

amount of its relevant liabilities. Relevant assets include, but are not limited to, cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as investments in and advances to

20

affiliates. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax, sundry liabilities (by interpretation, those not specifically defined), and letters of credit and guarantees. Enhanced Capital Requirement: Class 4 insurers are required to maintain available statutory capital and surplus with respect to its general business at a level equal to or in excess of its enhanced capital requirement ("ECR") which is calculated at the end of its relevant year by reference to the Bermuda Solvency Capital Requirement model ("BSCR") or an approved internal capital model. The BSCR employs a standard mathematical model that correlates risk underwritten by Bermuda insurers to the capital that is dedicated to the business. The ECR is equal to the higher of each insurer's MSM or the BSCR/approved internal capital model. Class 4 insurers are also expected to hold a safety margin or buffer above the ECR, which is at least in total equivalent to 120% of its ECR, known as the target capital level ("TCL"). The TCL will serve as an early warning signal for the BMA, and failure to maintain capital at least equal to the TCL may result in additional reporting requirements or other enhanced regulatory oversight.

Eligible Capital: The tiered capital regime (Tiers 1, 2, and 3) classifies capital instruments into a given tier based on their loss absorbency characteristics. Eligibility limits are then applied to each tier in determining the amounts eligible to cover regulatory capital requirement levels. The highest capital will be classified Tier 1 Capital, lesser quality capital will be classified as either Tier 2 Capital or Tier 3 Capital. Under this regime, not more than certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital may be used to satisfy the Class 4's MSM and ECR requirements.

Group Supervision: The BMA may, in respect of an insurance group, determine whether it is appropriate for it to be the group supervisor of that group. For purposes of the Insurance Act, an insurance group is defined as a group of companies that conducts insurance business. The BMA may make such determination where it ascertains that (i) the group is headed by a "specified insurer" (that is to say, it is headed by either a Class 3A, 3B, 4 or Class C, D or E insurer or another class of insurer designated by order of the BMA); or (ii) where the insurance group is not headed by a "specified insurer" where it is headed by a parent company which is incorporated in Bermuda; or (iii) where the parent company of the group is not a Bermuda company, where the BMA is satisfied that the insurance group is directed and managed from Bermuda or the insurer with the largest balance sheet total is a specified insurer. Where the BMA determines that it should act as the group supervisor, it shall designate a specified insurer that is a member of the insurance group to be the "designated insurer" and it shall give written notice to the designated insurer and other competent authorities that it is the group supervisor.

The BMA is our group supervisor and Validus Reinsurance, Ltd. is the group's "designated insurer" of our group of insurance and reinsurance companies. Pursuant to its powers under the Insurance Act, the BMA maintains a register of particulars for every insurance group for which it acts as the group supervisor detailing the names and addresses of the designated insurer; each member company of the insurance group falling within the scope of group supervision; the principal representative of the insurance group in Bermuda; other competent authorities supervising other member companies of the insurance group; and the name and address of the insurance group auditors. The designated insurer must notify the BMA of any changes to the above details entered on the register of an insurance group.

As group supervisor, the BMA will perform a number of supervisory functions including (i) coordinating the gathering and dissemination of information including information which is of importance for the supervisory task of other competent authorities; (ii) carrying out a supervisory review and assessment of the financial situation of the insurance group; (iii) carrying out an assessment of the insurance group's compliance with the rules on solvency, risk concentration, intra-group transactions and governance procedures; (iv) planning and coordinating, with other competent authorities, supervisory activities in respect of the insurance group; (v) coordinating any enforcement action that may be taken against the insurance group or any of its members; and (vi) planning and coordinating meetings of colleges of supervisors (consisting of insurance regulators) in order to facilitate the carrying out of the functions described above.

Group Solvency: The Insurance (Prudential Standards) (Insurance Group Solvency Requirement) Rules and Insurance (Group Supervision) Rules (together, "Group Rules"), will apply to us so long as the BMA remains our group supervisor. The BMA has implemented and imposed many of the additional requirements described in this section as part of its efforts to gain equivalence under Solvency II. Solvency II is an EU directive covering the capital adequacy, risk management and regulatory reporting for insurers and was adopted by the European Parliament in April 2009. The BMA will now wait until further notice to implement Solvency II as a result of the delay in the implementation of Solvency II in Europe. In addition, through the Group Rules, the BMA may take action which affects the Company. A

summary of the Group Rules is set forth below.

Group Financial Statements, Group Statutory Financial Return and Annual Capital and Solvency Return: Every insurance group is required to prepare an annual group statutory financial return which must be submitted to the BMA by the designated insurer within five months after its financial year end (unless specifically extended). The Group Rules prescribe the rules pertaining to the preparation and substance of the group statutory financial statements (which include, in statutory form, a group balance sheet, a group income statement, a group statement of capital and surplus, and notes thereto). The

statutory financial return shall include, among other items, a report of the approved group auditor, an opinion of a group actuary where applicable, an insurance group business solvency certificate, an insurance group cover sheet, particulars of ceded reinsurance comprising the top ten unaffiliated reinsurers for which the group has the highest recoverable balances and any reinsurer with recoverable balances exceeding 15% of the insurance group's statutory capital and surplus, particulars of qualifying members, a list of non-insurance financial regulated entities owned by the group and details of all adjustments applied to the group financial statements in the form of a reconciliation of amounts reported as total assets, total liabilities, net income and total statutory capital and surplus.

Every insurance group must also prepare and submit a group capital and solvency return (the "Group Capital and Solvency Return") which comprises the group BSCR model or outputs from an approved group internal capital model, along with the returns prescribed in the applicable schedules to the Group Rules. The Group Capital and Solvency Return is submitted by the designated insurer on behalf of the group and must include a declaration signed by two directors of the parent company, one of which may be the chief executive; and either the chief risk officer of the parent company, or the chief financial officer of the parent company.

Every insurance group must prepare and submit, on an annual basis, consolidated audited financial statements prepared under U.S. GAAP ("Group Financial Statements"). The Group Financial Statements must be audited annually by the group's approved auditor who must prepare an auditor's report in accordance with generally accepted auditing standards. The designated insurer is required to file with the BMA annually the audited Group Financial Statements within five months from the end of the relevant financial year (unless specifically extended). The Group Financial Statements are published by the BMA on its website.

Group Quarterly Financial Returns: In addition to the annual filings, the designated insurer is required to prepare and file, on behalf of the group, quarterly financial returns no later than the end of the month of each May, August and November for the first, second and third quarters, respectively of companies with calendar year ends. The quarterly financial return shall consist of (a) quarterly unaudited (consolidated) group financial statements in respect of its business for each financial statements where such statements are the most recent produced by the group, and must not reflect a financial position that exceeds two months and (b) details of material intra-group transactions and risk concentrations, including among other things, details surrounding reinsurance and retrocession arrangements and the ten largest exposures to unaffiliated counterparty risk and other unaffiliated counterparty exposures exceeding 10% of the insurer's statutory capital and surplus.

Group Solvency Margin and Group Enhanced Capital Requirements ("Group ECR"): The designated insurer must ensure that the value of the insurance group's assets exceeds the amount of the group's liabilities by the aggregate minimum margin of solvency of each qualifying member of the group (the "Group MSM"). A member is a qualified member of the insurance group if it is subject to solvency requirements in the jurisdictions in which it is registered. Where the parent company exercises control in relation to any member of the group, the minimum margin of solvency of such member shall be its individual minimum solvency margin. Where the parent company exercises significant influence on any member of the group, the minimum margin of solvency applicable to that member for purposes of calculating the Group MSM shall be an amount equal to the parent company's percentage shareholding of the member multiplied by that member's minimum margin of solvency.

Effective January 1, 2014, the group is required to maintain available group capital and surplus at a level equal to 50% of the Group ECR and this requirement will increase by increments of 10% in each of the following five years until 100% ECR is required for the 2018 year end. This phasing-in schedule is conditioned upon the BMA making further adjustments that would be either needed or appropriate once the effective date of Solvency II capital requirements is finalized.

Group Eligible Capital: To enable the BMA to better assess the quality of the group's capital resources, the designated insurer is required to disclose the makeup of its group's capital in accordance with a '3-tiered capital regime'. The eligible capital requirements came into effect on January 1, 2013, and under the current regime, all of the insurance group's capital instruments are classified as either basic or ancillary capital which in turn are classified into one of 3 tiers based on their "loss absorbency" characteristics. Highest quality capital is classified as Tier 1 Capital, lesser capital will be classified as either Tier 2 Capital or Tier 3 Capital. Under this regime, not more than certain specified percentages of Tier 1, Tier 2 and Tier 3 Capital may be used to satisfy the Group's MSM and Group ECR requirements.

Restrictions on Dividends and Distributions: A Class 4 insurer shall not declare or pay any dividends of more than 25% of its total statutory capital and surplus, as shown on its previous financial year statutory balance sheet, unless at least seven days before payment of the dividends it files with the BMA an affidavit confirming that it will continue to meet its relevant margins. If it failed to meet any of its relevant margins on the last day of any financial year, a Class 3 and 4 insurer shall not, without the approval of the BMA, declare or pay any dividends during the next financial year. In addition, Class

3 and 4 insurers must obtain the BMA's prior approval before reducing its total statutory capital, as shown in its previous year's financial statements, by 15% or more.

Furthermore, under the Companies Act, a Bermuda company may only declare or pay a dividend, or make a distribution out of contributed surplus as the case may be, if the company has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would not be less than its liabilities.

The Insurance Code of Conduct: The BMA Insurance Code of Conduct establishes duties and standards which must be complied with by all insurers licensed under the Insurance Act. The Code is divided into six categories, including:

• Proportionality Principle;

• Corporate Governance;

• Risk Management;

• Governance Mechanism;

• Outsourcing; and

• Market Discipline and Disclosure.

Failure to comply with the requirements under the Code will be a factor taken into account by the BMA in determining whether an insurer is conducting its business in a sound and prudent manner as prescribed by the Insurance Act and may result in the BMA exercising its power of intervention and investigation.

Notification of Material Changes: Class 3 and 4 insurers are required to give advance notice to the BMA of their intention to effect a material change within the meaning of the Insurance Act. For the purposes of the Insurance Act, the following changes are material: (i) the acquisition or transfer of insurance business being part of a scheme falling under section 25 of the Insurance Act or section 99 of the Companies Act 1981; (ii) the amalgamation with or acquisition of another firm; (iii) engaging in unrelated business that is retail business; (iv) acquisition of controlling interest in an undertaking that is engaged in non-insurance business which offers services and products to persons who are not affiliates of the insurer; (v) outsourcing all or substantially all of the functions of actuarial, risk management, compliance, and internal audit; (vi) transfer other than by way of reinsurance of all or substantially all of a line of business; and (vii) expansion into a material new line of business.

No Class 3 or 4 insurer shall take any steps to give effect to a material change, unless it has first served notice on the BMA that it intends to effect such material change and before the end of 14 days, either the BMA has notified such company in writing that it has no objection to such change or that period has lapsed without the BMA having issued a notice of objection.

Designated insurers are also required to give notice to the BMA if any member of its group intends to give effect to any material change as defined in clauses (ii) through (vii) above. The designated insurer shall notify the BMA of any material change, effected by a member of the group, within 30 days of such material change taking effect.

BMA's Powers of Intervention and Obtaining Information: The BMA may require a registered person or a designated insurer to provide such information or documentation as the BMA may reasonably require with respect to matters that are likely to be material to the performance of its supervisory functions under the Insurance Act. In addition, it may require such person's auditor, underwriter, accountant or any other person with relevant professional skill to prepare a report on any aspect pertaining thereto.

If the BMA deems it necessary to protect the interests of the policyholders or potential policyholders of an insurer or insurance group, it may investigate and report on the nature, conduct or state of the insurer's or the insurance group's business, or any aspect thereof, or the ownership or control of the insurer or insurance group. The BMA has the power to assist other regulatory authorities, including foreign insurance regulatory authorities, with their investigations, involving insurance and reinsurance companies in Bermuda if it is satisfied that the assistance being requested is in connection with the discharge of regulatory responsibilities and that such cooperation is in the public interest.

Securities: Securities may be offered or sold in Bermuda only in compliance with the provisions of the Investment Business Act 2003, and Exchange Control Act 1972, and related regulations of Bermuda which regulate the sale of securities in Bermuda. In addition, specific permission is required from the BMA, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA, in its policy dated June 1, 2005, provides that where any equity securities, which would include our ordinary shares, of a Bermuda

company are listed on an appointed stock exchange (the New York Stock Exchange is deemed to be an appointed stock exchange under Bermuda law), general permission is given for the issue and subsequent transfer of any securities of a company from and/or to a non-resident, for as long as any equity securities of the company remain so listed. The ordinary shares of the Company are listed on the New York Stock Exchange.

Notwithstanding the above general permission, the BMA has granted the Company permission to, subject to our ordinary or voting shares being listed on an appointed stock exchange, to issue, grant, create, sell and transfer any of our shares, options, warrants, depositary receipts, rights, loan notes, debt instruments and other securities of the Company, to and among persons who are either resident or non-resident of Bermuda for exchange control purposes. Shareholder Controller and other Notifications: Under the Insurance Act each shareholder or prospective shareholder will be responsible for applying to or notifying, depending upon the circumstances, the BMA in writing if the shareholder becomes a controller, directly or indirectly, of 10%, 20%, 33% or 50% of the Company and/or any of the Company's Bermuda insurance subsidiaries, usually within 45 days of becoming such a controller. The BMA may serve a notice of objection on any controller of the Company or any of the Company's Bermuda insurance subsidiaries if it appears to the BMA that the person is not fit and proper to be such a controller; the insurer's clients will be threatened by the shareholder; the shareholder would affect the insurer's ability to meet its minimum criteria or the shareholder would affect the insurer's ability to undertake adequate remedial action should it be necessary. The Company's Bermuda insurance subsidiaries are also required to notify the BMA in writing in the event of any person becoming or ceasing to be a controller or officer, a controller or officer being a managing director, chief executive, director, secretary, chief executive or senior executive or other person in accordance with whose directions or instructions the directors of the Bermuda insurer or a company of which the insurer is a subsidiary are accustomed to act, including any person who holds, or is entitled to exercise, 10% or more of the voting shares or voting power or is able to exercise a significant influence over the management of the Bermuda insurer or a company of which the insurer is a subsidiary.

United States

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

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

Validus Reaseguros, Inc. and Validus Re America (New Jersey) Inc. are licensed reinsurance intermediaries in Florida and New York, respectively.

The Company currently conducts its business in a manner such that it is expected that entities within the Validus Re segment will not be subject to insurance and/or reinsurance licensing requirements or regulations in the United States. Although the Company does not currently intend for Validus Re to engage in activities which would require it to comply with insurance and reinsurance licensing requirements in the United States, should the Company choose to engage in activities that would require Validus Re entities to become licensed in the United States, the Company cannot make assurances that we will be able to do so or that we will be able to do so in a timely manner. Furthermore, the laws and regulations applicable to direct insurers could indirectly affect the Company, such as collateral requirements in various U.S. states to enable cedants to receive credit for reinsurance ceded.

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

AlphaCat Managers, Ltd. is a licensed insurance manager and is registered as an investment adviser with the U.S. Securities and Exchange Commission under the U.S. Investment Advisers Act of 1940, as amended. AlphaCat

Managers, Ltd. is also registered as a "commodity pool operator" with the Commodity Futures Trading Commission (the "CFTC") and is a member of the National Futures Association.

United Kingdom

On April 1, 2013, the UK Financial Services Authority (“FSA”) ceased to exist in its current form and as a result two new focused regulators were established, namely the Financial Conduct Authority (“FCA”) and the Prudential Regulation Authority (“PRA”), both of which fall under the Financial Services Markets Act 2000.

The Financial Conduct Authority (“FCA”) has a strong mandate for promoting confidence and transparency in financial services and gives greater protection for consumers of financial services.

The Prudential Regulation Authority (“PRA”) is responsible for the day-to-day supervision of financial institutions that are subject to significant prudential regulation. It adopts a more judgment-focused approach to regulation so that business models can be challenged, risks identified and action taken to preserve financial stability. The PRA also has an insurance objective of contributing to the securing of an appropriate degree of protection for those who are or may become policyholders.

In relation to insurance, the FCA and PRA both regulate insurers, insurance intermediaries and Lloyd’s itself. The FCA, PRA and Lloyd’s have common objectives in ensuring that the Lloyd’s market is appropriately regulated. To minimize duplication, there are arrangements with Lloyd’s for co-operation on supervision and enforcement.

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

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

An EU directive covering the capital adequacy, risk management and regulatory reporting for insurers, known as Solvency II was adopted by the European Parliament in April 2009. A directive, known as Omnibus II, which will amend certain of the Solvency II proposals, including the implementation date, was due to be considered by the European Parliament in 2012. On December 3, 2012, the European Parliament rescheduled the plenary vote of the Omnibus II Directive to June 10, 2013. On October 2, 2013, the European Commission postponed the implementation date of Solvency II to January 1, 2016. Insurers and reinsurers are undertaking a significant amount of work to ensure that they meet the new requirements and this may divert resources from other operational roles. However, Lloyd’s requires that businesses that operate in the Lloyd’s market are fully compliant with Solvency II by the end of 2014. During the last year Lloyd’s required that businesses operated according to the principles of Solvency II (as distinct from being fully compliant) and Talbot was adjudged “green” on this test; the Company has largely implemented the requirements for Solvency II.

Switzerland

Our Swiss reinsurance subsidiary, Validus Reinsurance (Switzerland), Ltd. (“Validus Re Swiss”) (formerly Flagstone Réassurance Suisse SA), is a société anonyme headquartered in Zurich, Switzerland as of February 1, 2014.

Regulation and Supervision: Validus Re Swiss obtained its reinsurance license from the Swiss Federal Office of Private Insurance in December 2006. The conduct of reinsurance business by a company headquartered in Switzerland requires a license granted by the Swiss Financial Market Supervisory Authority (“FINMA”). In principle, licensing and supervision requirements are imposed on Validus Re Swiss as a standalone legal entity.

In general FINMA Law is an overarching statute applying in as far as there is no contrary provision in the sectoral laws for insurance and reinsurance. Sectoral laws are those laws germane to a particular industry sector such as, for example, insurance, reinsurance and banking. Aside from some inconsequential amendments under FINMA Law unifying cross sectoral issues, the existing sectoral laws governing insurance and reinsurance continue in force, substantially unchanged.

The various legal and regulatory requirements that must be satisfied, are set forth primarily by the three following sets of rules and regulations: the Federal Insurance Supervisory Law (“ISL”); the Federal Private Insurance Supervision Ordinance (“ISO”); and the FINMA Insurance Supervision Ordinance, as well as by various implementing directives and circulars. In general, the approach is principles based and allows for consideration of a justified application by management in relation to such principles.

Under Swiss rules and regulations, Swiss reinsurance companies are generally subject to many, but not all, of the same provisions that apply to direct insurers, and include the following obligations:

25

Adequacy of Financial Resources: ISL Article 9 and ISO, sets out the minimum capital requirements and solvency requirements. The minimum capital for a reinsurance firm is CHF 10 million. Firms are also obliged to constitute and maintain an organizational fund. In the case of Validus Re Swiss this was fixed at CHF 10 million by the Swiss Federal Office of Private Insurance prior to commencement of Validus Re Swiss' operations.

In addition, Validus Re Swiss must keep adequate disposable and unencumbered capital resources to cover its entire activities. In calculating the solvency margin, account is taken of the risks to which the firm is exposed, the insurance classes involved, the extent of the business, the geographical scope and internationally recognized principles (ISL Article 9). Solvency is determined based on two independent methodologies:

Solvency I: This involves calculating a margin applying defined percentages to a base of the higher of gross annual premium or gross claims for the last three available years and comparing coverage in terms of admissible "own funds" as determined under ISL Article 37.

The Swiss Solvency Test ("SST"): Under this approach, a company's capital is considered adequate if its risk bearing capital ("RBC") exceeds its target capital ("TC"). RBC is defined as the difference between assets at a market-consistent value and discounted best estimated liabilities. TC is defined as the sum of a market value margin and the difference between the discounted one-year RBC and the current year RBC. The SST involves a sophisticated analysis to calculate the market-consistent valuation of all assets and liabilities with a methodological approach to risk categories (insurance risk, credit risk, etc.) subjecting them to scenario stress tests at a basic level in the context of the standard regulatory approach but, where appropriate (for instance mandatory for reinsurance companies), permitting the use of internal models in the overall management of risk, once such models are validated. The validation of internal models is a general process which FINMA has pursued with all regulated firms over the past year and is ongoing.

The SST is very close to the "Solvency II" standard of the European Union. On February 1, 2010, Switzerland was formally recognized as equivalent by the EU committee of supervisors, the Committee of European Insurance and Occupational Pensions Supervisors ("CEIOPS"), firstly as regards the EU Reinsurance Directive of 2005 regulating pure reinsurers and secondly as regards its supervisory regime.

For the SST all assets of Validus Re Swiss are considered. There is no direct constraint on permitted investments since the provisions regarding assets linked to reserves in the ISL do not apply to reinsurance firms. However, the use of derivative instruments is required to be fully considered as part of the risk management processes and limited to reducing investment or insurance risk or to secure investment efficiencies.

Sound Corporate Governance, Risk Management and Internal Control System: In addition to quantitative risk measures, FINMA requires full qualitative governance and control of risk in the firm. This includes requirements as to the ongoing fitness, propriety and competence of the directors and senior management, observance of ethical standards, objective and appropriate remuneration procedures, management of conflicts of interests, the institution of a compliance function, independence and adequate resourcing of control functions (including the responsible actuary, the risk management function and the internal audit function), as well as clear terms of reference and systems of delegation and report throughout.

ISL and ISO each require the appointment of a Responsible Actuary - an independent and properly qualified actuary responsible for ensuring that solvency margins are calculated correctly, proper accounting principles are used, and adequate technical reserves are established and that this person report to the Board periodically.

Insurance companies are required to implement documented procedures for risk management and internal control. While FINMA does not require a specific quantitative outcome in relation to operational risk, the firm is expected to undertake proper analysis and to account for it.

Supervisory Process: The supervisory process includes the following requirements:

Annual Reporting: Validus Re Swiss is required to prepare an annual report at the end of each financial year on the solvency margins available, as well as an annual report on the calculation of target capital and on risk bearing capital. Validus Re Swiss files a corporate report incorporating financial statements prepared and audited in accordance with Swiss accounting rules and a supervisory report in the prescribed format. The supervisory report is to be submitted to FINMA by June 30 of each year in electronic form together with the annual report.

Ad Hoc Notifications: FINMA requires ad hoc notifications of all changes to the firm's scheme of operations which include the following: any changes to company statutes, details of its organizational structure or business activities

(including expansion into new jurisdictions; changes involving at least a 10% equity holding or at least 10% of votes in the Company, or where there is a change of control allowing persons to exert a significant influence on the Company's commercial activities; changes in management personnel, including the Responsible Actuary).

In addition, Validus Re Swiss is required to notify changes in levels of control of it upstream or by it downstream at 10%, 20%, 33% or 50% in terms of capital or voting rights.

There is a general duty to notify FINMA of all matters of which it might want to be advised (FINMA Law Article 29). This includes all material solvency matters, which are specified by circular to include a breach of solvency requirements, fluctuations of 10% or more in terms of assets, technical provisions, or of a significant retrocession contract of the company as well as redemption of any hybrid debt instruments; and any regulatory or criminal investigations brought against the company or the senior management or other significant events.

External Auditor Involvement: Audit firms are subjected to approval and supervision by FINMA and are a significant agent in the supervisory process applying to reinsurance companies (FINMA Law 24 et seq.). Auditors report both to the governing body of the company and to FINMA. They report to the Board on the financial statements of the company and on regulatory shortcomings with a requirement for remediation. Material shortcomings are reported directly to FINMA. A standardized audit report on these topics is prescribed by FINMA Directive. Failure to have an audit conducted in accordance with legal requirements, to fulfill the legal duty of cooperation with auditors or for the auditors to perform their role properly (including whistle blowing or failing to identify regulatory breaches) all attract criminal sanctions.

Intervention and Enforcement by the Regulator. FINMA Law provides for a wider range of supervisory intervention tools than previously provided for under the ISL such as the commencement of formal proceedings, including orders to comply with the law, leading up to withdrawal of license, declarations of unfitness for individuals, disgorgement and the appointment of independent specialists to investigate and implement remediation.

Capital Structure and Dividends: Validus Re Swiss is funded by equity in the form of paid in capital by shares and in share premium. Under Swiss corporate law as modified by insurance supervisory law, a non-life insurance company is obliged to contribute to statutory legal reserves a minimum of 20% of any annual profit up to 50% of statutory capital, being paid in share capital. Validus Re Swiss has been substantially funded by share premium. As of the date of this Annual Report we are advised that, share premium can be distributed to shareholders without being subject to withholding tax. However, the distribution of any special dividend to shareholders remains subject to the approval of FINMA which has regard to the maintenance of solvency and the interests of reinsureds and creditors.

Employment Practices

The following table details our personnel by geographic location as at December 31, 2013:

Location	Validus Re	Talbot	AlphaCat	Corporate	Total	%	
London, England	—	256	—	66	322	56.3	%
Pembroke, Bermuda	69	—	8	55	132	23.1	%
New York, United States	—	11	—	17	28	4.9	%
Republic of Singapore	10	15	—	—	25	4.4	%
Waterloo, Canada	—	—	—	24	24	4.2	%
Miami, United States	—	15	—	—	15	2.6	%
Dubai, United Arab Emirates	—	9	—	—	9	1.6	%
Toronto, Canada	—	—	—	7	7	1.2	%
Santiago, Chile	6	—	—	—	6	1.1	%
Martigny, Switzerland	2	—	—	—	2	0.4	%
Halifax, Canada	1	—	—	—	1	0.2	%
Total	88	306	8	169	571	100.0	%

We believe our relations with our employees are excellent.

Available Information

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

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act are available free of charge, including through our website, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Copies of the charters for the audit committee, the compensation committee, the corporate governance and nominating committee, the finance committee and the risk committee, as well as the Company's Corporate Governance Guidelines, Code of Business Conduct and Ethics for Directors, Officers and Employees (the "Code"), which applies to all of the Company's Directors, officers and employees, and Code of Ethics for Senior Officers, which applies to the Company's principal executive officer, principal accounting officer and other persons holding a comparable position, are available free of charge on the Company's website at <http://www.validusholdings.com> or by writing to Investor Relations, Validus Holdings, Ltd., 29 Richmond Road, Pembroke, HM 08, Bermuda. The Company will also post on its website any amendment to the Code and any waiver of the Code granted to any of its directors or executive officers to the extent required by applicable rules.

Item 1A. Risk Factors

Risks Related to Our Company

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

Substantially all of our gross premiums written to date are in short-tail lines, many of which have the potential to accumulate, which means we could become liable for a significant amount of losses in a brief period. The short-tail policies we write expose us to claims arising out of unpredictable natural and other catastrophic events, whether arising from natural causes such as hurricanes, windstorms, tsunamis, severe winter weather, earthquakes and floods, or man-made causes such as fires, explosions, acts of terrorism, war or political unrest. Many observers believe that the Atlantic basin is in the active phase of a multi-decade cycle in which conditions in the ocean and atmosphere, including warmer-than-average sea-surface temperatures and low wind shear, enhance hurricane activity. This increase in the number and intensity of tropical storms and hurricanes can span multiple decades (approximately 20 to 30 years). These conditions may translate to a greater potential for hurricanes to make landfall in the U.S. at higher intensities over the next several years. In addition, climate change may be causing changes in global temperatures, which may in the future increase the frequency and severity of natural catastrophes and the losses resulting therefrom. Although the frequency and severity of catastrophes are inherently unpredictable, we use state-of-science understanding of climate change and other climate signals for pricing and risk aggregation.

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

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

Emerging claim and coverage issues could adversely affect our business.

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

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

Third-party rating agencies assess and rate the financial strength of insurers and reinsurers based upon criteria established by the rating agencies, which criteria are subject to change. The financial strength ratings assigned by rating agencies to insurance and reinsurance companies represent independent opinions of financial strength and ability to meet policyholder obligations and are not directed toward the protection of investors. Ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies. Insurers and intermediaries use these ratings as one measure by which to assess the financial strength and quality of insurers and reinsurers. These ratings are often a key factor in the decision by

an insured or intermediary of whether to place business with a particular insurance or reinsurance provider. These ratings are not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold our common shares.

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

We cannot predict in advance the extent to which this cancellation right would be exercised, if at all, or what effect any such cancellations would have on our financial condition or future operations, but such effect could be material and adverse. Consequently, substantially all of Validus Re's business could be affected by a downgrade of our A.M. Best rating below "A-".

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

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

We manage exposure to catastrophic losses by analyzing the probability and severity of the occurrence of catastrophic events and the impact of such events on our overall (re)insurance and investment portfolio. We use various tools to analyze and manage the reinsurance exposures assumed from insureds and ceding companies and risks from a catastrophic event that could have an adverse effect on our investment portfolio. VCAPS, our proprietary risk modeling software, enables us to assess the adequacy of reinsurance risk pricing and to monitor the overall exposure to insurance and reinsurance risk in correlated geographic zones. There can be no assurance that the models and assumptions used by the software will accurately predict losses. Further, there can be no assurance that the models are free of defects in the modeling logic or in the software code. In addition, we have not sought copyright or other legal protection for VCAPS.

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

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

Reinsurance and retrocessional coverage is purchased to protect the inwards exposure in line with our risk appetite, but it is possible for there to be a mismatch or gap in cover which could result in higher than modeled losses. In addition, many parts of our reinsurance program are purchased with limited reinstatements and, therefore, the number of claims or events which may be recovered from second or subsequent events is limited. It should also be noted that renewal dates of the reinsurance and retrocessional program do not necessarily coincide with those of the inwards business written. Where inwards business is not protected by risks attaching reinsurance and retrocessional programs, the programs could expire resulting in an increase in the possible net loss retained and as such, could have a material adverse effect on our financial condition and results of operations.

We also seek to limit loss exposure through loss limitation provisions in policies we write, such as limitations on the amount of losses that can be claimed under a policy, limitations or exclusions from coverage and provisions relating to choice of forum, which are intended to assure that our policies are legally interpreted as intended. There can be no assurance that these contractual provisions will be enforceable in the manner expected or that disputes relating to coverage will be resolved in our favor. If the loss limitation provisions in the policies are not enforceable or disputes arise concerning the application of such provisions, the losses we incur from a catastrophic event could be materially higher than expected and our financial condition and results of operations could be adversely affected.

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

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

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

Premium levels may be adversely affected by a number of factors which fluctuate and may contribute to price declines generally in the reinsurance industry. For example, as premium levels for many products increased subsequent to the significant natural catastrophes of 2004 and 2005, the supply of reinsurance increased, either as a result of capital provided by new entrants or by the commitment of additional capital by existing reinsurers. Increases in the supply of insurance and reinsurance may have consequences for the reinsurance industry generally and for us including fewer contracts written, lower premium rates, increased expenses for customer acquisition and retention, and less favorable policy terms and conditions. As a consequence, the Company will experience greater competition on most insurance and reinsurance lines. This could adversely affect the rates we receive for our (re)insurance and our gross premiums written. The insurance and reinsurance industry is currently experiencing a soft market whereby premiums tend to be lower, capacity is higher and competition increases.

The cyclical trends in the industry and the industry's profitability can also be affected significantly by volatile and unpredictable developments, such as natural disasters (e.g., catastrophic hurricanes, windstorms, tornadoes, earthquakes and floods), courts granting large awards for certain damages, fluctuations in interest rates, changes in the investment environment that affect market prices of investments and inflationary pressures that may tend to affect the size of losses experienced by insureds and primary insurance companies. We expect to experience the effects of cyclicity, which could materially adversely affect our financial condition and results of operations.

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

The insurance and reinsurance industries are highly competitive. We face intense competition, based upon (among other things) global capacity, product breadth, reputation and experience with respect to particular lines of business, relationships with (re)insurance intermediaries, quality of service, capital and perceived financial strength (including independent rating agencies' ratings), innovation and price. We compete with major global insurance and reinsurance companies and underwriting syndicates, many of which have extensive experience in (re)insurance and may have greater financial, marketing and employee resources available to them than us. Other financial institutions, such as banks and hedge funds, now offer products and services similar to our products and services through alternative capital markets products that are structured to provide protections similar to those provided by reinsurers. These products, such as catastrophe-linked bonds, compete with our products. In the future, underwriting capacity will continue to enter the market from these identified competitors and perhaps other sources. Increased competition could result in fewer submissions and lower rates, which could have a material adverse effect on our growth and profitability. If we are unable to compete effectively against these competitors, we may not be able to retain market share.

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

Consolidation in the (re)insurance industry could adversely affect our business.

We believe that several (re)insurance industry participants are seeking to consolidate. These consolidated entities may try to use their enhanced market power to negotiate price reductions for our products and services and/or obtain a larger market share through increased line sizes. If competitive pressures reduce our prices, we would expect to write less business. As the (re)insurance

industry consolidates, competition for customers will become more intense and the importance of acquiring and properly servicing each customer will become greater. We could incur greater expenses relating to customer acquisition and retention, further reducing our operating margins. In addition, insurance companies that merge may be able to spread their risks across a consolidated, larger capital base so that they require less reinsurance. Reinsurance intermediaries could also continue to consolidate, potentially adversely impacting our ability to access business and distribute our products. We could also experience more robust competition from larger, better capitalized competitors. Any of the foregoing could adversely affect our business or our results of operations.

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

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

We estimate the risks associated with our outstanding obligations, including the risk embedded within our unearned premiums. To do this, we establish reserves for losses and loss expenses (or loss reserves), which are liabilities that we record to reflect the estimated costs of claim payment and the related expenses that we will ultimately be required to pay in respect of premiums written and include case reserves and IBNR reserves. However, under U.S. GAAP, we are not permitted to establish reserves for losses until an event which gives rise to a claim occurs. As a result, only reserves applicable to losses incurred up to the reporting date may be set aside on our financial statements, with no allowance for the provision of loss reserves to account for possible other future losses, unless we deem the unearned premium reserve to be insufficient to cover future losses on risks that have already incepted. Case reserves are reserves established with respect to specific individual reported claims. IBNR reserves are reserves for estimated losses that we have incurred but that have not yet been reported to us.

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

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

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

Our Consolidated Financial Statements have been prepared in accordance with U.S. GAAP. Management believes the item that requires the most subjective and complex estimates is the reserve for losses and loss expenses. Due to the Company's relatively short operating history, loss experience is limited and reliable evidence of changes in trends of numbers of claims incurred, average settlement amounts, numbers of claims outstanding and average losses per claim will necessarily take many years to develop. Following a major catastrophic event, the possibility of future litigation or legislative change that may affect interpretation of policy terms further increases the degree of uncertainty in the reserving process. The uncertainties inherent in the reserving process, together with the potential for unforeseen developments, including changes in laws and the prevailing interpretation of policy terms, may result in losses and loss expenses materially different than the reserves initially established. Changes to prior year reserves will affect current underwriting results by increasing net income if the prior year reserves prove to be redundant or by decreasing net income if the prior year reserves prove to be insufficient. We expect volatility in results in periods in which significant

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

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

Various aspects of our business depend on the services and skills of key personnel of the Company. We believe there are only a limited number of available qualified executives in the business lines in which we compete. We rely substantially upon the services of Edward J. Noonan, Chairman of our Board of Directors and Chief Executive Officer; Jeffrey D. Sangster, Executive Vice President and Chief Financial Officer; John J. Hendrickson, Director of Strategy, Corporate Development and Risk Management; Kean Driscoll, Executive Vice President and Chief Executive Officer of Validus Reinsurance, Ltd.; C.N. Rupert Atkin, Chief Executive Officer of the Talbot Group; Robert F. Kuzloski, Executive Vice President and General Counsel; Andrew E. Kudera, Executive Vice President and Chief Actuary; Lixin Zeng, Executive Vice President and Chief Executive Officer of AlphaCat Managers, Ltd.; Romel Salam, Executive Vice President and Chief Risk Officer; Jonathan P. Ritz, Executive Vice President and Chief Operating Officer and Michael R. Moore, Executive Vice President and Chief Accounting Officer, among other key employees. The loss of any of their services or the services of other members of our management team or any difficulty in attracting and retaining other talented personnel could impede the further implementation of our business strategy, reduce our revenues and decrease our operational effectiveness. Although we have an employment agreement with each of the above named executives, there is a possibility that these employment agreements may not be enforceable in the event any of these employees leave. The employment agreements for each of the above-named executives provide that the terms of the agreement will continue for a defined period after either party giving notice of termination, and will terminate immediately upon the Company giving notice of termination for cause. We do not currently maintain key man life insurance policies with respect to these or any of our other employees. In addition, changes in employment laws, taxation and remuneration practices within our operating jurisdiction may adversely impact the retention or recruitment of key personnel.

The operating location of our head office and our primary Validus Re subsidiary may be an impediment to attracting and retaining experienced personnel. Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Our success may depend in part on the continued services of key employees in Bermuda. A work permit may be granted or renewed upon demonstrating that, after proper public advertisement, no Bermudian (or spouse of a Bermudian or a holder of a permanent resident's certificate or holder of a working resident's certificate) is available who meets the minimum standards reasonably required by the employer. A work permit is issued with an expiry date (up to ten years for senior executives) and no assurances can be given that any work permit will be issued or, if issued, renewed upon the expiration of the relevant term. If work permits are not obtained, or are not renewed, for our principal employees, we would lose their services, which could materially affect our business. Work permits are currently required for 66 of our Bermuda employees, the majority of whom have obtained three- or five-year work permits.

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

Entities affiliated with some of our directors have sponsored or invested in, and may in the future sponsor or invest in, other entities engaged in or intending to engage in insurance and reinsurance underwriting, some of which compete with us. They have also entered into, or may in the future enter into, agreements with companies that compete with us. We have a policy in place applicable to each of our directors and officers which provides for the resolution of potential conflicts of interest. However, we may not be in a position to influence any party's decision to engage in activities that would give rise to a conflict of interest, and they may take actions that are not in our shareholders' best interests.

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

We monitor our capital adequacy on a regular basis. The capital requirements of our business depend on many factors, including our premiums written, loss reserves, investment portfolio composition and risk exposures, as well as satisfying regulatory and rating agency capital requirements. Our ability to underwrite is largely dependent upon the

quality of our claims paying and financial strength ratings as evaluated by independent rating agencies. To the extent that our existing capital is insufficient to fund our future operating requirements and/or cover claim losses, we may need to raise additional funds through financings or limit our growth. Any equity or debt financing, if available at all, may be on terms that are unfavorable to us. In the case of equity financings, dilution to our shareholders could result, and, in any case, such securities may have rights, preferences and privileges that are senior to those of our outstanding securities. In addition, the capital and credit markets have recently been experiencing extreme volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and credit capacity for certain issuers. If we are not able to obtain adequate capital, our business, results of operations and financial condition could be adversely affected.

In addition, as an alien insurer and reinsurer (not licensed in the U.S.), we are required to post collateral security with respect to any (re)insurance liabilities that we assume from insureds or ceding insurers domiciled in the U.S. in order for U.S. ceding companies to obtain full statutory and regulatory credit for our reinsurance. Other jurisdictions may have similar collateral requirements. Under applicable statutory provisions, these security arrangements may be in the form of letters of credit, insurance or reinsurance trusts maintained by trustees or funds-withheld arrangements where assets are held by the ceding company. We intend to satisfy such statutory requirements by maintaining the trust fund requirements for Talbot's underwriting at Lloyd's and by providing to primary insurers letters of credit issued under our credit facilities. To the extent that we are required to post additional security in the future, we may require additional letter of credit capacity and there can be no assurance that we will be able to obtain such additional capacity or arrange for other types of security on commercially acceptable terms or on terms as favorable as under our current letter of credit facilities. Our inability to provide collateral satisfying the statutory and regulatory guidelines applicable to insureds and primary insurers would have a material adverse effect on our ability to provide (re)insurance to third parties and negatively affect our financial position and results of operations.

Security arrangements may subject our assets to security interests and/or require that a portion of our assets be pledged to, or otherwise held by, third parties. Although the investment income derived from our assets while held in trust typically accrues to our benefit, the investment of these assets is governed by the investment regulations of the state of domicile of the ceding insurer and therefore the investment returns on these assets may not be as high as they otherwise would be.

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

We market our insurance and reinsurance on a worldwide basis primarily through brokers, and we depend on a small number of brokers for a large portion of our revenues. For the year ended December 31, 2013, our business was primarily sourced from the following brokers: Aon Benfield Group Ltd. 29.6%, Marsh & McLennan 21.4% and Willis Group Holdings Ltd. 19.1%. These three brokers provided a total of 70.1% of our gross premiums written for the year ended December 31, 2013. Loss of all or a substantial portion of the business provided by one or more of these brokers could adversely affect our business.

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

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

Our utilization of brokers, managing general agents and other third parties to support our business exposes us to operational and financial risks

Talbot's business at Lloyd's relies upon brokers, managing general agents and other third parties to produce and service a portion of its operations. In these arrangements, we typically grant the third party the right to bind us to new and renewal policies, subject to underwriting guidelines we provide and other contractual restrictions and obligations. Should these third parties issue policies that contravene these guidelines, restrictions or obligations, we could nonetheless be deemed liable for such policies. Although we would intend to resist claims that exceed or expand on our underwriting intention, it is possible that we would not prevail in such an action, or that our managing general agent would be unable to adequately indemnify us for their contractual breach.

We also rely on managing general agents, third party administrators or other third parties we retain, to collect premiums and to pay valid claims. We could also be exposed to their or their producer's operational risk, including, but not limited to, contract wording errors, technological and staffing deficiencies and inadequate disaster recovery plans. We could also be exposed to potential liabilities relating to the claims practices of the third party administrators we have retained to manage the claims activity on this business. Although we have implemented monitoring and other oversight protocols, we cannot assure that these measures will be sufficient to mitigate all of these exposures.

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

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

We may be unable to purchase reinsurance or retrocessional reinsurance in the future, and if we do successfully purchase reinsurance or retrocessional reinsurance, we may be unable to collect on claims submitted under such policies, which could adversely affect our business, financial condition and results of operations.

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

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

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

The investment return, including net investment income, net realized gains (losses) on investments, net unrealized (losses) gains on investments, excluding noncontrolling interest, on our invested assets was \$42.7 million, or 0.7% for the year ended December 31, 2013. While we follow a conservative investment strategy designed to emphasize the preservation of invested assets and to provide sufficient liquidity for the prompt payment of claims, we will nevertheless be subject to market-wide risks including illiquidity and pricing uncertainty and fluctuations, as well as to risks inherent in particular securities. Our investment performance may vary substantially over time, and there can be no assurance that we will achieve our investment objectives. See "Business—Investment Management."

Investment results will also be affected by general economic conditions, market volatility, interest rate fluctuations, liquidity and credit risks beyond our control. In addition, our need for liquidity may result in investment returns below our expectations. Also, with respect to certain of our investments, we are subject to prepayment or reinvestment risk. In particular, our fixed income portfolio is subject to reinvestment risk, and as at December 31, 2013, 15.1% of our fixed maturity portfolio is comprised of mortgage-backed and asset-backed securities which are subject to prepayment risk. Although we attempt to manage the risks of investing in a changing interest rate environment, a significant increase in interest rates could result in significant losses, realized or unrealized, in the fair value of our investment portfolio and, consequently, could have an adverse affect on our results of operations.

Investment methodologies and assumptions are subject to differing interpretations and unrealized losses taken on our investments are subjective which could adversely affect our results of operations and financial condition.

The valuation of our investments may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to our investment valuations. During periods of market disruptions, it may be difficult to value certain securities if trading becomes less frequent or market data less observable. There may also be certain asset classes that become illiquid due to the financial environment. As a result, valuation of securities in our investment portfolio may require more subjectivity and management judgment.

Valuation methods that require greater estimation may result in values which may be greater or less than the value at which the investments may be ultimately sold. In addition, rapidly changing and unpredictable credit and equity market conditions could materially effect the valuation of securities as reported in our Consolidated Financial Statements.

The determination of the unrealized losses taken on our investments are also highly subjective and could materially impact our financial position. Unrealized losses vary by investment type and are based upon our periodic evaluations and assessments of known and inherent risks associated with the respective asset class. Evaluations are revised as conditions change, and management reflects unrealized losses in operations on a quarterly basis. Furthermore, additional unrealized losses may need to be taken in the future. Subjective unrealized losses could adversely affect our financial condition and our results of operations.

Certain of our investments are illiquid and may be difficult to sell, or to sell in significant amounts at acceptable prices, to generate cash to meet our needs

Investments in certain securities in funds attributed to utilizing the equity method, may be illiquid due to contractual provisions or investment market conditions. If we require significant amounts of cash on short notice in excess of anticipated cash obligations, then we may have difficulty selling these investments in a timely manner or we may be forced to sell or terminate them at unfavorable values. The foregoing could adversely affect our financial condition and results of operations.

Our operating results may be adversely affected by currency fluctuations.

Our reporting currency is the U.S. dollar and the majority of our operating companies have a functional currency of the U.S. dollar. Many of our companies maintain both assets and liabilities in local currencies. Therefore, we are exposed to foreign exchange risk on the assets and liabilities denominated in those foreign currencies. Foreign exchange risk is reviewed as part of our risk management process. Locally required capital levels may be invested in home currencies in order to satisfy regulatory requirements and to support local insurance operations. The principal currencies creating unhedged foreign exchange risk are the Australian dollar, New Zealand dollar, Japanese yen, British pound sterling and the Euro. As a result of the accounting treatment for non-monetary items, the Company may experience volatility in its income statement during a period when movement in foreign exchange rates fluctuate significantly. In accordance with U.S. GAAP, non-monetary items are not re-measured at the reporting date and are therefore translated at historic exchange rates. Non-monetary items include unearned premiums and deferred acquisition costs. Therefore, a mismatch arises in the income statement between the amount of premium recognized at historical exchange rates and the related claims which are re-measured using currency rates at the reporting date which can cause volatility in the income statement. We look to manage our foreign currency exposure through matching our major foreign-denominated assets and liabilities, as well as through the use of currency derivatives. However, there is no guarantee that we will effectively mitigate our exposure to foreign exchange losses. Please refer to Part II, Item 7A "Quantitative and Qualitative Disclosures About Market Risk" for further discussion of foreign currency risk.

Heightened European sovereign debt risk could adversely affect our results of operations and financial condition.

Our fixed maturity portfolio contains certain Eurozone government and government agency securities and Eurozone corporate securities which are subject to increased liquidity risk, interest rate risk and default risk as a result of heightened European sovereign debt risk. As of December 31, 2013, our fixed maturity portfolio contains \$160.0 million or 2.9% of Eurozone government and government agency securities and \$248.6 million or 4.5% of Eurozone corporate securities. Increased defaults, and/or a significant increase in interest rates could result in losses, realized or unrealized, in the fair value of our investment portfolio and, consequently, could have an adverse effect on our results of operations.

We are subject to cyber security risks and may incur increasing costs in an effort to minimize those risks.

We depend on the proper functioning and availability of our information technology platform, including communications and data processing systems, in operating our business. These systems consist of proprietary software programs that are integral to the efficient operation of our business, including our proprietary pricing and exposure management system. We are also required to effect electronic transmissions with third parties including brokers, client's vendors and others with whom we do business, and to facilitate the oversight conducted by our Board of Directors. Security breaches could expose us to a risk of loss or misuse of our information, litigation and potential liability. In addition, cyber incidents that impact the availability, reliability, speed, accuracy or other proper functioning of these systems could have a significant impact on our operations, and potentially on our results. We may not have the resources or technical sophistication to anticipate or prevent rapidly evolving types of cyber attacks. A significant cyber incident, including system failure, security breach, disruption by malware or other damage could interrupt or delay our operations, result in a violation of applicable privacy and other laws, damage our reputation, cause a loss of customers or give rise to monetary fines and other penalties, which could be significant.

We may be exposed to risk in connection with our management of third party capital.

Our operating subsidiaries may owe certain legal duties and obligations to third party investors (including reporting obligations) and are subject to a variety of often complex laws and regulations relating to the management of third party capital. Compliance with some of these laws and regulations requires significant management time and attention. Although we seek to continually monitor our policies and procedures to attempt to ensure compliance, there

could be faulty judgments, simple errors or mistakes, or the failure of our personnel to adhere to established policies and procedures that could result in our failure to comply with applicable laws or regulations which could result in significant liabilities, penalties or other losses to the Company, and seriously harm our business and results of operations. In addition to the forgoing, our third party capital providers may redeem their interests in our managed funds, which could materially impact the financial condition of such funds, and could in turn materially impact our financial condition and results of operations. Moreover, we can provide no assurance that we will be able to attract and raise additional third party capital for our existing funds or for potential new funds and therefore we may forego existing and/or potential fee income and other income generating opportunities.

Risks Related to Acquisitions and New Ventures

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

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

• integrating financial and operational reporting systems;

• integration into new geographical regions;

• establishing satisfactory budgetary and other financial controls;

• funding increased capital needs and overhead expenses;

• obtaining management personnel required for expanded operations;

• obtaining necessary regulatory permissions;

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

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

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

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

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

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

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

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

An EU directive covering the capital adequacy, risk management and regulatory reporting for insurers, known as Solvency II was adopted by the European Parliament in April 2009. The proposed implementation date has been changed more than once, but is it now expected to come into force on January 1, 2016. Insurers and reinsurers have been and continue to undertake a significant amount of work to ensure that they meet the new requirements and this may divert resources from other operational roles. The Company's implementation plans are well underway, as Lloyd's has decreed that businesses in the Lloyd's market must be fully Solvency II compliant by January 1, 2015.

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

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

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

The failure of Lloyd's to satisfy the PRA's annual solvency test could result in limitations on managing agents' ability, including Talbot's ability to underwrite or the commencement of legal proceedings against Lloyd's.

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

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

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

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

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

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

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

Risks Related to Taxation

Our non U.S companies may be subject to U.S. tax.

We intend to operate in such a manner that none of our non-U.S. companies would be considered engaged in a U.S. trade or business. No definitive standards, however, are provided by the Internal Revenue Code of 1986, as amended (the "Code"), U.S. Treasury regulations or court decisions regarding activities that constitute the conduct of a U.S. trade or business. Because that determination is essentially factual, there can be no assurance that the Internal Revenue Service (the "IRS") will not contend that we are engaged in a U.S. trade or business. If we were found to be so engaged, we could be subject to U.S. corporate income and branch profits tax on our earnings that are effectively connected to such U.S. trade or business.

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

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

Controlled Foreign Corporation Status: The Company should not be a controlled foreign corporation (“CFC”) because its organizational documents provide that if the common shares owned, directly, indirectly or by attribution, by any person would otherwise represent more than 9.09% of the aggregate voting power of all the Company’s common shares, the voting rights attached to those common shares will be reduced so that such person may not exercise and is not attributed more than 9.09% of the total voting power of the common shares. There can be no assurance, however, that the provisions of the Organizational Documents will operate as intended and that the Company will not be considered a CFC. If the Company were considered a CFC, any shareholder that is a U.S. person that owns directly, indirectly or by attribution, 10% or more of the voting power of the Company may be subject to current U.S. income taxation at ordinary income tax rates on all or a portion of the Company’s undistributed earnings and profits attributable to the Company’s insurance and reinsurance income, including underwriting and investment income. Any gain realized on sale of common shares by such shareholder may also be taxed as a dividend to the extent of the Company’s earnings and profits attributed to such shares during the period that the shareholder held the shares and while the Company was a CFC (with certain adjustments).

Related Person Insurance Income: If the related person insurance income (“RPII”) of any of the Company’s non-U.S. insurance subsidiaries were to equal or exceed 20% of that subsidiary’s gross insurance income in any taxable year, and U.S. persons were treated as owning 25% or more of the subsidiary’s stock, by vote or value, a U.S. person who directly or indirectly owns any common shares on the last day of such taxable year on which the 25% threshold is met would be required to include in income for U.S. federal income tax purposes that person’s ratable share of that subsidiary’s RPII for the taxable year. The amount to be included in income is determined as if the RPII were distributed proportionately to U.S. shareholders on that date, regardless of whether that income is distributed. The amount of RPII to be included in income is limited by such shareholder’s share of the subsidiary’s current-year earnings and profits, and possibly reduced by the shareholder’s share of prior year deficits in earnings and profits. The amount of RPII earned by a subsidiary will depend on several factors, including the identity of persons directly or indirectly insured or reinsured by that subsidiary. Although we do not believe that the 20% threshold will be met for our non-U.S. insurance subsidiaries, some of the factors that might affect that determination in any period may be beyond our control. Consequently, we cannot assure that we will not exceed the RPII threshold in any taxable year.

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

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

If the Company is considered a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes, a U.S. holder who owns common shares will be subject to adverse tax consequences, including a greater tax liability than might otherwise apply and an interest charge on certain taxes that are deferred as a result of the Company’s non-U.S. status. We currently do not expect that the Company will be a PFIC for U.S. federal income tax purposes in the current taxable year or the foreseeable future because, through Validus Reinsurance, Ltd., Talbot 2002

Underwriting Capital Ltd., Validus Reinsurance (Switzerland) Ltd. and Talbot Underwriting Ltd., it intends to be predominantly engaged in the active conduct of a global insurance and reinsurance business. We cannot assure you, however, that the Company will not be deemed to be a PFIC by the IRS. No regulations currently exist regarding the application of the PFIC provisions to an insurance company.

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

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

In addition, the U.S. federal income tax laws and interpretations, including those regarding whether a company is engaged in a U.S. trade or business or is a PFIC, or whether U.S. holders would be required to include “subpart F income” or RPII in their gross income, are subject to change, possibly on a retroactive basis. No regulations regarding the application of the PFIC rules to insurance companies are currently in effect, and the regulations regarding RPII are still in proposed form. New regulations or

pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when, or in what form, such regulations or pronouncements may be provided, and whether such guidance will have a retroactive effect. On November 19, 2013, Senate Finance Committee Chairman Max Baucus (D-MT) released a tax reform discussion draft on international tax issues. While the majority of the discussion draft focuses on the taxation of international operations of U.S. based multinationals, certain provisions could impact non-U.S. based insurers to the extent such insurers have U.S. shareholders. The provisions in the discussion draft would change the definition of a U.S. shareholder for controlled foreign corporation (“CFC”) purposes and overhaul the passive foreign investment company (“PFIC”) rules, including eliminating the PFIC exception for certain insurance companies. The Obama administration’s proposed budget for Fiscal Year 2014 could disallow a deduction for premiums paid for reinsurance.

Insurance companies are generally allowed a deduction for premiums paid for reinsurance. The proposed U.S. budget for fiscal year 2014 contains a proposal that denies an insurance company a deduction for premiums and other amounts paid to affiliated foreign companies with respect to reinsurance of property and casualty risks to the extent that the foreign reinsurer (or its parent company) is not subject to U.S. income tax with respect to the premiums received. Furthermore, the proposed law would exclude from the insurance company’s income (in the same proportion in which the premium deduction was denied) any return premiums, ceding commissions, reinsurance recovered, or other amounts received with respect to reinsurance policies for which a premium deduction is wholly or partially denied. Based on the information currently available to us, it is uncertain to what extent this legislation will adversely impact us. It should be noted that similar proposals were included in the discussion draft on international tax issues from Senate Finance Committee Chairman Max Baucus (D-MT).

We may become subject to taxes in Bermuda after March 31, 2035, which may have a material adverse effect on our results of operations.

Under current Bermuda law, we are not subject to tax on income or capital gains. We have received from the Minister of Finance under The Exempted Undertaking Tax Protection Act 1966, as amended, an assurance that, in the event that Bermuda enacts legislation imposing tax computed on profits, income, any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance, then the imposition of any such tax shall not be applicable to us or to any of our operations or shares, debentures or other obligations, until March 31, 2035. We could be subject to taxes in Bermuda after that date. This assurance is subject to the provision that it is not to be construed to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 or otherwise payable in relation to any property leased to us. The Company’s Bermuda-domiciled subsidiaries each pay annual Bermuda government fees and each Bermuda subsidiary licensed insurer and reinsurer pays an annual insurance license fee. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

The impact of Bermuda’s letter of commitment to the OECD to eliminate harmful tax practices is uncertain and could adversely affect our tax status in Bermuda.

The OECD has published reports and launched a global initiative among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. Bermuda was not listed in the most recent report as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices, to embrace international tax standards for transparency, to exchange information and to eliminate an environment that attracts business with no substantial domestic activity. We are not able predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

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

We intend to operate in such a manner that none of our non-U.K. companies would be resident in the U.K. for tax purposes. A company incorporated outside the U.K. will be deemed resident if its business is centrally managed and controlled from the U.K. The concept of central management and control is not defined in statute but derives from case law and the determination of residence is subjective, therefore the Inland Revenue might contend successfully that one or more of our companies are resident in the U.K.

Furthermore, we intend to operate in such a manner that none of our non-U.K. companies carry on a trade wholly or partly in the U.K.. Case law has held that whether or not a trade is being carried on is a matter of fact and emphasis is placed on where operations take place from which the profits in substance arise. This judgment is subjective. The Inland Revenue might contend successfully that one or more of our non-U.K. companies, is conducting business in the U.K. For tax purposes, a non-U.K. tax resident company will only be subject to corporation tax if it carries on a trade in the U.K. through a permanent establishment. However, that company will still have an income tax liability if it carries on a trade in the U.K., even absent a permanent establishment, unless that company is treaty-protected.

On July 17, 2013, the U.K. government passed the Finance Act 2013 which reduced the corporate income tax rate from 23% to 21% (effective April 1, 2014) and provided for a further reduction in the corporate income tax rate from 21% to 20% (effective April 1, 2015).

We may become subject to taxation on profits generated in Bermuda as a result of the OECD's plan on "Base erosion and profit shifting"

In 2013, the Organization for Economic Cooperation and Development ("OECD") published an 'Action Plan on Base Erosion and Profit Shifting.' The plan proposes the development of rules to prevent Base Erosion and Profit Shifting which may drive fundamental changes in the perception of tax structuring and transfer pricing by tax authorities. The action plan includes adopting transfer pricing rules or special measures to ensure that returns will not accrue to an entity solely because it has contractually assumed risks or has provided capital. The action plan will likely put a much greater emphasis on the location of individuals and their contributions towards profit generation. This would notably result in a significant change to the existing transfer pricing rules and would potentially have a significant impact on the allocation of taxable profits throughout the Company. As a consequence, profits currently generated in Bermuda may become subject to taxation outside Bermuda.

Our non-Swiss companies may be subject to taxation in Switzerland.

None of our newly acquired companies, except for Validus Reinsurance (Switzerland) Ltd. (formerly Flagstone Reassurance Suisse SA) and Flagstone Management S.A. are incorporated or managed in Switzerland. Accordingly, none of our other companies should be liable for Swiss corporation taxation unless it carries on business through a permanent establishment in Switzerland. From a Swiss tax perspective, a permanent establishment is a fixed place of business through which a company performs business activities that are considered as being quantitatively and qualitatively significant by the tax authorities, and may include a branch, office, agency or place of management. As of the date of this Annual Report, each of our non-Swiss companies intends to operate in such a manner so that none of our non-Swiss companies will carry on business through a permanent establishment in Switzerland. If any of our companies were to be treated as carrying on business in Switzerland through a branch or agency or of having a permanent establishment in Switzerland, our results of operations could be adversely affected.

Risks Related to Laws and Regulations Applicable to Us

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

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

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

Our international business is subject to applicable laws and regulations relating to sanctions and foreign corrupt practices, the violation of which could adversely affect our operations.

We must comply with all applicable economic sanctions and anti-bribery laws and regulations of the United States and other foreign jurisdictions where we operate, including the United Kingdom and the European Community.

United States laws and regulations applicable to us include the economic trade sanctions laws and regulations administered by the United States Department of the Treasury's Office of Foreign Assets Control ("OFAC") as well as certain laws administered by the United States Department of State. In addition, we are subject to the Foreign Corrupt Practices Act ("FCPA") and other anti-bribery laws such as the UK Bribery Act that generally bar corrupt payments or unreasonable gifts to foreign governments or officials. Although we have policies and controls in place that are designed to ensure compliance with these laws and regulations, it is possible that an employee or intermediary could fail to comply with applicable laws and regulations. In such event, we could be exposed to civil penalties, criminal penalties and other sanctions, including fines or other punitive actions. In addition, such violations could damage our

business and/or our reputation. Such criminal or civil sanctions, penalties, other sanctions, and damage to our business and/or reputation could have a material adverse effect on our financial condition and results of operations.

Risks Related to Ownership of Our Common Shares

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

We conduct substantially all of our operations through subsidiaries. Our ability to meet our ongoing cash requirements, including any debt service payments or other expenses, and pay dividends on our common shares in the future, will depend on our ability to obtain cash dividends or other cash payments or obtain loans from these subsidiaries and as a result will depend on the financial condition of these subsidiaries. The inability of these subsidiaries to pay dividends in an amount sufficient to enable us to meet our cash requirements could have a material adverse effect on us and the value of our common shares. Each of these subsidiaries is a separate and distinct legal entity that has no obligation to pay any dividends or to lend or advance us funds and may be restricted from doing so by contract, including other financing arrangements, charter provisions or applicable legal and regulatory requirements or rating agency constraints. The payment of dividends by these subsidiaries to us is limited under Bermuda and U.K. laws and regulations. The Insurance Act provides that our Bermuda Class 3B and 4 insurance subsidiaries may not declare or pay in any financial year dividends of more than 25% of their total statutory capital and surplus (as shown on their statutory balance sheets in relation to the previous financial year) unless they file an affidavit with the BMA at least seven days prior to the payment signed by at least two directors and such subsidiary's principal representative, stating that in their opinion such subsidiaries will continue to satisfy the required margins following declaration of those dividends, though there is no additional requirement for BMA approval. In addition, before reducing its total statutory capital by 15% or more (as set out in its previous years' statutory financial statements) each of our Class 3A and Class 4 insurance subsidiaries must make application to the BMA for permission to do so, such application to consist of an affidavit signed by at least two directors and such subsidiary's principal representative stating that in their opinion the proposed reduction in capital will not cause such subsidiaries to fail to meet its relevant margins, and such other information as the BMA may require. Each of our Class 3 insurance subsidiaries must make application to the BMA before reducing its total statutory capital by 15% or more and should provide such information as the BMA may require. As at December 31, 2013, the regulated subsidiaries have the ability to distribute up to \$515.4 million of unrestricted net assets as dividend payments and/or return of capital to Validus Holdings, Ltd. without prior regulatory approval.

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

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

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

As of February 14, 2014 (but without giving effect to unvested restricted shares), we had 93,363,830 common shares outstanding and 5,296,056 shares issuable upon exercise of outstanding warrants. Approximately 5,245,518 of these outstanding shares were subject to the volume limitations and other conditions of Rule 144 under the Securities Act of 1933, as amended, which we refer to as the "Securities Act." Furthermore, certain of our sponsoring shareholders and their transferee's have the right to require us to register these common shares under the Securities Act for sale to the public, either in an independent offering pursuant to a demand registration or in conjunction with a public offering, subject to a "lock-up" agreement of no more than 90 days. Following any registration of this type, the common shares to which the registration relates will be freely transferable. In addition, we have filed one or more registration statements on Form S-8 under the Securities Act to register common shares issued or reserved for issuance under our 2005 Long Term Incentive Plan (the "Plan"). The number of common shares that have

been reserved for issuance under the Plan is equal to 13,126,896 of which 1,768,372 shares remain available as of December 31, 2013. We cannot predict what effect, if any, future sales of our common shares, or the availability of common shares for future sale, will have on the market price of our common shares. Sales of substantial amounts of our common shares in the public market, or the perception that sales of this type could occur, could depress the market price of our common shares and may make it more difficult for our shareholders to sell their common shares at a time and price that they deem appropriate.

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

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

Our Board of Directors is divided into three classes of directors. Each year one class of directors is elected by the shareholders for a three year term. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our shareholders.

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

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote at all meetings of shareholders. However, if, and for so long as, the common shares of a shareholder, including any votes conferred by "controlled shares" (as defined below), would otherwise represent more than 9.09% of the aggregate voting power of all common shares entitled to vote on a matter, including an election of directors, the votes conferred by such shares will be reduced by whatever amount is necessary such that, after giving effect to any such reduction (and any other reductions in voting power required by our Bye-laws), the votes conferred by such shares represent 9.09% of the aggregate voting power of all common shares entitled to vote on such matter. "Controlled shares" include, among other things, all shares that a person is deemed to own directly, indirectly or constructively (within the meaning of Section 958 of the Code, or Section 13(d) (3) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act")). At December 31, 2013, there were 98,729,057 common shares, of which 8,974,471 common shares would confer votes that represent 9.09% of the aggregate voting power of all common shares entitled to vote generally at an election of directors. An investor who does not hold, and is not deemed under the provisions of our Bye-laws to own, any of our common shares may therefore purchase up to such amount without being subject to voting cutback provisions in our Bye-laws.

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

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

The BMA must approve all issuances and transfers of securities of a Bermuda exempt company except where a general permission applies under the Exchange Control Act 1972 and related regulations. We have received permission from the BMA to issue our common shares and securities, and for the free transferability of our common shares and securities, as long as the common shares are listed on the New York Stock Exchange or other appointed exchange, to and among persons who are residents and non-residents of Bermuda for exchange control purposes. Any other transfers remain subject to approval by the BMA and such approval may be denied or delayed. Additionally issuances and transfers of voting or controlling shares of Bermuda registered insurance subsidiaries requires application to, or notification to, the BMA Insurance Division (depending on the circumstances) pursuant to the

Insurance Act.

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

The Companies Act 1981 (the “Companies Act”), which applies to us, differs in material respects from laws generally applicable to U.S. corporations and their shareholders. Taken together with the provisions of our Bye-laws, some of these differences may result in a shareholder having greater difficulties in protecting its interests as a shareholder of our company than it would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction

with our Company, what approvals are required for business combinations by our Company with a large shareholder or a wholly owned subsidiary, what rights a shareholder may have as a shareholder to enforce specified provisions of the Companies Act or our Bye-laws, and the circumstances under which we may indemnify our directors and officers. We are a Bermuda company and it may be difficult for our shareholders to enforce judgments against us or against our directors and executive officers.

We were incorporated under the laws of Bermuda and our business is based in Bermuda. In addition, certain of our directors and officers reside outside the United States, and a portion of our assets and the assets of such persons may be located in jurisdictions outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon us or those persons, or to recover against us or them on judgments of U.S. courts, including judgments predicated upon the civil liability provisions of the U.S. federal securities laws. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S. federal securities laws because these laws have no extraterritorial application under Bermuda law and do not have force of law in Bermuda; however, a Bermuda court may impose civil liability, including the possibility of monetary damages, on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law. Currently, of our executive officers, Kean Driscoll, Jeffrey Sangster, Robert Kuzloski, Michael Moore and Lixin Zeng reside in Bermuda, Edward Noonan, John Hendrickson, Romel Salam, Andrew Kudera and Jonathan Ritz maintain residences in both Bermuda and the United States and Rupert Atkin resides in the United Kingdom. Of our directors, Edward Noonan and John Hendrickson maintain residences in both Bermuda and the United States, Jean-Marie Nessi resides in France, Michael Carpenter resides in the United Kingdom and the remainder reside in the United States.

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company and its subsidiaries currently occupy office space as described below. As a result of the Flagstone acquisition, we own office space and buildings in Hyderabad, India, Martigny, Switzerland and Luxembourg. We believe our current facilities and the leaseholds with respect thereto are sufficient for us to conduct our operations.

Legal entity	Location	Expiration date
Validus Holdings, Ltd. and Validus Reinsurance, Ltd.	Pembroke, Bermuda	December 31, 2021
Validus Research Inc.	Waterloo, Canada	March 31, 2015
Validus Research Inc.	Toronto, Canada	February 29, 2024
Validus Reaseguros, Inc.	Miami, Florida, USA	April 1, 2018
Validus Services, Inc.	New York, New York, USA	November 8, 2015
Talbot Underwriting Services (U.S.) Ltd.	New York, New York, USA	November 8, 2015
Validus Re Americas (New Jersey), Inc.	Princeton, New Jersey, USA	June 30, 2022
Talbot Holdings Ltd. and Talbot Underwriting Services Ltd.	London, England	June 22, 2024
Validus Reinsurance, Ltd.	Republic of Singapore	August 31, 2016
Talbot Risk Services PTE Ltd.	Republic of Singapore	December 31, 2015
Talbot Underwriting (MENA) Ltd.	Dubai, United Arab Emirates	January 31, 2017
Validus Re Chile S.A.	Santiago, Chile	May 1, 2014
Validus Reinsurance (Switzerland) Ltd.	Zurich, Switzerland	January 31, 2019
Flagstone Management Services (Halifax) Limited	Halifax, Canada	July 31, 2014
Flagstone Reinsurance Holdings Limited	Hamilton, Bermuda	September 30, 2015

Item 3. Legal Proceedings

During the normal course of business, the Company and its subsidiaries are subject to litigation and arbitration. Legal proceedings such as claims litigation are common in the insurance and reinsurance industry in general. The Company and its subsidiaries may be subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on reinsurance treaties or contracts or insurance policies.

Litigation typically can include, but is not limited to, allegations of underwriting errors or misconduct, employment claims, regulatory activity, shareholder disputes or disputes arising from business ventures. These events are difficult, if not impossible, to predict with certainty. It is Company policy to dispute all allegations against the Company and/or its subsidiaries that management believes are without merit.

As at December 31, 2013, the Company was not a party to, or involved in any litigation or arbitration that it believes could have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

Executive Officers of the Company

The following table provides information regarding our executive officers and key employees as of February 18, 2014:

Name	Age	Position
Edward J. Noonan	55	Chairman of the Board of Directors and Chief Executive Officer of the Validus Group
Jeffrey D. Sangster	41	Executive Vice President and Chief Financial Officer
C.N. Rupert Atkin	55	Chief Executive Officer of the Talbot Group
Kean D. Driscoll	40	Executive Vice President and Chief Executive Officer of Validus Reinsurance, Ltd.
John J. Hendrickson	53	Director of Strategy, Risk Management and Corporate Development
Andrew E. Kudera	54	Executive Vice President and Chief Actuary
Robert F. Kuzloski	50	Executive Vice President and General Counsel
Michael R. Moore	44	Executive Vice President and Chief Accounting Officer
Romel Salam	47	Executive Vice President and Chief Risk Officer
Jonathan P. Ritz	46	Executive Vice President and Chief Operating Officer
Lixin Zeng	45	Executive Vice President and Chief Executive Officer of AlphaCat Managers, Ltd. and Validus Research, Inc.

Edward J. Noonan has been Chairman of our Board and the Chief Executive Officer of the Company since its formation. Mr. Noonan has over 30 years of experience in the insurance and reinsurance industry, serving most recently as the acting Chief Executive Officer of Global Indemnity plc (NASDAQ: GBLI) from February 2005 through October 2005 and as a member of the Board of Directors from December 2003 to May 2007. Mr. Noonan served as President and Chief Executive Officer of American Re-Insurance Company from 1997 to 2002, having joined American Re in 1983. Mr. Noonan also served as Chairman of Inter-Ocean Reinsurance Holdings of Hamilton, Bermuda from 1997 to 2002. Mr. Noonan is also a Director of Central Mutual Insurance Company and All American Insurance Company, both of which are property and casualty companies based in Ohio.

Jeffrey D. Sangster has served as Executive Vice President and Chief Financial Officer of the Company since February 2013. Mr. Sangster joined the Company in October 2006 and has served in various finance positions during that time, including Chief Accounting Officer and Chief Financial Officer of Validus Reinsurance, Ltd. Mr. Sangster has 16 years of experience in the reinsurance industry and was previously with Endurance, Centre Group and Ernst & Young. Mr. Sangster is a member of the Institute of Chartered Accountants in Bermuda and the Institute of Chartered Accountants in Manitoba.

C. N. Rupert Atkin began his career at the Alexander Howden Group in 1980 before moving to Catlin Underwriting Agencies in 1984. After six years at Catlin he left to join Talbot, then Venton Underwriting Ltd to start Syndicate 1183 as Active Underwriter. In November 2001, Mr. Atkin was made Director of Underwriting. Following the sale of Talbot to Validus in the summer of 2007 Mr. Atkin was appointed as Chief Executive Officer of Talbot. Mr. Atkin has served or is still serving on a variety of market bodies including chairing the Lloyd's Underwriters' Association and Joint War Risk Committee and being a member of the Lloyd's Insurance Services Board, Lloyd's Regulatory Board, Lloyd's Professional Standards Committee and Lloyd's Charities Trust Committee. Mr. Atkin was appointed to the Council of Lloyd's in 2007, Chairman of the Lloyd's Market Association in 2012 and Deputy Chairman of Lloyd's in 2014.

Kean D. Driscoll is the Chief Executive Officer of Validus Reinsurance, Ltd., the reinsurance segment for the Validus Group. He was a founding member of the Company, and previously served as Chief Underwriting Officer. Mr. Driscoll has 17 years of experience as a reinsurance underwriter, and was previously with Quanta Re, and Zurich Re N.A. (Converium). Mr. Driscoll holds a B.A. in Literature from Colgate University and an M.B.A. from Columbia University, where he graduated with Honors.

John J. Hendrickson has been a director of the Company since its formation. In February 2013, Mr. Hendrickson joined Validus Group as Director of Strategy, Risk Management and Corporate Development. Prior to this, Mr. Hendrickson was the Founder and Managing Partner of SFRi LLC, an independent investment and advisory firm

specializing in the insurance industry. From 1995 to 2004, Mr. Hendrickson held various positions with Swiss Re, including as Member of the Executive Board, Head of Capital Partners (Swiss Re's Merchant Banking Division) and Managing Partner of Securitas Capital. From 1985 to 1995, Mr. Hendrickson was with

Smith Barney, the U.S. investment banking firm. Mr. Hendrickson has also served as a director of insurance and reinsurance companies, including serving as audit committee chair.

Andrew E. Kudera has served as Chief Actuary of the Company since January 2010. Previously, Mr. Kudera operated an independent actuarial consulting firm which served as corporate actuary and loss reserve specialist for Validus Reinsurance, Ltd. from its inception through to the end of 2008. Prior to establishing his own consulting firm, Mr. Kudera was the Chief Reserving Actuary for Endurance Specialty Holdings Ltd., a large international insurance and reinsurance company. Mr. Kudera has over 30 years of actuarial and financial management experience in the insurance industry, primarily in a consulting capacity. Mr. Kudera is a Fellow of the Casualty Actuarial Society, a Member of the American Academy of Actuaries, an Associate of the Society of Actuaries, and a Fellow of the Canadian Institute of Actuaries.

Robert F. Kuzloski joined the company in January 2009 and served as Executive Vice President and Chief Corporate Legal Officer of the Company until August of 2012 when he was appointed Executive Vice President and General Counsel of the Company. Prior to joining the Company in January of 2009, Mr. Kuzloski served as Senior Vice President and Assistant General Counsel of XL Capital Ltd. Prior to that, Mr. Kuzloski worked as an attorney at the law firm of Cahill Gordon & Reindel LLP where he specialized in general corporate and securities law, mergers and acquisitions and corporate finance.

Michael R. Moore serves as Executive Vice President and Chief Accounting Officer of the Company, a position he has held since June 2013. Mr. Moore has 19 years of experience, including 14 years in the insurance and reinsurance industry. Prior to this role, Mr. Moore served as a Senior Vice President, Corporate Operations at Axis Capital, Chief Accounting Officer at Endurance Specialty Holdings Ltd. and as a Senior Manager with Ernst & Young. Mr. Moore received a Bachelor of Commerce, with distinction, from the University of Alberta in 1993 and he is a Chartered Accountant and member of the Canadian Institute of Chartered Accountants.

Romel Salam serves as Executive Vice President and Chief Risk Officer of the Company, a position he has held since April 2013. He was promoted to his current role after serving for three years as Chief Actuary and Chief Risk Officer of Validus Reinsurance, Ltd, the reinsurance arm of Validus Group. Prior to joining the Company in 2010, Romel was a Senior Vice President at Transatlantic Reinsurance where he spent 20 years in positions of increasing responsibility. Romel is a Fellow of the Casualty of Actuarial Society and a Member of the American Academy of Actuaries.

Jonathan P. Ritz joined the Company in October 2010 and currently serves as Executive Vice President and Chief Operating Officer of the Company. Mr. Ritz has over 20 years of experience in the (re)insurance and brokerage industries. Most recently, Mr. Ritz served as Chief Operating Officer of IFG Companies-Burlington Insurance Group. Prior to IFG, Mr. Ritz served as Chief Operating Officer of the specialty lines division of ICAT Holdings LLC. From 2007 to 2008, Mr. Ritz was a Managing Director at Guy Carpenter and from 1997 to 2007 he held various positions with United America Insurance Group including Chief Operating Officer and Senior Vice President of ceded reinsurance.

Lixin Zeng, Ph.D., CFA serves as Executive Vice President and Chief Executive Officer of AlphaCat Managers, Ltd. and Validus Research, Inc. and has played a key role in AlphaCat since its formation in 2008. Prior to this role, he was Executive Risk Officer of Validus Reinsurance, Ltd., responsible for developing and executing the catastrophe risk strategy of the entire Validus Group. Mr. Zeng was one of the original eight employees at the founding of the Company in 2005. His prior positions include: Chief Catastrophe Risk Officer at the ACE Group from 2004 to 2005, Head of Development at Willis Re Inc. from 2001 to 2004, Analyst at EW Blanch Co. from 1998 to 2001 and Research Scientist at Arkwright Mutual Insurance Co from 1996 to 1998. Mr. Zeng has expertise in insurance portfolio optimization and risk management and has published multiple articles in professional journals on related topics. He has a Ph.D. in atmospheric sciences from the University of Washington where he graduated in 1996. He received a B.S. in Meteorology from Beijing University, graduating in 1990 and is a CFA charter holder.

Item 4. Mine Safety Disclosure—Not Applicable

PART II

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

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

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

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

	High	Low
2013:		
1st Quarter	\$37.80	\$34.20
2nd Quarter	\$40.06	\$33.40
3rd Quarter	\$37.18	\$34.10
4th Quarter	\$40.71	\$36.82
	High	Low
2012:		
1st Quarter	\$32.51	\$29.97
2nd Quarter	\$33.25	\$30.41
3rd Quarter	\$34.91	\$31.62
4th Quarter	\$37.63	\$33.11

There were approximately 45 record holders of our common shares as of December 31, 2013. This figure does not represent the actual number of beneficial owners of our common shares because such shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners.

Performance Graph

Set forth below is a line graph comparing the percentage change in the cumulative total shareholder return, assuming the reinvestment of dividends, over the five year period through December 31, 2013 as compared to the cumulative total return of the S&P 500 Stock Index and the cumulative total return of an index of the Company's peer group. The peer group index is comprised of the following companies: Alleghany Corporation, Allied World Assurance Company Holdings, Ltd., Arch Capital Group, Ltd., Argo Group International Holdings, Ltd., Aspen Insurance Holdings Limited, AXIS Capital Holdings Limited, Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., Montpelier Re Holdings Ltd., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., and RenaissanceRe Holdings Ltd.

Dividend Policy

The Company currently pays a quarterly cash dividend of \$0.30 per common share and per common share equivalent for which each outstanding warrant is exercisable (2012: \$0.25). On February 6, 2013, the Company approved an increase in its regular quarterly dividend to \$0.30 from \$0.25 per common share and common share equivalent for which each outstanding warrant is exercisable. In addition, the Company declared a special dividend in the amount of \$2.00 per common share and \$2.00 per common share equivalent for which each outstanding warrant is exercisable, which was paid on February 26, 2013 to shareholders and warrant holders of record as of February 19, 2013.

We are a holding company and have no direct operations. Our ability to pay dividends depends, in part, on the ability of our principal operating subsidiaries to pay dividends to us. As a holding company, Validus Holdings, Ltd.'s principal source of income is dividends or other sources of permitted payments from its subsidiaries. These funds provide the cash flow required for dividend payments to the Company's shareholders. As at December 31, 2013, the regulated subsidiaries have the ability to distribute up to \$515.4 million of unrestricted net assets as dividend payments and/or return of capital to Validus Holdings, Ltd. without prior regulatory approval. The Companies Act limits the Company's ability to pay dividends and distributions to shareholders. Total statutory capital and surplus and total statutory capital of our subsidiaries are relevant to the calculation of net assets that are free of restriction for the payment of dividends and/or return of capital to Validus Holdings Ltd. See "Risk Factors, Risks Related to Ownership of Our Common Shares." Because Validus Holdings, Ltd. is a holding company and substantially all of our operations are conducted by our main operating subsidiaries our ability to meet any ongoing cash requirements and to pay dividends will depend on our ability to obtain cash dividends or other cash payments or obtain loans from these subsidiaries."

Share Repurchase Program

The Company has repurchased approximately 59.6 million common shares for an aggregate purchase price of \$1,821.1 million from the inception of the share repurchase program to February 14, 2014.

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.

On February 5, 2014, the Board of Directors of the Company approved an increase to the Company's common share repurchase authorization to \$500.0 million. This amount is in addition to the \$1,774.4 million of common shares repurchased by the Company through February 5, 2014 under its previously authorized share repurchase programs. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. The remaining amount available under the current share repurchase authorization is \$453.4 million as of February 14, 2014.

Share repurchases include repurchases by the Company of shares, from time to time, from employees in order to facilitate the payment of withholding taxes on restricted shares which have vested. We repurchase these shares at their fair market value, as determined by reference to the closing price of our common shares on the day the restricted shares vested.

Share Repurchase Activity by Quarter

Effect of share repurchases:	As at December 31, 2012 (cumulative)	Quarter ended March 31, 2013	Quarter ended June 30, 2013	Quarter ended September 30, 2013
(Dollars in thousands, except share and per share amounts)				
Aggregate purchase price (a)	\$1,206,845	\$69,691	\$287,493	\$—
Shares repurchased	43,138,057	1,904,389	7,806,999	—
Average price (a)	\$27.98	\$36.59	\$36.83	\$—
Estimated net cumulative accretive (dilutive) impact on:				
BV per diluted common share (b)		\$1.80	\$1.49	\$1.97
Diluted EPS—Quarter (c)		0.49	\$0.08	\$0.58

Fourth Quarter Share Repurchase Activity

Effect of share repurchases:	As at September 30, 2013 (cumulative)	October	November	December	Quarter ended December 31, 2013
(Dollars in thousands, except share and per share amounts)					
Aggregate purchase price (a)	\$1,564,029	\$6,714	\$79,081	\$70,525	\$156,320
Shares repurchased	52,849,445	170,001	1,999,551	1,786,313	3,955,865
Average price (a)	\$29.59	\$39.49	\$39.55	\$39.48	\$39.52
Maximum number of shares that may yet be purchased under the program (d)		12,579,481	10,425,882	8,613,332	8,613,332
Estimated net cumulative accretive (dilutive) impact on:					
BV per diluted common share (b)					\$2.07
Diluted EPS—Quarter (c)					\$0.30

Effect of share repurchases:	Share Repurchase Activity Post Year End				
	As at December 31, 2013 (cumulative) (Dollars in thousands, except share and per share amounts)	January	February	As at February 14, 2014	Cumulative to Date Effect
Aggregate purchase price(a)	\$1,720,349	\$44,689	\$56,039	\$100,728	\$1,821,077
Shares repurchased	56,805,310	1,202,160	1,562,556	2,764,716	59,570,026
Average price(a)	\$30.29	\$37.16	\$35.85	\$36.43	\$30.57

(a) Share transactions are on a trade date basis through February 14, 2014 and are inclusive of commissions. Average share price is rounded to two decimal places.

(b) As the average price per share repurchased during the periods from 2009 at the inception of the share repurchase program through to 2013 was lower than the book value per common share, the repurchase of shares increased the ending book value per share.

(c) The estimated impact on earnings per diluted share was calculated by comparing reported results versus i) net income per share plus an estimate of lost net investment income on the cumulative share repurchases divided by ii) weighted average diluted shares outstanding excluding the weighted average impact of cumulative share repurchases. The impact of cumulative share repurchases was accretive to earnings per diluted share.

(d) The maximum number of shares that may yet be purchased under the program is calculated using the month end closing price.

Item 6. Selected Financial Data

The summary Consolidated Statements of Comprehensive Income data for the years ended December 31, 2013, December 31, 2012, December 31, 2011, December 31, 2010 and December 31, 2009 and the summary Consolidated Balance Sheet data as of December 31, 2013, December 31, 2012, December 31, 2011, December 31, 2010 and December 31, 2009 are derived from our audited Consolidated Financial Statements. The Company was formed on October 19, 2005 and completed the acquisitions of Talbot, IPC and Flagstone on July 2, 2007, September 4, 2009 and November 30, 2012, respectively. IPC is included in the Company's consolidated results for the four months ended December 31, 2009 and for subsequent fiscal year ends. Flagstone is included in the Company's consolidated results for the one month ended December 31, 2012 and for the subsequent fiscal year end.

	Years Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands, except share and per share amounts)				
Revenues					
Gross premiums written	\$2,401,106	\$2,166,440	\$2,124,691	\$1,990,566	\$1,621,241
Reinsurance premiums ceded	(372,585)	(307,506)	(289,241)	(229,482)	(232,883)
Net premiums written	2,028,521	1,858,934	1,835,450	1,761,084	1,388,358
Change in unearned premiums	73,524	14,282	(33,307)	39	61,219
Net premiums earned	2,102,045	1,873,216	1,802,143	1,761,123	1,449,577
Gain on bargain purchase, net of expenses (a)	—	17,701	—	—	287,099
Net investment income	96,072	107,936	112,296	134,103	118,773
Realized gain on repurchase of debentures	—	—	—	—	4,444
Net realized gains (losses) on investments	3,258	18,233	28,532	32,498	(11,543)
Net unrealized (losses) gains on investments	(58,481)	17,585	(19,991)	45,952	84,796

Edgar Filing: VALIDUS HOLDINGS LTD - Form 10-K

Income (loss) from investment affiliate	4,790	(964) —	—	—
Other income	8,343	22,396	5,718	5,219	4,634
Foreign exchange gains (losses)	2,505	4,798	(22,124	) 1,351	(674
Total revenues	2,158,532	2,060,901	1,906,574	1,980,246	1,937,106
Expenses					
Losses and loss expenses	793,932	999,446	1,244,401	987,586	523,757
Policy acquisition costs	360,310	334,698	314,184	292,899	262,966
General and administrative expenses	315,265	263,652	197,497	209,290	185,568
Share compensation expenses	27,630	26,709	34,296	28,911	27,037
Finance expenses	64,177	53,857	54,817	55,870	44,130
Transaction expenses (b)	—	—	17,433	—	—
Total expenses	1,561,314	1,678,362	1,862,628	1,574,556	1,043,458

51

Income before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	597,218	382,539	43,946	405,690	893,648	
Tax (expense) benefit	(383)	(2,501)	(824)	(3,126)	3,759	
Income from operating affiliates (Income) attributable to operating affiliate investors	14,289	12,580	—	—	—	
Net income	(68,763)	—	—	—	—	
Net (income) loss attributable to noncontrolling interest	542,361	392,618	43,122	402,564	897,407	
Net income available to Validus	(9,695)	15,820	(21,793)	—	—	
Other comprehensive (loss) income	532,666	408,438	21,329	402,564	897,407	
Foreign currency translation adjustments	(1,954)	3,648	(1,146)	(604)	3,007	
Comprehensive income available to Validus	\$530,712	\$412,086	\$20,183	\$401,960	\$900,414	
Earnings per share						
Weighted average number of common shares and common share equivalents outstanding						
Basic	102,202,274	97,184,110	98,607,439	116,018,364	93,697,194	
Diluted	103,970,289	102,384,923	100,928,284	120,630,945	97,168,409	
Basic earnings per share available to common shareholders	\$5.02	\$4.13	\$0.14	\$3.41	\$9.51	
Earnings per diluted share available to common shareholders	\$4.94	\$3.99	\$0.14	\$3.34	\$9.24	
Cash dividends declared per share	\$3.20	\$1.00	\$1.00	\$0.88	\$0.80	
Selected financial ratios						
Loss and loss expense ratio (c)	37.8	% 53.4	% 69.1	% 56.1	% 36.1	%
Policy acquisition cost ratio (d)	17.1	% 17.9	% 17.4	% 16.6	% 18.1	%
General and administrative expense ratio (e)	16.3	% 15.5	% 12.9	% 13.5	% 14.7	%
Expense ratio (f)	33.4	% 33.4	% 30.3	% 30.1	% 32.8	%
Combined ratio (g)	71.2	% 86.8	% 99.4	% 86.2	% 68.9	%
Return on average equity (h)	14.0	% 11.3	% 0.6	% 10.8	% 31.8	%

The following table sets forth summarized balance sheet data as of December 31, 2013, 2012, 2011, 2010 and 2009:

	As at December 31,				
	2013	2012	2011	2010	2009
	(Dollars in thousands, except share and per share amounts)				
Summary Balance Sheet Data:					
Investments at fair value	\$6,912,352	\$6,764,032	\$5,191,123	\$5,118,859	\$5,388,759
Cash and cash equivalents	1,056,346	1,219,379	832,844	620,740	387,585
Total assets	9,846,432	10,020,264	7,618,471	7,060,878	7,019,140
Reserve for losses and loss expenses	3,030,399	3,517,573	2,631,143	2,035,973	1,622,134
Unearned premiums	824,496	894,362	772,382	728,516	724,104
Senior notes payable	247,198	247,090	246,982	246,874	—
Debentures payable	541,416	540,709	289,800	289,800	289,800
Total shareholders' equity	4,201,751	4,455,107	3,448,425	3,504,831	4,031,120
Book value per common share (i)	38.57	37.26	34.67	35.76	31.38
Book value per diluted common share (j)	36.23	35.22	32.28	32.98	29.68

(a) The gain on bargain purchase, net of expenses, arose from the acquisitions of Flagstone on November 30, 2012 and IPC on September 4, 2009 and is net of transaction related expenses.

The transaction expenses relate to costs incurred in connection with the Company's proposed acquisition of Transatlantic Holdings, Inc. Transaction expenses are primarily comprised of legal, financial advisory and audit related services.

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

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

(e) The general and administrative expense ratio is calculated by dividing the sum of general and administrative expenses and share compensation expenses by net premiums earned.

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

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

(h) Return on average equity is calculated by dividing the net income available to Validus for the period by the average of the beginning, ending and intervening quarter end shareholders' equity available to Validus balances.

(i) Book value per common share is defined as total shareholders' equity available to Validus divided by the number of common shares outstanding as at the end of the period, giving no effect to dilutive securities.

Book value per diluted common share is calculated based on total shareholders' equity available to Validus plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares,

(j) unvested restricted shares, options and warrants outstanding (assuming their exercise). Book value per diluted common share is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

The above summary consolidated financial information should be read together with the other information contained in this Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere herein.

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

The following is a discussion and analysis of the Company's consolidated results of operations for the years ended December 31, 2013, 2012 and 2011 and the Company's consolidated financial condition, liquidity and capital resources at December 31, 2013 and 2012. This discussion and analysis should be read in conjunction with the Company's audited Consolidated Financial Statements and related notes thereto included elsewhere within this filing. For a variety of reasons, the Company's historical financial results may not accurately indicate future performance. See "Cautionary Note Regarding Forward-Looking Statements." The Risk Factors set forth in Item 1A above present a discussion of important factors that could cause actual results to differ materially from the results described in or

implied by the forward-looking statements contained herein.

Executive Overview

The Company conducts its operations worldwide through three operating segments which have been determined under U.S. GAAP segment reporting to be Validus Re, AlphaCat and Talbot. Validus Re is a Bermuda-based reinsurance segment focused on short tail lines of reinsurance. AlphaCat is a Bermuda-based investment adviser, managing capital from third parties and the Company in insurance linked securities and other investments in the property catastrophe reinsurance space. Talbot is a specialty insurance segment, primarily operating within the Lloyd's insurance market through Syndicate 1183.

The Company's strategy is to concentrate primarily on short-tail risks, which has been an area where management believes 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 April 2, 2012, the Company capitalized PaCRE, a Class 4 Bermuda reinsurer formed for the purpose of writing high excess property catastrophe reinsurance. PaCRE was funded with \$500.0 million of contributed capital, of which the Company invested \$50.0 million in PaCRE's common equity. On May 1, 2013, PaCRE was funded with an additional \$58.5 million in contributed capital from a third party investor and \$6.5 million from the Company. The Company underwrites business for PaCRE, for which it is paid a profit commission based on PaCRE's underwriting results. As the Company holds a majority of PaCRE's outstanding voting rights, the financial statements of PaCRE are included in the Consolidated Financial Statements of the Company and its results are reported within the AlphaCat segment. The portion of PaCRE's earnings attributable to third party investors is recorded in the consolidated Statements of Comprehensive Income as "Net (income) loss attributable to noncontrolling interest."

On November 30, 2012, the Company acquired all of the outstanding shares of Flagstone, strengthening the Company's leading property catastrophe reinsurance and short-tail specialty insurance platform. As part of this acquisition, the Company acquired Flagstone Reassurance Suisse, SA, and renamed it Validus Reinsurance (Switzerland) Ltd. ("Validus Re Swiss"). Validus Re Swiss is based in Zurich, Switzerland. Through this local presence, the Company is in a position to closely follow and respond effectively to the changing needs of the various European and Bermuda insurance markets. During October 2013, the Company completed the sale of its wholly owned subsidiary, Flagstone Alliance Insurance and Reinsurance plc.

On April 25, 2013, the Company acquired Longhorn Re, Ltd. (renamed Validus Re Americas, Ltd.), a single contract Bermuda-domiciled crop reinsurer.

On December 20, 2013, the Company joined with other investors in capitalizing AlphaCat 2014, a special purpose vehicle formed for the purpose of investing in collateralized reinsurance and retrocessional contracts. The Company has an equity interest and voting rights in AlphaCat 2014 which is below 50%, therefore the investment in AlphaCat 2014 is included as an equity method investment in the Consolidated Financial Statements of the Company.

Business Outlook and Trends

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

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

Property and other reinsurance premiums have historically risen in the aftermath of significant catastrophic losses. As loss reserves are established, industry surplus is depleted and the industry's capacity to write new business diminishes. At the same time, management believes that there is a heightened awareness of exposure to natural catastrophes on the part of cedants, rating agencies and catastrophe modeling firms, resulting in an increase in the demand for reinsurance protection. The global property and casualty insurance and reinsurance industry has historically been highly cyclical. Since 2007, increased capital provided by new entrants or by the commitment of capital by existing insurers and reinsurers increased the supply of insurance and reinsurance which resulted in a softening of rates on most lines. During 2010 and 2011, there was an increased level of catastrophe activity, principally the Chilean earthquake, Deepwater Horizon, Tohoku and Christchurch earthquake events, but the Company continues to see increased competition and decreased premium rates in most classes of business.

During the January 2012 renewal season, the Validus Re segment showed rate improvement relative to 2011. This improvement was largely due to the large catastrophe loss activity during 2011. During the first quarter of 2012, Talbot experienced rate increases in loss affected lines without seeing a systemic rise in rates across all lines. During the July 2012 renewal period, the Validus Re segment experienced rate improvements in the U.S. property lines while European and Latin American property rates were unchanged. The Talbot segment experienced a rate increase of approximately 3% against a planned rate movement of 2% across the portfolio, with marine treaty, property and energy related lines outperforming the plan.

During the January 2013 renewal season, the Validus Re and AlphaCat segments underwrote \$655.7 million in gross premiums written, an increase of 12.7% from the prior year period. This increase was driven primarily by an increase in gross premiums written in the specialty lines. This renewal data does not include Talbot's operations as its business is distributed relatively evenly throughout the year. During the mid-year 2013 renewal period, the Validus Re segment experienced rate softening across U.S. and international property lines. The Talbot segment experienced relatively flat rate price movements in the year ended December 31, 2013 with increases being generated by the onshore energy, marine treaty and marine liability accounts offset by decreases generated by aviation accounts and the remainder of the treaty portfolio.

During the January 2014 renewal season, the Validus Re and AlphaCat segments underwrote \$575.2 million in gross premiums written, a decrease of 3.2% from the prior period, excluding the impact of the agriculture business in both years. This decrease was primarily driven by a challenging rate environment in our U.S. property catastrophe business, which experienced a reduction in rates of approximately 12.5%.

Financial Measures

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

(Dollars in thousands, except per share amounts and ratios)	Years Ended		
	December 31,		
	2013	2012	2011
Underwriting income	\$604,908	\$248,711	\$11,765
Net operating income attributable to Validus	578,672	333,832	52,345
Book value per diluted common share	36.23	35.22	32.28
Book value per diluted common share plus accumulated dividends	43.91	39.70	35.76
Return on average equity	14.0	% 11.3	% 0.6

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), gain on bargain purchase, net of expenses and transaction 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 is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

Net operating income attributable to Validus is defined as net income excluding net realized and unrealized gains (losses) on investments, income (loss) from investment affiliate, foreign exchange gains (losses), non-recurring items and income (loss) available (attributable) to noncontrolling interest. This measure focuses on the underlying fundamentals of our operations without the influence of gains (losses) from the sale of investments, translation of non-\$U.S.currencies and non-recurring items. Net operating income is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

Book value per diluted common share is considered by management to be an appropriate measure of our returns to common shareholders, as we believe growth in book value on a diluted basis ultimately translates into growth in stock price. Book value per diluted common share after dividends paid, increased by \$1.01, or 2.9%, from \$35.22 at December 31, 2012 to \$36.23 at December 31, 2013. The increase was primarily due to net income available to Validus, offset by the special dividend of \$2.00 per share and quarterly dividends of \$0.30 per share which were paid during the year ended December 31, 2013. Book value per diluted 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 and options and warrants outstanding (assuming their exercise). Book value per diluted common share is a non-GAAP financial measure, as described in more detail in the section entitled “Non-GAAP Financial Measures.”

Book value per diluted common share plus accumulated dividends is considered by management to be an even more appropriate measure of our returns to common shareholders than book value per diluted common share, as we believe growth in book value on a diluted basis, plus the dividends that have accumulated, ultimately translates into the return that a shareholder will

receive. Book value per diluted common share plus accumulated dividends increased by \$4.21, or 10.6%, from \$39.70 at December 31, 2012 to \$43.91 at December 31, 2013. Cash dividends per common share are an integral part of the value created for shareholders. The Company paid quarterly cash dividends of \$0.30 per common share and common share equivalent in each of the four quarters of 2013 and a special dividend in the amount of \$2.00 per common share and \$2.00 per common share equivalent for which each outstanding warrant is exercisable, in February 2013. On February 5, 2014, the Company announced a quarterly cash dividend to \$0.30 per common share and \$0.30 per common share equivalent for which each outstanding warrant is exercisable, payable on March 31, 2014 to holders of record on March 14, 2014. Book value per diluted common share plus accumulated dividends is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

Return on average equity represents the return generated on common shareholders' capital during the period. Return on average equity is calculated by dividing the net income available to Validus for the period by the average shareholders' equity available to Validus during the period. Average shareholders' equity is the average of the beginning, ending and intervening quarter end shareholders' equity balances. The Company's objective is to generate superior returns on capital that appropriately reward shareholders for the risks assumed. The increase in return on average equity was driven by an increase in net income available to Validus for the year ended December 31, 2013 and a reduction in shareholders' equity as a result of share repurchases during the year. Net income available to Validus for the year ended December 31, 2013 increased by \$124.2 million, compared to the year ended December 31, 2012 due primarily to the decreased impact of notable loss events for the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Fourth Quarter 2013 Summarized Consolidated Results of Operations

Gross premiums written for the three months ended December 31, 2013 were \$237.3 million compared to \$311.8 million for the three months ended December 31, 2012, a decrease of \$74.6 million, or 23.9%.

Net premiums earned for the three months ended December 31, 2013 were \$492.2 million compared to \$499.3 million for the three months ended December 31, 2012, a decrease of \$7.0 million, or 1.4%.

Underwriting income for the three months ended December 31, 2013 was \$110.4 million compared to an underwriting loss of (\$113.1) million for the three months ended December 31, 2012, an increase of \$223.4 million, or 197.6%.

Combined ratio for the three months ended December 31, 2013 of 77.6% which included \$33.6 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 6.8 percentage points compared to a combined ratio for the three months ended December 31, 2012 of 122.7% which included \$57.2 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 11.5 percentage points.

Loss ratio for the three months ended December 31, 2013 was 41.9% compared to 91.8% for the three months ended December 31, 2012.

Loss ratios by line of business are as follows:

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012 (a)	Percentage Point Change	
Property	36.1	% 126.0	% (89.9)%
Marine	41.9	% 76.2	% (34.3)%
Specialty	52.5	% 30.2	% 22.3	%
All lines	41.9	% 91.8	% (49.9)%

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

Net investment income for the three months ended December 31, 2013 was \$24.2 million compared to \$28.8 million for the three months ended December 31, 2012, a decrease of \$4.6 million, or 16.0%.

Net operating income available to Validus for the three months ended December 31, 2013 was \$96.4 million compared to net operating loss attributable to Validus of (\$100.8) million for the three months ended December 31, 2012, an increase of \$197.2 million, or 195.6%.

Net income available to Validus for the three months ended December 31, 2013 was \$95.3 million, or \$0.93 per diluted common share compared to a loss of (\$90.7) million or (\$0.94) per diluted common share for the three months ended December 31, 2012.

Losses and loss expenses from notable loss events for the three months ended December 31, 2013 was \$nil compared to \$361.0 million for the three months ended December 31, 2012, a decrease of \$361.0 million.

Investment yield for the three months ended December 31, 2013 was 1.31% compared to 1.53% for the three months ended December 31, 2012.

Annualized return on average equity and annualized net operating return on average equity for the three months ended December 31, 2013 were 10.2% and 10.3%, respectively, compared to (9.5)% and (10.5)% for the three months ended December 31, 2012.

Further details on the fourth quarter results are as follows:

Gross premiums written decreased \$74.6 million for the three months ended December 31, 2013 compared to the three months ended December 31, 2012. This decrease primarily relates to reinstatement premiums attributable to Hurricane Sandy of \$36.4 million in the fourth quarter of 2012 and downward premium estimate adjustments for certain classes during the fourth quarter of 2013.

Net premiums earned decreased \$7.0 million for the three months ended December 31, 2013 compared to the three months ended December 31, 2012. This decrease is due to the changes in fourth quarter gross premiums written, noted above, which are offset by the increase in year to date gross premiums written of \$234.7 million which impacts fourth quarter net premiums earned. The Flagstone run-off business provided \$26.4 million of earned premium for the three months ended December 31, 2012, which was non-recurring in 2013.

During the quarter there was unfavorable loss reserve development on both the 2010 and 2011 New Zealand earthquakes of \$40.3 million and \$30.6 million, respectively. The remaining Reserve for Development on 2011 Notable Loss Events of \$29.0 million was fully allocated to the 2011 New Zealand earthquake, resulting in net unfavorable loss reserve development of \$41.9 million. The consolidated current period loss ratio, excluding notable losses and loss reserve development on prior accident years, for the three months ended December 31, 2013 was 48.7% compared to 31.0% for the three months ended December 31, 2012. This increase is largely attributable to a number of non-notable loss events that were below the \$30.0 million notable loss threshold.

Fourth Quarter 2013 Notable Loss Events (a)		Three Months Ended December 31, 2013 (Dollars in thousands)									
		Validus Re		AlphaCat		Talbot		Total			
(Dollars in thousands)	Description	Net Losses and Loss Expenses(c)	% of NPE	Net Losses and Loss Expenses(c)	% of NPE	Net Losses and Loss Expenses(c)	% of NPE	Net Losses and Loss Expenses(c)	% of NPE		
None	None	\$—	— %	\$—	— %	\$—	— %	\$—	— %		
Total		\$—	— %	\$—	— %	\$—	— %	\$—	— %		

Fourth Quarter 2012 Notable Loss Events (a)		Three Months Ended December 31, 2012 (Dollars in thousands)							
		Validus Re (b)				Talbot				Total (b)
(Dollars in thousands)	Description	Net Losses and Loss Expenses(c)	% of NPE	Net Losses and Loss Expenses(c)	% of NPE	Net Losses and Loss Expenses(c)	% of NPE	Net Losses and Loss Expenses(c)	% of NPE
Hurricane Sandy (d)	Windstorm	\$282,603	99.1 %	\$78,433	37.7 %	\$361,036	72.3 %		
Total		\$282,603	99.1 %	\$78,433	37.7 %	\$361,036	72.3 %		

(a)

These 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 in relation to the corresponding period end date, and other uncertainties inherent in loss estimation, meaningful uncertainty exists at the relevant reporting date regarding losses from these events and the Company's actual ultimate net losses from these events can vary materially from these estimates.

(b) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

(c) Net of reinsurance but not of reinstatement premiums. Total reinstatement premiums were \$0.0 million and \$30.8 million for the three months ended December 31, 2013 and December 31, 2012, respectively.

The AlphaCat segment's non-consolidated affiliates incurred loss and loss expenses of \$8.4 million related to (d) Hurricane Sandy for the three months ended December 31, 2012. These losses are not included in the table above as the entities are accounted for as investments in operating affiliates.

(e) The Company increased the threshold for disclosure of notable losses effective January 1, 2013 from \$15.0 million to \$30.0 million.

Full Year 2013 Summarized Consolidated Results of Operations and Financial Condition

Gross premiums written for the year ended December 31, 2013 were \$2.4 billion compared to \$2.2 billion for the year ended December 31, 2012, an increase of \$234.7 million, or 10.8%.

Net premiums earned for the year ended December 31, 2013 were \$2.1 billion compared to \$1.9 billion for the year ended December 31, 2012, an increase of \$228.8 million, or 12.2%.

Underwriting income for the year ended December 31, 2013 was \$604.9 million compared to \$248.7 million for the year ended December 31, 2012, an increase of \$356.2 million, or 143.2%.

Combined ratio for the year ended December 31, 2013 was 71.2%, which included \$205.4 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 9.8 percentage points, compared to 86.8%, which included \$175.0 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 9.3 percentage points, for the year ended December 31, 2012.

Loss ratio for the year ended December 31, 2013 was 37.8% compared to 53.4% for the year ended December 31, 2012.

Loss ratios by line of business are as follows:

	Year Ended December 31, 2013	Year Ended December 31, 2012 (a)	Percentage Point Change
Property	22.9	% 54.7	% (31.8)%
Marine	47.8	% 60.1	% (12.3)%
Specialty	54.6	% 40.0	% 14.6 %
All lines	37.8	% 53.4	% (15.6)%

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

Net investment income for the year ended December 31, 2013 was \$96.1 million compared to \$107.9 million for the year ended December 31, 2012, a decrease of \$11.9 million, or 11.0%.

Net income available to Validus for the year ended December 31, 2013 was \$532.7 million, or \$4.94 per diluted common share compared to \$408.4 million or \$3.99 per diluted common share for the year ended December 31, 2012.

Net operating income available to Validus for the year ended December 31, 2013 was \$578.7 million, or \$5.38 per diluted common share compared to \$333.8 million or \$3.26 per diluted common share for the year ended December 31, 2012.

Losses and loss expenses from notable loss events for the year ended December 31, 2013 was \$60.8 million compared to \$500.6 million for the year ended December 31, 2012, a decrease of \$439.7 million.

Investment yield for the year ended December 31, 2013 was 1.30% compared to 1.65% for the year ended December 31, 2012.

Return on average equity and net operating return on average equity for the year ended December 31, 2013 were 14.0% and 15.2%, respectively compared to 11.3% and 9.2% for the year ended December 31, 2012.

Total cash and investments as at December 31, 2013 was \$8.0 billion compared to \$8.0 billion as at December 31, 2012.

Overview of the Results of Operations for Years Ended December 31, 2013 and December 31, 2012 compared to the Years Ended December 31, 2012 and December 31, 2011, respectively.

The change in net operating income available to Validus for the years ended December 31, 2013 and December 31, 2012 as compared to the years ended December 31, 2012 and December 31, 2011, respectively, is described in the following table:

(Dollars in thousands)	Increase (decrease) to net operating income over the years ended	
	2013 compared to 2012 (a)	2012 compared to 2011 (a)
Net premiums earned	\$ 228,829	\$ 71,073
Notable losses and reserve for potential development on notable loss events (b)	439,742	133,295
Incurred current year losses, excluding notable losses and reserve for potential development on notable loss events	(264,707)	)92,810
Prior period loss development	30,479	18,850
Other underwriting deductions (c)	(78,146)	)(79,082)
Underwriting income (d)	356,197	236,946
(Income) attributable to operating affiliate investors	(68,763))—
Other operating expenses and income, net (e)	(32,410)	)24,181
Net operating income (d)	255,024	261,127
Net operating (income) loss attributable to noncontrolling interest	(10,184)	)20,360
Net operating income available to Validus (d)	\$ 244,840	\$ 281,487

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

Notable loss for the year ended December 31, 2013 was the European Floods. Notable losses for the year ended December 31, 2012 were Costa Concordia, Cat 67, U.S. drought, Hurricane Isaac and Hurricane Sandy. Notable

(b) losses for the year ended December 31, 2011 were Tohoku Earthquake, Gryphon Alpha, Christchurch Earthquake, Brisbane Floods, CNRL Horizon, Cat 46, Cat 48, Jupiter 1, Danish Floods, Hurricane Irene and the Thailand Floods.

(c) Other underwriting deductions consist of policy acquisition costs, general & administration expenses and share compensation expenses.

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income and operating income that is not calculated under standards or rules that comprise

(d) 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. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

(e) Other operating income and expenses, net, consists of net investment income, other income, finance expenses, taxes and income (loss) from operating affiliates.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Net operating income available to Validus for the year ended December 31, 2013 was \$578.7 million compared to \$333.8 million for the year ended December 31, 2012, an increase of \$244.8 million. The primary factors driving the increase were:

• An increase in underwriting income of \$356.2 million due primarily to:

• A \$228.8 million increase in net premiums earned, primarily due to new agriculture business written by Validus Re and business written in consolidated AlphaCat subsidiaries; and

• A \$205.5 million decrease in losses and loss expenses, driven by a significantly lower level of notable losses, offset by losses on the new agricultural business written by Validus Re;

• Offset by the following factors:

• A \$51.6 million increase in general and administrative expenses, due primarily to costs associated with the run-off of the former Flagstone business and an increase in average headcount; and

• A \$25.6 million increase in policy acquisition costs, reflecting the higher level of net premiums earned.

• Offsetting the increase in underwriting income were:

• Increases in income attributable to operating affiliate investors and net operating income attributable to noncontrolling interest of \$68.8 million and \$10.2 million, respectively; and

- Decreases in investment income of \$11.9 million and other income of \$14.1 million.

The Year Ended December 31, 2012 compared to the Year Ended December 31, 2011

Net operating income available to Validus for the year ended December 31, 2012 was \$333.8 million compared to \$52.3 million for the year ended December 31, 2011, an increase of \$281.5 million. The primary factors driving the increase were:

• Increase in underwriting income of \$236.9 million due primarily to:

• A \$245.0 million decrease in losses and loss expenses, driven by a lower level of notable losses; and

• A \$71.1 million increase in net premiums earned, primarily due to expansion of the marine book at both Validus Re and Talbot;

• Offset by the following factors:

• A \$66.2 million increase in general and administrative expenses, due primarily to an increase in headcount and a higher level of performance bonus, partially offset by \$7.6 million decrease in share compensation expenses; and

• A \$20.5 million increase in policy acquisition costs, reflecting the higher level of net premiums earned.

• In addition to the increase in underwriting income, there were:

• A \$20.4 million decrease in net operating income attributable to noncontrolling interest; and

• Increases in other income of \$16.7 million and income from operating affiliates of \$12.6 million.

Segment Reporting

Management has determined that the Company operates in three reportable segments - Validus Re, AlphaCat and Talbot. For segmental reporting purposes, the results of Flagstone's operations since November 30, 2012 have been included within the Validus Re segment in the Consolidated Financial Statements.

Fourth Quarter 2013 Summarized Results of Operations - Validus Re Segment

Gross premiums written for the three months ended December 31, 2013 were \$10.3 million compared to \$79.2 million for the three months ended December 31, 2012, a decrease of \$69.0 million, or 87.1%. Gross premiums written for the three months ended December 31, 2013 included \$17.2 million of property premiums and \$nil of marine premiums, offset by (\$6.9) million of specialty premiums, compared to \$54.9 million of property premiums, \$8.6 million of marine premiums and \$15.7 million of specialty premiums for the three months ended December 31, 2012.

Net premiums earned for the three months ended December 31, 2013 were \$250.3 million compared to \$285.3 million for the three months ended December 31, 2012, a decrease of \$35.0 million, or 12.3%.

Underwriting income for the three months ended December 31, 2013 was \$77.1 million compared to a loss of (\$103.1) million for the three months ended December 31, 2012, an increase of \$180.2 million, or 174.7%.

Combined ratio for the three months ended December 31, 2013 was 69.1% compared to 136.2% for the three months ended December 31, 2012.

The loss ratio for the three months ended December 31, 2013 was 44.2% compared to 116.1% for the three months ended December 31, 2012, a decrease of 71.9 percentage points. The loss ratio for the three months ended December 31, 2013 included unfavorable loss reserve development on prior accident years of \$3.4 million, increasing the loss ratio by 1.3 percentage points. The loss ratio for the three months ended December 31, 2012 included favorable loss reserve development on prior accident years of \$19.8 million, benefiting the loss ratio by 6.9 percentage points.

Net investment income for the three months ended December 31, 2013 was \$19.6 million compared to \$23.8 million for the three months ended December 31, 2012, a decrease of \$4.2 million, or 17.8%.

Net operating income for the three months ended December 31, 2013 of \$88.4 million compared to a loss of (\$80.9) million for the three months ended December 31, 2012, an increase of \$169.4 million.

General and administrative expenses for the three months ended December 31, 2013 were \$21.6 million compared to \$14.7 million for the three months ended December 31, 2012, an increase of \$6.9 million, or 46.9%. General and administrative expenses associated with the run-off from the Flagstone acquisition were \$3.7 million for the three months ended December 31, 2013.

Losses from notable loss events for the three months ended December 31, 2013 was \$nil compared to \$282.6 million for the three months ended December 31, 2012.

Full Year 2013 Results of Operations - Validus Re Segment

The following table presents results of operations for the years ended December 31, 2013, 2012 and 2011:

(Dollars in thousands)	Years Ended December 31,			
	2013	2012 (a)	2011	
Underwriting income				
Gross premiums written	\$1,242,522	\$1,131,959	\$1,114,493	
Reinsurance premiums ceded	(226,264)	(144,578)	(150,718)	
Net premiums written	1,016,258	987,381	963,775	
Change in unearned premiums	117,679	35,890	2,150	
Net premiums earned	1,133,937	1,023,271	965,925	
Underwriting deductions				
Losses and loss expenses	430,026	575,416	749,305	
Policy acquisition costs	180,779	154,362	154,582	
General and administrative expenses	91,260	63,048	44,663	
Share compensation expenses	7,668	7,763	9,309	
Total underwriting deductions	709,733	800,589	957,859	
Underwriting income (b)	424,204	222,682	8,066	
Net investment income	81,346	88,727	93,248	
Other income	8,445	5,085	7,390	
Finance expenses	(16,111)	(8,943)	(7,777)	
Operating income before taxes	497,884	307,551	100,927	
Tax benefit (expense)	272	(168)	(18)	
Net operating income (b)	\$498,156	\$307,383	\$100,909	
Selected ratios:				
Net premiums written / Gross premiums written	81.8	% 87.2	% 86.5	%
Loss and loss expense	37.9	% 56.2	% 77.6	%
Policy acquisition cost	16.0	% 15.1	% 16.0	%
General and administrative expense (c)	8.7	% 6.9	% 5.6	%
Expense ratio	24.7	% 22.0	% 21.6	%
Combined ratio	62.6	% 78.2	% 99.2	%

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

(b) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income and operating income that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP

Financial Measures.”

(c) The general and administrative expense ratio includes share compensation expenses.

The change in net operating income for the years ended December 31, 2013 and December, 31 2012 as compared to the years ended December 31, 2012 and December 31, 2011, respectively, is described in the following table:

61

	Increase (decrease) to net operating income over the years ended	
(Dollars in thousands)	2013 compared to 2012 (a)	2012 compared to 2011 (a)
Net premiums earned	\$ 110,666	\$ 57,346
Notable losses and reserve for potential development on notable loss events (b)	347,419	150,055
Incurred current year losses, excluding notable losses and reserve for potential development on notable loss events	(188,726)	) 19,883
Prior period loss development	(13,303)	) 3,951
Other underwriting deductions (c)	(54,534)	) (16,619)
Underwriting income (e)	201,522	214,616
Other operating income and expenses, net (d)	(10,749)	) (8,142)
Net operating income (e)	\$ 190,773	\$ 206,474

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

Notable loss for the year ended December 31, 2013 was the European Floods. Notable losses for the year ended December 31, 2012 were Costa Concordia, Cat 67, U.S. drought, Hurricane Isaac and Hurricane Sandy. Notable (b) losses for the year ended December 31, 2011 were Tohoku Earthquake, Gryphon Alpha, Christchurch Earthquake, Brisbane Floods, CNRL Horizon, Cat 46, Cat 48, Jupiter 1, Danish Floods, Hurricane Irene and the Thailand Floods.

(c) Other underwriting deductions consist of policy acquisition costs, general & administration expenses and share compensation expenses.

(d) Other operating income and expenses, net, consists of net investment income, other income, finance expenses and taxes.

(e) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting and operating income that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

Gross Premiums Written

(Dollars in thousands)	Gross Premiums Written				
	Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Property	\$ 744,630	\$(26,987)	\$ 771,617	\$(15,320)	\$ 786,937
Marine	194,001	(63,468)	257,469	25,068	232,401
Specialty	303,891	201,018	102,873	7,718	95,155
Total	\$ 1,242,522	\$ 110,563	\$ 1,131,959	\$ 17,466	\$ 1,114,493

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The decrease in gross premiums written in the property lines of \$27.0 million was due to a reduction in reinstatement premiums of \$38.6 million, primarily relating to Hurricane Sandy, a decrease in per risk excess of loss treaties of \$22.4 million, primarily due to non-renewals of business on a number of accounts and prior year business being renewed under specialty lines in 2013, a decrease of \$7.2 million due to downward premium adjustments and a decrease of \$6.4 million in renewals of business written by Flagstone in 2012. These decreases were offset by an increase of \$50.2 million in catastrophe excess of loss treaties primarily relating to new business written and increased shares on renewals. The decrease in gross premiums written of \$63.5 million in the marine lines was due to a \$32.0 million decrease in reinstatement premiums compared to the prior year, primarily relating to the Costa Concordia

event. In addition, there was a \$25.0 million decrease in proportional treaties due to reductions in shares and the non-renewal of business on a number of accounts that no longer met the Company's underwriting threshold. In addition, \$8.6 million of business historically written in marine lines was renewed in specialty lines. The increase in gross premiums written of \$201.0 million in the specialty lines was due primarily to an increase in proportional agriculture treaties of \$179.4 million. This was as a result of hiring two experienced underwriters at the beginning of the year to target growth in this

class. In addition, \$23.8 million of business historically written in the property and marine lines was renewed in specialty lines. Offsetting these increases were downward premium adjustments of \$5.6 million.

Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written

(Dollars in thousands)	Year Ended December 31, 2013		Year Ended December 31, 2012 (a)		Year Ended December 31, 2011	
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)
Property	\$744,630	59.9 %	\$771,617	68.2 %	\$786,937	70.6 %
Marine	194,001	15.6 %	257,469	22.7 %	232,401	20.9 %
Specialty	303,891	24.5 %	102,873	9.1 %	95,155	8.5 %
Total	\$1,242,522	100.0 %	\$1,131,959	100.0 %	\$1,114,493	100.0 %

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The mix of business has remained fairly consistent with the exception of the increase in specialty lines relating to the targeted growth in the agriculture business in the first quarter of 2013, as discussed above.

Reinsurance Premiums Ceded

(Dollars in thousands)	Reinsurance Premiums Ceded Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Property	\$171,933	\$48,323	\$123,610	\$(12,759)	\$136,369
Marine	16,053	(4,344)	20,397	6,549	13,848
Specialty	38,278	37,707	571	70	501
Total	\$226,264	\$81,686	\$144,578	\$(6,140)	\$150,718

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Reinsurance premiums ceded in the property lines increased by \$48.3 million, due to a significant restructuring of retrocessional coverage purchased. New coverage purchased in 2013 included \$30.9 million in catastrophe bond coverage assumed through the Flagstone acquisition and \$67.9 million for new excess of loss covers. Industry loss warranties purchased for \$57.4 million in 2012 were not renewed in 2013, offsetting the increases in premiums ceded from these new covers. The increase in reinsurance premiums ceded in the specialty lines of \$37.7 million was due primarily to a \$35.0 million increase in proportional coverage relating to the new agriculture business.

Net Premiums Written

(Dollars in thousands)	Net Premiums Written Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Property	\$572,697	\$(75,310)	\$648,007	\$(2,561)	\$650,568
Marine	177,948	(59,124)	237,072	18,519	218,553
Specialty	265,613	163,311	102,302	7,648	94,654
Total	\$1,016,258	\$28,877	\$987,381	\$23,606	\$963,775

The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in Validus Re net premiums written was driven by factors highlighted above in respect of gross premiums written and reinsurance premiums ceded.

(Dollars in thousands)	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written						
	Year Ended December 31, 2013		Year Ended December 31, 2012 (a)		Year Ended December 31, 2011		
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	
Property	\$572,697	76.9	% \$648,007	84.0	% \$650,568	82.7	%
Marine	177,948	91.7	% 237,072	92.1	% 218,553	94.0	%
Specialty	265,613	87.4	% 102,302	99.4	% 94,654	99.5	%
Total	\$1,016,258	81.8	% \$987,381	87.2	% \$963,775	86.5	%

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The property ratio has decreased 7.1% reflecting the restructuring of the property retrocessional coverage and the specialty ratio has decreased 12.0% due to the reinsurance coverage purchased for new agriculture business, whereas almost all other specialty business is fully retained.

Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned				
	Years Ended December 31, 2013		2012 (a)		2011
		Change		Change	
Property	\$671,667	\$(2,261)	) \$673,928	\$9,684	\$664,244
Marine	195,413	(58,679)	) 254,092	42,748	211,344
Specialty	266,857	171,606	95,251	4,914	90,337
Total	\$1,133,937	\$110,666	\$1,023,271	\$57,346	\$965,925

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in net premiums earned is consistent with the pattern of net premiums written, except for the earning out during the year ended December 31, 2013 of property business assumed through the Flagstone acquisition.

Losses and Loss Expenses

Losses and Loss Expense Ratio - All lines
Years Ended December 31,

	2013		2012 (a)		2011	
All lines—current period—notable losses	4.9	%	39.4	%	49.2	%
All lines—current period—reserve for potential development on notable loss events	0.0	%	0.0	%	8.1	%
All lines—change in prior accident years	(5.2	)%	(7.1	)%	(7.1)%
All lines—current period excluding items above	38.2	%	23.9	%	27.4	%
All lines—loss ratio	37.9	%	56.2	%	77.6	%

Losses and Loss Expenses - All lines
Years Ended December 31,

(Dollars in thousands)	2013	Change	2012 (a)	Change	2011
All lines—current period—notable losses	55,316	(347,419)	402,735	(72,055)	474,790
All lines—current period—reserve for potential development on notable loss events	—	—	—	(78,000)	78,000
All lines—change in prior accident years	(59,258)	13,303	(72,561)	(3,951)	(68,610)
All lines—current period excluding items above	433,968	188,726	245,242	(19,883)	265,125
All lines - loss and loss expenses	430,026	(145,390)	575,416	(173,889)	749,305

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

Notable Losses

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Notable losses incurred in the year ended December 31, 2013 of \$55.3 million were from a single notable loss event, the European Floods, which represented 4.9 percentage points of the loss ratio. Net of \$4.8 million of reinstatement premiums, the effect of this event on net income was a decrease of \$50.5 million. In comparison, for the year ended December 31, 2012, losses from notable loss events were \$402.7 million, primarily from Hurricane Sandy, which represented 39.4 percentage points of the loss ratio. Net of \$60.8 million of reinstatement premiums, the effect of these events on net income was a decrease of \$342.0 million.

Losses and Loss Expenses by Line of Business

Losses and Loss Expense Ratio - Property Lines
Years Ended December 31,

	2013		2012 (a)		2011	
Property—current period—notable losses	8.2	%	41.1	%	61.1	%
Property—current period—reserve for potential development on notable loss events	0.0	%	0.0	%	11.0	%
Property—change in prior accident years	(12.2	)%	(6.8	)%	(7.4)%
Property—current period excluding items above	24.2	%	18.5	%	21.0	%
Property—loss ratio	20.2	%	52.8	%	85.7	%

(Dollars in thousands)	Losses and Loss Expenses - Property Lines				
	Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Property - current period—notable losses	\$55,316	\$(221,751)	\$277,067	\$(128,572)	\$405,639
Property - current period—reserve for potential development on notable loss events	—	—	—	(73,000)	73,000
Property - change in prior accident years	(81,610)	(35,877)	(45,733)	3,287	(49,020)
Property—current period excluding items above	62,202	37,724	124,478	(14,848)	139,326
Property - losses and loss expense	\$135,908	\$(219,904)	\$355,812	\$(213,133)	\$568,945

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Property lines incurred \$55.3 million of losses from a single notable loss event, the European Floods, which represented 8.2 percentage points of the property lines loss ratio. Net of \$4.8 million in reinstatement premiums, the effect of this event on net income was a decrease of \$50.5 million. In comparison, for the year ended December 31, 2012, Validus Re property lines incurred \$277.1 million of losses from notable loss events, primarily Hurricane Sandy, which represented 41.1 percentage points of the property lines loss ratio.

Property lines experienced \$35.9 million higher favorable loss reserve development, primarily related to lower claims emergence on attritional losses incurred, partially offset by unfavorable development on New Zealand earthquake losses.

	Losses and Loss Expense Ratio - Marine Lines			
	Years Ended December 31,			
	2013	2012 (a)	2011	
Marine—current period—notable losses	0.0	% 40.3	% 32.7	%
Marine—current period—reserve for potential development on notable loss events	0.0	% 0.0	% 2.4	%
Marine—change in prior accident years	13.7	% (4.4)	% (4.8)	%
Marine—current period excluding items above	41.4	% 36.3	% 44.0	%
Marine—loss ratio	55.1	% 72.2	% 74.3	%

(Dollars in thousands)	Losses and Loss expenses - Marine Lines				
	Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Marine - current period—notable losses	\$—	\$(102,512)	\$102,512	\$33,361	\$69,151
Marine - current period—reserve for potential development on notable loss events	—	—	—	(5,000)	5,000
Marine—change in prior accident years	26,705	38,003	(11,298)	(1,064)	(10,234)
Marine—current period excluding items above	80,938	(11,384)	92,322	(768)	93,090
Marine - losses and loss expense	\$107,643	\$(75,893)	\$183,536	\$26,529	\$157,007

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Marine lines did not incur any notable losses during the year ended December 31, 2013. In comparison, Validus Re marine lines incurred \$102.5 million of losses from notable loss events during the year ended December 31, 2012, primarily Costa Concordia, which represented 40.3 percentage points of the marine lines loss ratio.

Marine lines experienced \$38.0 million higher unfavorable loss reserve development due primarily to an increase in the ultimate loss estimate on Costa Concordia.

	Losses and Loss Expense Ratio - Specialty Lines			
	Years Ended December 31,			
	2013	2012 (a)	2011	
Specialty—current period—notable losses	0.0	% 24.3	% 0.0	%
Specialty—current period—reserve for potential development on notable loss events	0.0	% 0.0	% 0.0	%
Specialty—change in prior accident years	(1.6	)% (16.3	)% (10.4)%
Specialty—current period excluding items above	71.5	% 29.9	% 36.3	%
Specialty—loss ratio	69.9	% 37.9	% 25.9	%

(Dollars in thousands)	Losses and Loss Expenses - Specialty Lines				
	Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Specialty - current period—notable losses	\$—	\$(23,156)	\$23,156	\$23,156	\$—
Specialty - current period—reserve for potential development on notable loss events	—	—	—	—	—
Specialty—change in prior accident years	(4,353)	11,177	(15,530)	(6,174)	(9,356)
Specialty—current period excluding items above	90,828	162,386	28,442	(4,267)	32,709
Specialty - losses and loss expense	\$186,475	\$150,407	\$36,068	\$12,715	\$23,353

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Specialty lines did not incur any notable losses during the year ended December 31, 2013. In comparison, for the year ended December 31, 2012, Validus Re specialty lines incurred \$23.2 million of losses from notable loss event, the U.S. drought, which represented 24.3 percentage points of the loss ratio.

Specialty lines experienced \$11.2 million lower favorable loss reserve development, primarily related to an increase in the loss estimate for the U.S. drought. The current period loss ratio, excluding the impact of notable losses, was significantly higher due to the impact of agricultural business, which typically has a higher attritional loss ratio than Validus Re's other specialty business.

Policy Acquisition Costs

(Dollars in thousands)	Policy Acquisition Costs				
	Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Property	\$104,917	\$10,678	\$94,239	\$(1,654)	\$95,893
Marine	36,350	(7,993)	44,343	(88)	44,431
Specialty	39,512	23,732	15,780	1,522	14,258
Total	\$180,779	\$26,417	\$154,362	\$(220)	\$154,582

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

	Acquisition Cost Ratio					
	Years Ended December 31,		2012 (a)		2011	
	2013	Change	2012 (a)	Change	2011	
Property	15.6	% 1.6	% 14.0	% (0.4)	% 14.4	%
Marine	18.6	% 1.1	% 17.5	% (3.5)	% 21.0	%
Specialty	14.8	% (1.8)	% 16.6	% 0.8	% 15.8	%
Total	16.0	% 0.9	% 15.1	% (0.9)	% 16.0	%

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The acquisition cost ratio for the property lines has increased by 1.6% primarily as a result of a decrease in reinstatement premiums compared to the year ended December 31, 2012, as these premiums typically attract little or no policy acquisition costs. The acquisition cost ratio on the specialty lines has decreased by 1.8% percentage points due to the effect of the agriculture business, which typically has a lower acquisition cost ratio than most other specialty lines written by Validus Re.

General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Year Ended December 31,		Year Ended December 31,		Year Ended December 31,	
	2013	% of Net	2012 (a)	% of Net	2011	% of Net
	Expenses	Premiums	Expenses	Premiums	Expenses	Premiums
		Earned		Earned		Earned
General and administrative expenses	\$91,260	8.0	% \$63,048	6.2	% \$44,663	4.6
Share compensation expenses	\$7,668	0.7	% \$7,763	0.7	% \$9,309	1.0
Total	\$98,928	8.7	% \$70,811	6.9	% \$53,972	5.6

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in general and administrative expenses of \$28.2 million or 44.7% expenses was primarily due to costs associated with the run-off from the Flagstone acquisition of \$23.5 million.

Selected Underwriting 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 and loss expense ratio and the expense ratio. The loss and loss expense ratio is calculated by dividing losses and loss expenses incurred (including estimates for incurred but not reported losses) by net premiums earned. The expense ratio is calculated by dividing acquisition costs combined with general and administrative expenses by net premiums earned. The following table presents the loss and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the years ended December 31, 2013, 2012 and 2011.

	Year Ended	Year Ended	Year Ended
	December 31,	December 31,	December 31,
	2013	2012 (a)	2011
Loss and loss expense ratio	37.9	% 56.2	% 77.6
Policy acquisition cost ratio	16.0	% 15.1	% 16.0
General and administrative expense ratio (b)	8.7	% 6.9	% 5.6
Expense ratio	24.7	% 22.0	% 21.6
Combined ratio	62.6	% 78.2	% 99.2

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

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

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The decrease in the combined ratio for the year ended December 31, 2013 of 15.6 percentage points compared to the year ended December 31, 2012 is due to the movement in the underlying ratios as discussed above.

Net Investment Income

(Dollars in thousands)	Investment Income				
	Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Fixed maturities and short-term investments	\$79,828	\$(8,172)	\$88,000	\$(7,319)	\$95,319
Other investments	5,244	2,044	3,200	3,200	—
Cash and cash equivalents	2,777	(1,296)	4,073	633	3,440
Securities lending income	6	(8)	14	(44)	58
Total gross investment income	87,855	(7,432)	95,287	(3,530)	98,817
Investment expenses	(6,509)	51	(6,560)	(991)	(5,569)
Total	\$81,346	\$(7,381)	\$88,727	\$(4,521)	\$93,248

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The decrease in net investment income for the year ended December 31, 2013 was \$7.4 million or 8.3% mainly due to falling yields on fixed maturity investments.

Other Income

(Dollars in thousands)	Other Income				
	Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Other income	\$8,445	\$3,360	\$5,085	\$(2,305)	\$7,390

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Other income primarily reflects the gain recorded on the redemption of part of Validus Re's investment in the AlphaCat ILS funds.

Finance Expenses

(Dollars in thousands)	Finance Expenses				
	Years Ended December 31,				
	2013	Change	2012 (a)	Change	2011
Finance expenses	16,111	7,168	8,943	1,166	7,777

a) The results of operations from Flagstone are consolidated from the November 30, 2012 date of acquisition.

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in finance expenses of \$7.2 million for the year ended December 31, 2013 was due primarily to the interest on the Flagstone junior subordinated deferrable debentures, as the 2012 finance expenses only included interest from the November 30, 2012 acquisition date.

Fourth Quarter 2013 Summarized Results of Operations - AlphaCat Segment

Gross premiums written from our consolidated entities, including PaCRe for the three months ended December 31, 2013 were \$0.3 million compared to \$nil for the three months ended December 31, 2012, an increase of \$0.3 million.

Managed gross premiums written, including our non-consolidated affiliates, for the three months ended December 31, 2013 were (\$1.0) million compared to \$nil for the three months ended December 31, 2012, a decrease of \$1.0 million.

Net premiums earned for the three months ended December 31, 2013 were \$37.6 million compared to \$5.9 million for the three months ended December 31, 2012, an increase of \$31.8 million.

Underwriting income for the three months ended December 31, 2013 was \$28.0 million compared to \$3.2 million for the three months ended December 31, 2012, an increase of \$24.8 million.

Income from operating affiliates for the three months ended December 31, 2013 was \$5.5 million compared to a loss from operating affiliates of (\$0.6) million for the three months ended December 31, 2012, an increase of \$6.1 million.

Income attributable to operating affiliate investors for the three months ended December 31, 2013 was \$26.6 million compared to \$nil for the three months ended December 31, 2012, an increase of \$26.6 million.

The combined ratio for the three months ended December 31, 2013 was 25.6% compared to 45.6% for the three months ended December 31, 2012, a decrease of 20.0 percentage points.

The loss ratio for the three months ended December 31, 2013 was 1.7% compared to 0.0% for the three months ended December 31, 2012, an increase of 1.7 percentage points.

Net investment income for the three months ended December 31, 2013 was \$1.0 million compared to \$1.1 million for the three months ended December 31, 2012.

Net operating income available to AlphaCat for the three months ended December 31, 2013 was \$11.8 million compared to \$1.1 million for the three months ended December 31, 2012, an increase of \$10.7 million.

2013 Results of Operations - AlphaCat Segment

The following table presents results of operations for the years ended December 31, 2013, 2012 and 2011:

(Dollars in thousands)	Years Ended December 31,			
	2013	2012	2011	
Underwriting income				
Gross premiums written	\$ 147,009	\$ 21,603	\$ 75,727	
Reinsurance premiums ceded	(525)			
Net premiums written	146,484	21,603	75,727	
Change in unearned premiums	(9,070)	(3,937)	(9,761)	
Net premiums earned	137,414	17,666	65,966	
Underwriting deductions				
Losses and loss expenses	17,569	—	10,000	
Policy acquisition costs	13,853	1,774	7,946	
General and administrative expenses	18,765	7,532	10,929	
Share compensation expenses	468	279	107	
Total underwriting deductions	50,655	9,585	28,982	
Underwriting income (a)	86,759	8,081	36,984	
Net investment income	3,865	3,748	3,245	
Other income	26,424	23,229	11,466	
Finance expenses	(5,734)	(3,061)	(3,659)	
Operating income before income from operating affiliates and (income) attributable to operating affiliate investors	111,314	31,997	48,036	
Income from operating affiliates	14,289	12,580	—	
(Income) attributable to operating affiliate investors	(68,763)	—	—	
Net operating income (a)	56,840	44,577	48,036	
Net operating (income) attributable to noncontrolling interest	(11,617)	(1,433)	(21,793)	
Net operating income available to Validus (a)	\$45,223	\$43,144	\$26,243	
Selected ratios:				
Net premiums written / Gross premiums written	99.6	% 100.0	% 100.0	%
Loss and loss expense	12.8	% —	% 15.2	%
Policy acquisition cost	10.1	% 10.0	% 12.0	%
General and administrative expense (b)	14.0	% 44.2	% 16.7	%
Expense ratio	24.1	% 54.2	% 28.7	%
Combined ratio	36.9	% 54.2	% 43.9	%

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income and operating income that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

(a) Differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."
 (b) The general and administrative expense ratio includes share compensation expenses.

The change in net operating income available to Validus for the years ended December 31, 2013 and December 31, 2012 as compared to the years ended December 31, 2012 and December 31, 2011, respectively, is described in the following table.

(Dollars in thousands)	Increase (decrease) to net operating income over the years ended	
	2013 compared to 2012	2012 compared to 2011
Net premiums earned	\$ 119,748	\$(48,300)
Notable losses (a)	(809))—
Incurred current year losses, excluding notable losses	(16,760)	)(10,000)
Other underwriting deductions (b)	(23,501)	)(9,397)
Underwriting income (d)	78,678	(28,903)
(Income) attributable to operating affiliate investors	(68,763))—
Other operating income and expenses, net (c)	2,348	25,444
Net operating income (d)	12,263	(3,459)
Net operating (income) loss attributable to noncontrolling interest	(10,184)	)20,360
Net operating income available to Validus (d)	\$ 2,079	\$ 16,901

(a) Notable loss for the year ended December 31, 2013 was the European Floods.

(b) Other underwriting deductions consist of policy acquisition costs, general & administration expenses and share compensation expenses.

(c) Other operating income and expenses, net, consists of net investment income, other income, finance expenses, taxes and income (loss) from operating affiliates.

(d) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting and operating income that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

Gross Premiums Written

(Dollars in thousands)	Gross Premiums Written				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$ 147,009	\$ 125,406	\$ 21,603	\$(54,124)	\$ 75,727
Total	\$ 147,009	\$ 125,406	\$ 21,603	\$(54,124)	\$ 75,727

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in gross premiums written in the property lines of \$125.4 million was due primarily to the renewal of business through AlphaCat Re, which is fully consolidated and which wrote business on behalf of AlphaCat 2013 and the AlphaCat ILS funds. The comparable business was included within AlphaCat Re 2011 and AlphaCat Re 2012 which were not consolidated in 2012 and were accounted for as operating affiliates under the equity method of accounting. The 2012 premiums are included in managed gross premiums below, which is a comparable measure. In addition, \$4.0 million of the increase relates to PaCRe as this company started writing business in June 2012, therefore, current year to date results includes business for the full year.

Managed gross premiums written, which includes gross premiums written by our non-consolidated affiliates, AlphaCat Re 2011 and AlphaCat Re 2012, for the year ended December 31, 2013 were \$143.1 million compared to \$148.1 million for the year ended December 31, 2012, a decrease of \$4.9 million or 3.3%. A reconciliation of

managed gross premiums written to gross premiums written, the most comparable U.S. GAAP financial measure, is presented in the section entitled "Non-GAAP Financial Measures."

Reinsurance Premiums Ceded

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

AlphaCat reinsurance premiums ceded for the year ended December 31, 2013 were \$0.5 million compared to \$nil for the year ended December 31, 2012. The reinsurance was purchased as a hedge to balance portfolio risk.

Net Premiums Written

(Dollars in thousands)	Net Premiums Written Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$ 146,484	\$ 124,881	\$ 21,603	\$(54,124)	\$ 75,727
Total	\$ 146,484	\$ 124,881	\$ 21,603	\$(54,124)	\$ 75,727

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in AlphaCat net premiums written was driven by the factors highlighted above in respect of gross premiums written. The ratios of net premiums written to gross premiums written were 99.6% and 100.0% for the years ended December, 31 2013 and 2012, respectively.

Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$ 137,414	\$ 119,748	\$ 17,666	\$(48,300)	\$ 65,966
Total	\$ 137,414	\$ 119,748	\$ 17,666	\$(48,300)	\$ 65,966

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in net premiums earned is consistent with the pattern of net premiums written influencing the earned premiums for the year ended December 31, 2013 compared to the year ended December 31, 2012.

Losses and Loss Expenses

	Losses and Loss Expense Ratio Years Ended December 31,			
	2013	2012	2011	
Property—current period—notable losses	0.6	% 0.0	% 0.0	%
Property—current period excluding items above	12.2	% 0.0	% 15.2	%
Property—loss ratio	12.8	% 0.0	% 15.2	%

(Dollars in thousands)	Losses and Loss Expenses				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
Property - current period—notable losses	809	809	—	—	—
Property—current period excluding items above	16,760	16,760	—	(10,000	) 10,000
Property - losses and loss expense	17,569	17,569	—	(10,000	) 10,000

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

AlphaCat incurred \$0.8 million of losses from a notable loss event, the European Floods, which represented 0.6 percentage points of the loss ratio. In comparison, for the year ended December 31, 2012, AlphaCat did not incur any notable losses. For the year ended December 31, 2012, AlphaCat Re 2011 and AlphaCat Re 2012 incurred Hurricane Sandy losses of \$25.0 million and \$7.5 million, respectively. The AlphaCat segment's portion of incurred losses and loss expenses related to Hurricane Sandy was \$8.4 million for the year ended December 31, 2012 and was included in income from operating affiliates.

AlphaCat losses and loss expenses included \$16.8 million of current year losses, excluding notable losses, in comparison to \$nil for the year ended December 31, 2012. AlphaCat typically writes high excess and aggregate stop loss contracts, therefore losses can be triggered by a combination of loss events incurred by the cedant.

Policy Acquisition Costs

(Dollars in thousands)	Policy Acquisition Costs				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$ 13,853	\$ 12,079	\$ 1,774	\$(6,172	) \$ 7,946
Total	\$ 13,853	\$ 12,079	\$ 1,774	\$(6,172	) \$ 7,946

	Acquisition Cost Ratio					
	Years Ended December 31,					
	2013	Change	2012	Change	2011	
Property	10.1	% 0.1	% 10.0	% (2.0	)% 12.0	%
Total	10.1	% 0.1	% 10.0	% (2.0	)% 12.0	%

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The acquisition cost ratios for the years ended December 31, 2013 and 2012 were comparable.

General and Administrative Expenses

(Dollars in thousands)	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$ 18,765	13.7 %	\$ 7,532	42.6 %	\$ 10,929	16.5 %
Share compensation expenses	\$ 468	0.3 %	\$ 279	1.6 %	\$ 107	0.2 %
Total	\$ 19,233	14.0 %	\$ 7,811	44.2 %	\$ 11,036	16.7 %

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in general and administrative expenses of \$11.2 million, or 149.1%, primarily reflects additional ILS funds under management, for the year ended December 31, 2013. In addition, an increased share of corporate costs has been allocated to the AlphaCat segment, reflecting the general growth in the size of the segment.

Selected Underwriting Ratios

The following table presents the loss and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31, 2013	Year Ended December 31, 2012	Year Ended December 31, 2011	
Loss and loss expense ratio	12.8	% 0.0	% 15.2	%
Policy acquisition cost ratio	10.1	% 10.0	% 12.0	%
General and administrative expense ratio (b)	14.0	% 44.2	% 16.7	%
Expense ratio	24.1	% 54.2	% 28.7	%
Combined ratio	36.9	% 54.2	% 43.9	%

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

Net Investment Income

(Dollars in thousands)	Investment Income Years Ended December 31,				
	2013	Change	2012	Change	2011
Fixed maturities and short-term investments	\$3,830	\$115	\$3,715	\$743	\$2,972
Cash and cash equivalents	35	2	33	(240)	273
Total gross investment income	3,865	117	3,748	503	3,245
Total	\$3,865	\$117	\$3,748	\$503	\$3,245

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Net investment income for the years ended December 31, 2013 and 2012 were comparable.

Other Income

(Dollars in thousands)	Other Income Years Ended December 31,				
	2013	Change	2012	Change	2011
Other income	\$26,424	\$3,195	\$23,229	\$11,763	\$11,466

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in other income of \$3.2 million, or 13.8%, is primarily due to increased management and performance fees that the AlphaCat segment earns from managing the business written in its reinsurance subsidiaries and affiliates and the investments made in its ILS funds.

Finance Expenses

(Dollars in thousands)	Finance Expenses				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
Finance expenses	\$5,734	\$2,673	\$3,061	\$(598)	) \$3,659

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in finance expenses of \$2.7 million for the year ended December 31, 2013 was due to fees on additional capital raised.

Income From Operating Affiliates

(Dollars in thousands)	Income from Operating Affiliates				
	Years Ended December, 31				
	2013	Change	2012	Change	2011
AlphaCat Re 2011	1,931	(7,830)	) 9,761	9,761	\$—
AlphaCat Re 2012	3,737	918	2,819	2,819	—
AlphaCat 2013	6,744	6,744	—	—	—
AlphaCat 2014	(18)	) (18)) —	—	—
AlphaCat ILS fund	1,895	1,895	—	—	—
Total	\$14,289	\$1,709	\$12,580	\$12,580	\$—

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

For details of voting and equity ownership interests of the above entities, refer to Note 9 to the Consolidated Financial Statements in Part II, Item 8. The increase for the year ended December 31, 2013 reflects the ILS fund that commenced operations in 2013.

(Income) attributable to operating affiliate investors

(Dollars in thousands)	(Income) attributable to operating affiliate investors				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
(Income) attributable to operating affiliate investors	\$(68,763)	) \$(68,763)) \$—	\$—	\$—

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Income attributable to operating affiliate investors for the year ended December 31, 2013 was \$68.8 million compared to \$nil for the year ended December 31, 2012. This represents the transfer of investors' economic interest in the non-consolidated affiliated entities and includes both the Company's and third-party investors' share.

Net Operating (Income) Loss Attributable to Noncontrolling Interest

(Dollars in thousands)	Net Operating (Income) loss attributable to noncontrolling interest				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
Net operating (income) loss attributable to noncontrolling interest	\$(11,617)	\$(10,184)	\$(1,433)	\$20,360	\$(21,793)

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

For the year ended December 31, 2013, the net operating income attributable to noncontrolling interest was \$11.6 million, which comprised \$6.7 million relating to 90% of the net operating income in PaCRe for the year and \$4.9 million of net operating income relating to the consolidated AlphaCat ILS funds.

Fourth Quarter 2013 Summarized Results of Operations - Talbot Segment

Gross premiums written for the three months ended December 31, 2013 were \$236.4 million compared to \$241.1 million for the three months ended December 31, 2012, a decrease of \$4.7 million, or 2.0%. Gross premiums written for the three months ended December 31, 2013 included \$60.9 million of property premiums, \$75.1 million of marine premiums and \$100.4 million of specialty premiums compared to \$62.3 million of property premiums, \$81.5 million of marine premiums and \$97.3 million of specialty premiums for the three months ended December 31, 2012.

Net premiums earned for the three months ended December 31, 2013 were \$204.3 million compared to \$208.1 million for the three months ended December 31, 2012, a decrease of \$3.8 million, or 1.8%.

Underwriting income for the three months ended December 31, 2013 was \$27.1 million compared to \$4.4 million for the three months ended December 31, 2012, an increase of \$22.7 million.

Combined ratio for the three months ended December 31, 2013 was 86.8% compared to 97.9% for the three months ended December 31, 2012.

The loss ratio for the three months ended December 31, 2013 was 46.4% compared to 61.1% for the three months ended December 31, 2012, a decrease of 14.7 percentage points. The loss ratio for the three months ended December 31, 2013 included favorable loss reserve development on prior accident years of \$37.0 million, benefiting the loss ratio by 18.1 percentage points. The loss ratio for the three months ended December 31, 2012 included favorable loss reserve development on prior accident years of \$37.4 million, benefiting the loss ratio by 18.0 percentage points.

Net investment income for the three months ended December 31, 2013 was \$4.6 million compared to \$4.8 million for the three months ended December 31, 2012, a decrease of \$0.3 million, or 5.6%.

Net operating income available to Talbot for the three months ended December 31, 2013 was \$33.4 million compared to \$7.6 million for the three months ended December 31, 2012, an increase of \$25.8 million.

Losses and loss expenses from notable loss events for the three months ended December 31, 2013 was \$nil compared to \$78.4 million for the three months ended December 31, 2012, a decrease of \$78.4 million.

2013 Results of Operations - Talbot Segment

The following table presents results of operations for the years ended December 31, 2013, 2012 and 2011:

(Dollars in thousands)	Years Ended December 31,			
	2013	2012	2011	
Underwriting income				
Gross premiums written	\$1,091,890	\$1,078,636	\$1,014,122	
Reinsurance premiums ceded	(226,111)	(228,686)	(218,174)	
Net premiums written	865,779	849,950	795,948	
Change in unearned premiums	(35,085)	(17,671)	(25,696)	
Net premiums earned	830,694	832,279	770,252	
Underwriting deductions				
Losses and loss expenses	346,337	424,030	485,096	
Policy acquisition costs	170,738	183,926	157,334	
General and administrative expenses	136,458	133,281	112,072	
Share compensation expenses	9,613	7,789	8,582	
Total underwriting deductions	663,146	749,026	763,084	
Underwriting income (a)	167,548	83,253	7,168	
Net investment income	18,061	21,310	25,380	
Other income	1,819	2,033	3,485	
Finance expenses	(259)	(162)	(227)	
Operating income before taxes	187,169	106,434	35,806	
Tax (expense)	(671)	(2,229)	(651)	
Net operating income (a)	\$186,498	\$104,205	\$35,155	
Selected ratios:				
Net premiums written / Gross premiums written	79.3	% 78.8	% 78.5	%
Loss and loss expense	41.7	% 50.9	% 63.0	%
Policy acquisition cost	20.5	% 22.1	% 20.4	%
General and administrative expense (b)	17.6	% 16.9	% 15.7	%
Expense ratio	38.1	% 39.0	% 36.1	%
Combined ratio	79.8	% 89.9	% 99.1	%

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income and operating income that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Reconciliations of these measures to the most comparable U.S. GAAP financial measure, are presented in the section below entitled "Non-Operating Income and Expenses."

(a) The general and administrative expense ratio includes share compensation expenses.

The change in net operating income for the years ended December 31, 2013 and December, 31 2012 as compared to the years ended December 31, 2012 and December 31, 2011, respectively, is described in the following table:

(Dollars in thousands)	Increase (decrease) to net operating income over the years ended	
	2013 compared to 2012	2012 compared to 2011
Net premiums earned	\$ (1,585	)\$ 62,027
Notable losses (a)	93,132	61,240
Incurred current year losses, excluding notable losses	(59,221	)(15,073)
Prior period loss development	43,782	14,899
Other underwriting deductions (b)	8,187	(47,008)
Underwriting income (d)	84,295	76,085
Other operating income and expenses, net (c)	(2,002	)(7,035)
Net operating income (d)	\$ 82,293	\$ 69,050

Notable loss for the year ended December 31, 2013 was the European Floods. Notable losses for the year ended December 31, 2012 were Costa Concordia, Cat 67, Hurricane Isaac and Hurricane Sandy. Notable losses for the year ended December 31, 2011 were Tohoku Earthquake, Gryphon Alpha, Christchurch Earthquake, Brisbane Floods, CNRL Horizon, Cat 46, Cat 48, Jupiter 1, Danish Floods, Hurricane Irene and the Thailand Floods.

(b) Other underwriting deductions consist of policy acquisition costs, general & administration expenses and share compensation expenses.

(c) Other operating income and expenses, net, consists of net investment income, other income, finance expenses and taxes.

(d) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income and operating income 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. Further discussion of the measures is presented in the section entitled "Non-GAAP Financial Measures."

Gross Premiums Written

(Dollars in thousands)	Gross Premiums Written				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$ 345,831	\$ 20,921	\$ 324,910	\$ 18,593	\$ 306,317
Marine	381,238	(14,969)	396,207	54,386	341,821
Specialty	364,821	7,302	357,519	(8,465)	365,984
Total	\$ 1,091,890	\$ 13,254	\$ 1,078,636	\$ 64,514	\$ 1,014,122

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in gross premiums written in the property lines of \$20.9 million was due primarily to an increase in direct property lines of \$14.3 million which was mainly driven by new business as a result of the hiring of an additional experienced property underwriter. In addition, there was an increase in construction lines of \$7.1 million, driven by new business and premium adjustments on prior period policies. The decrease in gross premiums written in the marine lines of \$15.0 million was due primarily to a reassessment of commission costs on underwriting years 2007 and prior, in the year ended December 31, 2012. This resulted in an additional \$14.8 million of gross premiums written and earned premium in the prior year, offset by an equal increase to policy acquisition costs, resulting in no net impact. In addition, the decrease was as a result of \$4.8 million of downward premium adjustments in hull lines. These decreases were offset by \$8.1 million of new business written and premium increases on renewals in cargo

lines. The increase in gross premiums written in the specialty lines of \$7.3 million was due primarily to new business written of \$11.3 million, mainly

80

from the political risk lines and \$6.0 million upward premium adjustments in political violence lines. These increases were offset by a downward premium adjustment of \$11.6 million which was mainly driven by decreases on the war lines.

Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written

(Dollars in thousands)	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011		
	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)	
Property	\$ 345,831	31.7 %	\$ 324,910	30.1 %	\$ 306,317	30.2 %	
Marine	381,238	34.9 %	396,207	36.7 %	341,821	33.7 %	
Specialty	364,821	33.4 %	357,519	33.2 %	365,984	36.1 %	
Total	\$ 1,091,890	100.0 %	\$ 1,078,636	100.0 %	\$ 1,014,122	100.0 %	

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The changes in mix of business are consistent with the reasons for changes in gross premiums written discussed above.

Reinsurance Premiums Ceded

(Dollars in thousands)	Reinsurance Premiums Ceded Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$ 141,963	\$ 1,740	\$ 140,223	\$(2,054)	\$ 142,277
Marine	24,370	(6,341)	30,711	7,471	23,240
Specialty	59,778	2,026	57,752	5,095	52,657
Total	\$ 226,111	\$(2,575)	\$ 228,686	\$ 10,512	\$ 218,174

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The decrease in reinsurance premiums ceded in the marine lines of \$6.3 million was due primarily to a decrease in reinstatement premiums ceded, with higher reinstatement premiums being ceded in the year ended December 31, 2012 related to Hurricane Sandy losses.

Net Premiums Written

(Dollars in thousands)	Net Premiums Written Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$ 203,868	\$ 19,181	\$ 184,687	\$ 20,647	\$ 164,040
Marine	356,868	(8,628)	365,496	46,915	318,581
Specialty	305,043	5,276	299,767	(13,560)	313,327
Total	\$ 865,779	\$ 15,829	\$ 849,950	\$ 54,002	\$ 795,948

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in Talbot net premiums written was driven by the factors highlighted above in respect of gross premiums written and reinsurance premiums ceded.

Net Retention - Ratio of Net Premiums Written to Gross Premiums Written

(Dollars in thousands)	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011		
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	
Property	\$ 203,868	59.0	% \$ 184,687	56.8	% \$ 164,040	53.6	%
Marine	356,868	93.6	% 365,496	92.2	% 318,581	93.2	%
Specialty	305,043	83.6	% 299,767	83.8	% 313,327	85.6	%
Total	\$ 865,779	79.3	% \$ 849,950	78.8	% \$ 795,948	78.5	%

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in the retention of property business primarily reflects the fact that the majority of the new property business written in the year ended December 31, 2013 has been retained. The lower retention of marine business in the year ended December 31, 2012 reflects a reduction in reinstatement premiums.

Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$ 191,750	\$ 16,979	\$ 174,771	\$ 13,533	\$ 161,238
Marine	348,847	(6,073)	354,920	48,888	306,032
Specialty	290,097	(12,491)	302,588	(394)	302,982
Total	\$ 830,694	\$(1,585)	\$ 832,279	\$ 62,027	\$ 770,252

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in property lines and decrease in marine lines net premiums earned are consistent with the pattern of net premiums written influencing the earned premiums for the year ended December 31, 2013 compared to the year ended December 31, 2012. The decrease in the specialty lines net premiums earned is due primarily to the timing of premiums written during the year compared to the prior year, with the increase in net premiums written having occurred in the second half of 2013 compared to the first half of 2012.

Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Years Ended December 31,			
	2013	2012	2011	
All lines—current period—notable losses	0.6	% 11.8	% 20.7	%
All lines—change in prior accident years	(17.6	)% (12.3	)% (11.4)%
All lines—current period excluding items above	58.7	% 51.4	% 53.7	%
All lines—loss ratio	41.7	% 50.9	% 63.0	%

(Dollars in thousands)	Losses and Loss Expenses - All Lines Years Ended December 31,				
	2013	Change	2012	Change	2011
All lines—current period—notable losses	4,694	(93,132)	97,826	(61,240)	159,066
All lines—change in prior accident years	(146,190)	(43,782)	(102,408)	(14,899)	(87,509)
All lines—current period excluding items above	487,833	59,221	428,612	15,073	413,539
All lines - loss and loss expenses	346,337	(77,693)	424,030	(61,066)	485,096

Notable Losses

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Notable losses incurred in the year ended December 31, 2013 of \$4.7 million were from a single notable loss event, the European Floods, which represented 0.6% percentage points of the loss ratio. Net of \$0.3 million of reinstatement premiums, the effect of this event on net income was a decrease of \$4.4 million. In comparison, for the year ended December 31, 2012, losses from notable loss events were \$97.8 million, primarily relating to Hurricane Sandy, which represented 11.8 percentage points of the loss ratio. Net of (\$3.3) million of reinstatement premiums, the effect of the 2012 events on net income was a decrease of \$101.1 million.

Losses and Loss Expenses by Line of Business

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

	Losses and Loss Expense Ratio - Property Lines Years Ended December 31,			
	2013	2012	2011	
Property—current period—notable losses	1.4	% 27.2	% 72.8	%
Property—change in prior accident years	(23.8 )	)% (15.0 )	)% (13.7))%
Property—current period excluding items above	62.1	% 55.6	% 63.6	%
Property—loss ratio	39.7	% 67.8	% 122.7	%

(Dollars in thousands)	Losses and Loss Expenses - Property Lines Years Ended December 31,				
	2013	Change	2012	Change	2011
Property - current period—notable losses	\$ 2,694	\$(44,762)	\$ 47,456	\$(69,996)	\$ 117,452
Property—change in prior accident years	(45,692)	(19,429)	(26,263)	(4,094)	(22,169)
Property—current period excluding items above	119,152	21,891	97,261	(5,284)	102,545
Property - losses and loss expense	\$ 76,154	\$(42,300)	\$ 118,454	\$(79,374)	\$ 197,828

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Property lines incurred \$2.7 million of losses from a notable loss event, the European Floods, which represented 1.4 percentage points of the property lines loss ratio. In comparison, for the year ended December 31, 2012, Talbot's property lines incurred \$47.5 million of losses from notable loss events, primarily Hurricane Sandy, which represented 27.2 percentage points of the property lines loss ratio.

Property lines experienced \$19.4 million higher favorable loss reserve development, primarily related to favorable development on the Tohoku earthquake, Thailand floods and Hurricane Sandy, combined with lower than expected attritional claims development

during the year. The current period loss ratio, excluding the impact of notable losses, was higher by 6.5 percentage points, representing a higher level of attritional claims experienced during the year.

	Losses and Loss Expense Ratio - Marine Lines				
	Years Ended December 31,				
	2013	2012	2011		
Marine—current period—notable losses	0.6	% 12.2	% 11.7	%	
Marine—change in prior accident years	(13.2	)% (11.3	)% (10.2)%	
Marine—current period excluding items above	56.3	% 50.5	% 51.5	%	
Marine—loss ratio	43.7	% 51.4	% 53.0	%	

	Losses and Loss Expenses - Marine Lines				
	Years Ended December 31,				
(Dollars in thousands)	2013	Change	2012	Change	2011
Marine - current period—notable losses	\$ 2,000	(41,294)	\$ 43,294	7,524	\$ 35,770
Marine—change in prior accident years	(46,092)	(6,032)	(40,060)	(8,678)	(31,382)
Marine—current period excluding items above	196,477	17,334	179,143	21,447	157,696
Marine - losses and loss expense	\$ 152,385	(29,992)	\$ 182,377	20,293	\$ 162,084

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Marine lines incurred \$2.0 million of losses from a notable loss event, the European Floods, which represented 0.6 percentage points of the marine lines loss ratio. In comparison, for the year ended December 31, 2012, Talbot's marine lines incurred \$43.3 million of losses from notable loss events, primarily Costa Concordia and Hurricane Sandy, which represented 12.2 percentage points of the marine lines loss ratio.

Marine lines experienced \$6.0 million higher favorable loss reserve development, primarily related to lower than expected development on attritional claims during the period, as well as a lower emergence of events. This was partially offset by unfavorable reserve development of \$7.5 million on Costa Concordia. The current period loss ratio, excluding the impact of notable losses, was higher by 5.8 percentage points, representing higher attritional claims and larger, non-notable events.

	Losses and Loss Expense Ratio - Specialty Lines				
	Years Ended December 31,				
	2013	2012	2011		
Specialty—current period—notable losses	0.0	% 2.3	% 1.9	%	
Specialty—change in prior accident years	(18.8	)% (11.9	)% (11.2)%	
Specialty—current period excluding items above	59.4	% 50.3	% 50.6	%	
Specialty—loss ratio	40.6	% 40.7	% 41.3	%	

	Losses and Loss Expenses - Specialty Lines				
	Years Ended December 31,				
(Dollars in thousands)	2013	Change	2012	Change	2011
Specialty - current period—notable losses	\$ —	\$ (7,076)	\$ 7,076	\$ 1,232	\$ 5,844
Specialty—change in prior accident years	(54,406)	(18,321)	(36,085)	(2,127)	(33,958)
Specialty—current period excluding items above	172,204	19,996	152,208	(1,090)	153,298
Specialty - losses and loss expense	\$ 117,798	\$ (5,401)	\$ 123,199	\$ (1,985)	\$ 125,184

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Specialty lines did not incur any notable losses for the year ended December 31, 2013. In comparison, for the year ended December 31, 2012, Talbot's specialty lines incurred \$7.1 million of losses from a notable loss event, Hurricane Sandy, which represented 2.3 percentage points of the specialty lines loss ratio.

Specialty lines experienced \$18.3 million higher favorable loss reserve development, primarily related to lower than expected development on attritional claims during the period, as well as a lower emergence of events. The current period loss ratio, excluding the impact of notable losses, was higher by 9.1 percentage points, representing an increase in attritional claims experienced during the period.

Policy Acquisition Costs

(Dollars in thousands)	Policy Acquisition Costs				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
Property	\$22,310	\$6,196	\$16,114	\$2,300	\$13,814
Marine	80,299	(16,283)	96,582	26,958	69,624
Specialty	68,129	(3,101)	71,230	(2,666)	73,896
Total	\$170,738	\$(13,188)	\$183,926	\$26,592	\$157,334

	Acquisition Cost Ratio					
	Years Ended December 31,					
	2013	Change	2012	Change	2011	
Property	11.6	% 2.4	% 9.2	% 0.6	% 8.6	%
Marine	23.0	% (4.2)	% 27.2	% 4.4	% 22.8	%
Specialty	23.5	% 0.0	% 23.5	% (0.9)	% 24.4	%
Total	20.5	% (1.6)	% 22.1	% 1.7	% 20.4	%

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The increase in property acquisition costs was due to increases in rates due to current market conditions and the changes in the onshore energy managing agent general commission arrangements. The decrease in the marine rates are a result of the impact of the reassessment of commission costs in calendar year 2012, which was offset by an equal increase on gross written and earned premium resulting in no net impact. The impact on the marine policy acquisition cost ratio for the year ended December 31, 2012 was an additional 3.2 percentage points.

General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$136,458	16.4 %	\$133,281	16.0 %	\$112,072	14.6 %
Share compensation expenses	\$9,613	1.2 %	\$7,789	0.9 %	\$8,582	1.1 %
Total	\$146,071	17.6 %	\$141,070	16.9 %	\$120,654	15.7 %

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

General and administrative and share compensation expenses have increased primarily as a result of a higher overall headcount, from 285 employees at December 31, 2012 to 306 employees at December 31, 2013, and a new grant issue.

Selected Underwriting Ratios

The following table presents the loss and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
Losses and loss expense ratio	41.7	%	50.9	%	63.0	%
Policy acquisition cost ratio	20.5	%	22.1	%	20.4	%
General and administrative expense ratio (a)	17.6	%	16.9	%	15.7	%
Expense ratio	38.1	%	39.0	%	36.1	%
Combined ratio	79.8	%	89.9	%	99.1	%

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

Net Investment Income

(Dollars in thousands)	Investment Income				
	Years Ended December 31, 2013		Change		2011
Fixed maturities and short-term investments	\$17,514	\$(2,147)	\$19,661	\$(3,608)	\$23,269
Cash and cash equivalents	1,901	(1,252)	3,153	(419)	3,572
Total gross investment income	19,415	(3,399)	22,814	(4,027)	26,841
Investment expenses	(1,354)	150	(1,504)	(43)	(1,461)
Total	\$18,061	\$(3,249)	\$21,310	\$(4,070)	\$25,380

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Net investment income for the year ended December 31, 2013 decreased by \$3.2 million or 15.2% due to falling yields on fixed maturity investments.

Non-Segment Discussion

Corporate Expenses

Corporate general and administrative expenses for the year ended December 31, 2013, net of eliminations related to the operating segments, were \$68.8 million compared to \$59.8 million for the year ended December 31, 2012, an increase of \$9.0 million or 15.0%. General and administrative expenses have increased primarily due to higher performance bonus expense and headcount, from 155 employees at December 31, 2012 to 169 employees at December 31, 2013. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses and other costs relating to the Company as a whole.

Corporate share compensation expenses for the year ended December 31, 2013 were \$9.9 million compared to \$10.9 million for the year ended December 31, 2012, a decrease of \$1.0 million or 9.2%.

Corporate finance expenses for the year ended December 31, 2013 were \$42.1 million compared to \$41.7 million for the year ended December 31, 2012, an increase of \$0.4 million or 0.9%.

Non-Operating Income and Expenses

The following non-operating income and expense items are discussed on a consolidated basis, since management does not include these items when assessing the results of its operating segments.

Net Realized and Unrealized (Losses) Gains on Investments

(Dollars in thousands)	Net Realized and Unrealized (Losses) Gains on Investments				
	Years Ended December 31,				
	2013	Change	2012	Change	2011
Net realized gains on investments	\$3,258	\$(14,975)	\$18,233	\$(10,299)	\$28,532
Net unrealized (losses) gains on investments	(58,481)	(76,066)	17,585	37,576	(19,991)
Net realized and unrealized (losses) gains on investments	\$(55,223)	\$(91,041)	\$35,818	\$27,277	\$8,541

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

The change in net realized and unrealized losses on fixed maturity and short term investments of (\$91.0) million was due to an unfavorable movement in net realized and unrealized losses on fixed maturity and short term investments of (\$109.6) million, offset by a favorable movement in net realized and unrealized gains on other investments of \$18.6 million.

The unfavorable movement on fixed maturity and short term investments was primarily as a result of a shift in the yield curve and a widening of corporate bond spreads, especially during the second quarter of 2013. The favorable movement on other investments was primarily due to an improved performance of the Paulson & Co. hedge fund investments held by PaCRe.

Income (Loss) From Investment Affiliate

(Dollars in thousands)	Gain (Loss) From Investment Affiliate				
	Years Ended December, 31				
	2013	Change	2012	Change	2011
Income (loss) from investment affiliate	\$4,790	\$5,754	\$(964)	\$(964)	\$—

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Income from investment affiliate for the year ended December 31, 2013 was \$5.8 million higher than for the year ended December 31, 2012. The income from investment affiliate relates to the income earned from the Company's investment in the Aquiline Financial Services Fund II L.P. and therefore reflects the underlying performance of that fund for the period.

Foreign Exchange Gains (Losses)

Our reporting currency is the U.S. dollar. As a significant portion of our operations are transacted in currencies other than the U.S. dollar, fluctuations in foreign exchange rates may affect period-to-period comparisons. The Company's largest foreign currency fluctuation exposure is to the following currencies, with the movement in each currency against the U.S. dollar for the years ended December 31, 2013, 2012 and 2011 shown in the table below:

U.S. dollar (weakened) strengthened against:	Year Ended December 31, 2013		Year Ended December 31, 2012		Year Ended December 31, 2011	
	British Pound sterling	(1.9)%	(4.4)%	(0.4
Euro	(4.0	)%	(1.7	)%	2.3	%
Canadian Dollar	6.8	%	(2.7	)%	2.1	%
Swiss Franc	(2.5	)%	(2.4	)%	(0.2)%
Australian Dollar	16.6	%	(1.8	)%	(0.4)%
New Zealand Dollar	0.6	%	(6.0	)%	(1.1)%
Singapore Dollar	3.4	%	(5.8	)%	0.4	%
Japanese Yen	21.4	%	12.5	%	(5.4)%

(Dollars in thousands)	Foreign Exchange Years Ended December 31,					
	2013	Change	2012	Change	2011	
Foreign exchange gains (losses)	2,505	\$(2,293) 4,798	\$26,922	(22,124)

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

Foreign exchange gains for the year ended December 31, 2013 were \$2.3 million, or 47.8% lower than for the year ended December 31, 2012. The lower gain was primarily due to the fact that the Company holds non-U.S. dollar currency deposits, most notably in Australian dollars, which weakened significantly against the U.S. dollar during the year.

The Company currently hedges foreign currency exposure by balancing assets (primarily cash and premium receivables) with liabilities (primarily case reserves and event IBNR) for certain major non-U.S. dollar currencies, or by entering into forward foreign currency contracts. Consequently, the Company aims to have a limited exposure to foreign exchange fluctuations.

Net (Income) Loss Attributable to Noncontrolling Interest

(Dollars in thousands)	Net (Income) Loss Attributable to Noncontrolling Interest Years Ended December 31,					
	2013	Change	2012	Change	2011	
Net (income) loss attributable to noncontrolling interest	(9,695) \$(25,515) 15,820	\$37,613	(21,793)

The Year Ended December 31, 2013 compared to the Year Ended December 31, 2012

For the year ended December 31, 2013, net income attributable to noncontrolling interest was \$9.7 million, which was comprised of operating income of \$11.6 million, as discussed in the AlphaCat Segment Results of Operations, and a non-operating loss of \$1.9 million, primarily on the investment portfolio within PaCRe.

For the year ended December 31, 2012, net loss attributable to noncontrolling interest was \$15.8 million, which was comprised of operating income of \$1.4 million, as discussed in the AlphaCat Segment Results of Operations, and a non-operating loss of \$17.2 million, primarily on the investment portfolio within PaCRE.

Non-GAAP Financial Measures

The operating results of an insurance or reinsurance company are also often measured by reference to its net operating income, which is a non-GAAP financial measure. Net operating 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 Comprehensive Income (Loss) line items, as illustrated below.

(Dollars in thousands)	Year Ended December 31, 2013	Year Ended December 31, 2012 (a)	Year Ended December 31, 2011
Net operating income	\$590,289	\$335,265	\$74,138
Net realized gains on investments	3,258	18,233	28,532
Net unrealized (losses) gains on investments	(58,481	) 17,585	(19,991
Gain on bargain purchase, net of expenses	—	17,701	—
Transaction expenses	—	—	(17,433
Income (loss) from investment affiliate	4,790	(964) —
Foreign exchange gains (losses)	2,505	4,798	(22,124
Net income	\$542,361	\$392,618	\$43,122

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

Operating 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 operating income enhances the understanding of our results by highlighting the underlying profitability of the Company's core insurance and reinsurance business. This profitability is influenced significantly by earned premium growth, adequacy of the Company's pricing and loss frequency and severity. Over time it 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 excludes the U.S. GAAP measures noted above, in particular net realized and unrealized gains and losses on investments, from its calculation of operating 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 core underwriting activities 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 operating income provides investors with a valuable measure of profitability and 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.

Operating 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 operating 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 operating income with other companies, particularly as operating income may be defined or calculated differently by other companies. Therefore, the Company provides 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 operating income to net income.

The Company also 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 total annual incentive compensation.

In presenting the Company's results, management has also included and discussed certain schedules containing managed gross premiums written, book value per diluted common share and book value per diluted common share plus accumulated dividends that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP and 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.

Managed gross premiums written represents gross premiums written by the Company and its operating affiliates. Managed gross premiums written differs from total gross premiums written, which the Company believes is the most directly comparable GAAP measure, due to the inclusion of premiums written on behalf of the Company's operating affiliates, AlphaCat Re 2011 and AlphaCat Re 2012, which are accounted for under the equity method of accounting. A reconciliation of managed gross premiums written to gross premiums written, the most comparable U.S. GAAP financial measure, for the years ended December 31, 2013 and December 31, 2012 is presented in the table below.

(Dollars in thousands)	Year Ended		
	December 31, 2013	December 31, 2012	December 31, 2011 (a)
Total gross premiums written	\$2,401,106	\$2,166,440	\$2,124,691
Adjustments for:			
Gross premiums written on behalf of AlphaCat Re 2011	(3,468	) 94,317	—
Gross premiums written on behalf of AlphaCat Re 2012	(395	) 32,171	—
Total managed gross premiums written	\$2,397,243	\$2,292,928	\$2,124,691

(a) Total gross premiums written for the year ended December 31, 2011 included \$60.0 million of gross premiums written from AlphaCat Re 2011, which was a consolidated subsidiary from formation until December 31, 2011. The following tables present reconciliations of book value per diluted common share to book value per common share, the most comparable U.S. GAAP financial measure, at December 31, 2013 and December 31, 2012.

(Dollars in thousands, except share and per share amounts)	As at December 31, 2013			Book Value Per Share
	Equity Amount	Shares	Exercise Price	
Book value per common share				
Total shareholders' equity	\$3,704,094	96,044,312		\$38.57
Book value per diluted common share				
Total shareholders' equity	3,704,094	96,044,312		
Assumed exercise of outstanding warrants	98,513	5,296,056	\$18.60	
Assumed exercise of outstanding stock options	29,688	1,572,713	\$18.88	
Unvested restricted shares	—	2,853,083		
Book value per diluted common share	\$3,832,295	105,766,164		\$36.23
Adjustment for accumulated dividends				7.68
Book value per diluted common share plus accumulated dividends				\$43.91

(Dollars in thousands, except share and per share amounts)	As at December 31, 2012			Book Value Per Share
	Equity Amount	Shares	Exercise Price	
Book value per common share				
Total shareholders' equity	\$4,020,827	107,921,259		\$37.26
Book value per diluted common share				
Total shareholders' equity	4,020,827	107,921,259		
Assumed exercise of outstanding warrants	118,015	6,410,472	\$18.41	
Assumed exercise of outstanding stock options	37,745	1,823,947	\$20.69	
Unvested restricted shares	—	2,443,631		
Book value per diluted common share	\$4,176,587	118,599,309		\$35.22
Adjustment for accumulated dividends				4.48
Book value per diluted common share plus accumulated dividends				\$39.70

Liquidity and Capital Resources

Investments

At December 31, 2013, the Company held investments totaling \$6,912.4 million, compared to \$6,764.0 million at December 31, 2012, an increase of \$148.3 million, or 2.2%. A significant portion of (re)insurance contracts written by the Company provides short-tail reinsurance coverage for losses resulting mainly from natural and man-made catastrophes, which could result in payment of a substantial amount of losses at short notice. Accordingly, the Company's investment portfolio is primarily structured to provide liquidity, which means the investment portfolio contains a significant amount of relatively short-term fixed maturity investments, such as government and government agency securities, corporate debt securities, bank loans and mortgage-backed and asset-backed securities. At December 31, 2013, the average duration of the Company's fixed maturity and short term investment portfolio was 1.60 years (December 31, 2012: 1.34 years). This duration is reviewed regularly based on changes in the duration of our liabilities and in general market conditions.

The Company's investment portfolio is also structured to preserve capital. With the exception of the Company's bank loan portfolio, the Company's investment guidelines require that investments be rated BBB- or higher at the time of purchase. At December 31, 2013, the Company's fixed maturity portfolio had an average credit quality rating of AA- (2012 - AA-) and an effective yield of 1.30% (2012 - 1.65%) for the year then ended. The estimated fair value of investment grade fixed maturities was \$4,762.1 million, or 85.9% of the fixed maturity portfolio, compared to \$4,349.5 million, or 85.5%, an increase of \$412.6 million, or 9.5%. The estimated fair value of non-investment grade fixed maturities, excluding bank loans, as at December 31, 2013 was \$63.0 million compared to \$62.4 million as at December 31, 2012, an increase of \$0.6 million, or 1.0%.

The Company also has an allocation to other investments, primarily hedge funds. At December 31, 2013, these other investments, excluding noncontrolling interests, totaled \$128.9 million, or 1.9%, of our total investments (2012 - \$131.7 million or 1.9%). For further details related to our investment portfolio, including the extent of investments with fair values measured using unobservable inputs, see notes 7 and 8 to the Consolidated Financial Statements in Part II, Item 8.

The value of the Company's fixed maturity portfolio will fluctuate with, among other factors, changes in the interest rate environment and in overall economic conditions. Additionally, the structure of the investment portfolio exposes the Company to other risks, including insolvency or reduced credit quality of corporate debt securities, and prepayment, default and structural risks on asset-backed securities, mortgage-backed securities and bank loans.

The estimated fair value of investments at December 31, 2013 and 2012 were as follows:

(Dollars in thousands)	December 31, 2013		December 31, 2012		
	Estimated Fair Value	% of Total Investments	Estimated Fair Value	% of Total Investments	
U.S. government and government agency	\$ 1,364,679	21.3 %	\$ 1,099,230	17.4 %	%
Non-U.S. government and government agency	459,068	7.2 %	302,279	4.8 %	%
U.S. states, municipalities and political subdivision	43,120	0.7 %	42,063	0.7 %	%
Agency residential mortgage-backed securities	311,499	4.9 %	388,874	6.1 %	%
Non-agency residential mortgage-backed securities	15,759	0.2 %	106,456	1.7 %	%
U.S. corporate	1,332,484	20.8 %	1,210,173	19.1 %	%
Non-U.S. corporate	714,325	11.2 %	593,265	9.4 %	%
Bank loans	717,116	11.2 %	673,383	10.6 %	%
Catastrophe bonds	74,551	1.2 %	56,947	0.9 %	%
Asset-backed securities	509,657	8.0 %	612,664	9.7 %	%
Total fixed maturities	5,542,258	86.5 %	5,085,334	80.3 %	%
Total short-term investments	751,778	11.7 %	1,114,250	17.6 %	%
Total other investments	618,316	9.7 %	564,448	8.9 %	%
Total investments	6,912,352	107.9 %	6,764,032	106.8 %	%
Noncontrolling interest (a)	(489,402)	(7.6 %)	(432,737)	(6.8 %)	%
Redeemable noncontrolling interest (b)	(18,365)	(0.3 %)	—	—	%
Total investments excluding noncontrolling interest	\$ 6,404,585	100.0 %	\$ 6,331,295	100.0 %	%

(a) Included in the other investments balance are investments held by PaCRe in which the Company has an equity interest of 10%. The remaining 90% interest is held by third party investors.

(b) Included in the short-term investments balance are investments held by consolidated AlphaCat ILS funds, where the Company has an equity interest of less than 100% and the remaining is held by third party investors.

As part of the ongoing risk management process, the Company monitors the aggregation of country or jurisdiction risk exposure. Jurisdiction risk exposure is the risk that events within a jurisdiction, such as currency crises, regulatory changes and other political events, will adversely affect the ability of obligors within the jurisdiction to honor their obligations. The following table provides a breakdown of the fair value of jurisdiction risk exposures outside the United States within the Company's fixed maturity portfolio:

(Dollars in thousands)	December 31, 2013		December 31, 2012		
	Fair Value	% of Total	Fair Value	% of Total	
United Kingdom	\$ 153,248	13.1	% \$ 105,023	11.7	%
Germany	74,834	6.4	% 45,728	5.1	%
Supranational	59,274	5.1	% 39,229	4.4	%
Netherlands	29,395	2.5	% 18,660	2.1	%
Norway	24,340	2.1	% 18,385	2.1	%
Province of Ontario	24,097	2.1	% 15,573	1.7	%
Province of British Columbia	22,430	1.9	% 14,412	1.6	%
Other (individual jurisdictions below \$20,000)	71,450	6.1	% 45,269	5.1	%
Total Non-U.S. Government Securities	459,068	39.1	% 302,279	33.8	%
European Corporate Securities	248,613	21.2	% 233,582	26.1	%
United Kingdom Corporate Securities	165,845	14.1	% 109,260	12.2	%
Other Non-U.S. Corporate Securities	299,867	25.6	% 250,423	28.0	%
Total Non-U.S. Fixed Income Portfolio	\$ 1,173,393	100.0	% \$ 895,544	100.0	%

The Company manages its corporate debt securities by limiting its exposure to any single issuer, excluding government and agency securities, to 3% or less of its total investments and cash. At December 31, 2013, the Company did not have an aggregate exposure to any single issuer of more than 1.0%, other than with respect to government and government agency securities. The top ten exposures to fixed income corporate issuers at December 31, 2013 are as follows:

(Dollars in thousands)	December 31, 2013			
	Fair Value (b)	S&P Rating (c)	% of Total Cash and Investments	
JPMorgan Chase & Co.	\$ 83,373	A-	1.0	%
Bank of New York Mellon Corp.	50,029	A+	0.6	%
Wells Fargo & Company	41,071	A	0.5	%
BP Plc	41,052	A	0.5	%
Verizon Communications Inc.	39,012	BBB+	0.5	%
General Electric Co.	38,372	A+	0.5	%
HSBC Holdings Plc	35,241	A+	0.4	%
Apple Inc.	34,481	AA+	0.4	%
AT&T Inc.	32,629	A-	0.4	%
Royal Bank of Canada	31,981	AA-	0.4	%
Total	\$ 427,241		5.2	%

(a) Issuers exclude government-backed government-sponsored enterprises and cash and cash equivalents.

(b) Credit exposures represent only direct exposure to fixed maturities and short-term investments of the parent issuer and its major subsidiaries. These exposures exclude asset and mortgage backed securities that were issued, sponsored or serviced by the parent.

(c) Ratings used are the lower of Standard & Poor's (S&P) and Moody's. When Moody's ratings are used, they are presented in S&P's equivalent rating.

The tables below show the Company's investments in affiliates, accounted for under the equity method:

(Dollars in thousands)	December 31, 2013			
	Investment at cost	Voting ownership	Equity ownership	Carrying value
AlphaCat Re 2011	\$9,882	43.7	% 22.3	% \$9,809
AlphaCat Re 2012	654	49.0	% 37.9	% 1,313
AlphaCat 2013	45,000	40.9	% 19.7	% 51,744
AlphaCat 2014	22,000	42.3	% 19.6	% 21,982
AlphaCat ILS fund	20,000	—	% 9.1	% 21,895
Aquiline Financial Services Fund II L.P.	32,110	—	% 6.7	% 34,500
Total	\$129,646			\$141,243

(Dollars in thousands)	December 31, 2012			
	Investment at cost	Voting ownership	Equity ownership	Carrying value
AlphaCat Re 2011	\$41,389	43.7	% 22.3	% \$62,792
AlphaCat Re 2012	26,500	49.0	% 37.9	% 29,319
AlphaCat 2013	45,000	40.9	% 19.7	% 45,000
AlphaCat ILS fund	20,000	—	% 11.8	% 20,000
Aquiline Financial Services Fund II L.P.	17,618	—	% 6.7	% 15,218
Total	\$150,507			\$172,329

During 2013, the Company received partial returns of investment from AlphaCat Re 2011 and AlphaCat Re 2012 of \$54.9 million and \$31.7 million, respectively. Offsetting these returns were contributions of capital to AlphaCat 2014 and Aquiline of \$22.0 million and \$14.5 million, respectively. The Company expects to receive further returns of investment in 2014 from AlphaCat Re 2011 and AlphaCat Re 2012.

Reserves for Losses and Loss Expenses

At December 31, 2013 and 2012, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in the Critical Accounting Policies and Estimates section below. The following tables indicate the breakdown of gross and net reserves for losses and loss expenses between lines of business and between case reserves and IBNR.

(Dollars in thousands)	As at December 31, 2013		
	Gross Case Reserves	Gross IBNR	Total Gross Reserve for Losses and Loss Expenses
Property	\$795,143	\$643,051	\$1,438,194
Marine	486,087	421,633	907,720
Specialty	256,651	427,834	684,485
Total	\$1,537,881	\$1,492,518	\$3,030,399

Edgar Filing: VALIDUS HOLDINGS LTD - Form 10-K

As at December 31, 2013

(Dollars in thousands)	Net Case Reserves	Net IBNR	Total Net Reserve for Losses and Loss Expenses
Property	\$699,491	\$548,400	\$1,247,891
Marine	439,005	386,992	825,997
Specialty	226,071	360,286	586,357
Total	\$1,364,567	\$1,295,678	\$2,660,245

The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the year ended December 31, 2013.

(Dollars in thousands)	Year Ended December 31, 2013				
	Validus Re Segment	AlphaCat Segment	Talbot Segment	Eliminations	Total
Gross reserves at period beginning	\$2,122,895	\$5,000	\$1,480,307	\$(90,629)	\$3,517,573
Losses recoverable	(148,646)	—	(381,950)	90,629	(439,967)
Net reserves at period beginning	1,974,249	5,000	1,098,357	—	3,077,606
Net reserves disposed	(36,519)	—	—	—	(36,519)
Incurred losses—current year	489,284	17,569	492,527	—	999,380
Change in prior accident years	(59,258)	—	(146,190)	—	(205,448)
Incurred losses	430,026	17,569	346,337	—	793,932
Foreign exchange	(15,681)	43	2,342	—	(13,296)
Paid losses	(734,211)	(5,000)	(422,267)	—	(1,161,478)
Net reserves at period end	1,617,864	17,612	1,024,769	—	2,660,245
Losses recoverable	105,601	—	337,805	(73,252)	370,154
Gross reserves at period end	\$1,723,465	\$17,612	\$1,362,574	\$(73,252)	\$3,030,399

The amount of recorded reserves represents management's best estimate of expected losses and loss expenses on premiums earned. For the year ended December 31, 2013, favorable loss reserve development on prior accident years was \$205.4 million, of which \$59.3 million related to the Validus Re segment and \$146.2 million related to the Talbot segment. Current year incurred losses included \$60.8 million of losses from notable loss events, of which \$55.3 million related to the Validus Re segment, \$0.8 million related to the AlphaCat segment and \$4.7 million related to the Talbot segment.

The management of insurance and reinsurance companies use significant judgment in the estimation of reserves for losses and loss expenses. Given the magnitude of some notable loss events and other uncertainties inherent in loss estimation, meaningful uncertainty remains regarding the estimation for these events. The Company's actual ultimate net loss may vary materially from these estimates. Ultimate losses for notable loss events are estimated through detailed review of contracts which are identified by the Company as potentially exposed to the specific notable loss event. However, there can be no assurance that the ultimate loss amount estimated for a specific contract will be accurate, or that all contracts with exposure to a specific notable loss event will be identified in a timely manner. Potential losses in excess of the estimated ultimate loss assigned to a contract on the basis of a specific review, or loss amounts from contracts not specifically included in the detailed review may be reserved for in the reserve for potential development on notable loss events. Any reserve for potential development on notable loss events (or "RDE") is included as part of the Company's overall reserve as defined and disclosed in the Critical Accounting Policies and Estimates section.

As at December 31, 2012, the reserve for potential development on 2011 notable loss events was \$42.2 million. During the year ended December 31, 2013, the Company allocated the full \$42.2 million to the Christchurch earthquake and Gryphon Alpha mooring failure. Contract complexity, the nature and number of perils arising from these events, limits and sub limits exposed, the quality, flow and timing of information received by the Company, information regarding retrocessional covers, assumptions, both explicit and implicit, regarding future paid and reported loss development patterns, frequency and severity trends, claims settlement practices and potential changes in

the legal environment led to complexity and volatility in the ultimate loss estimates for these events. As at December 31, 2012, the reserve for potential development on 2010 notable loss events had been fully allocated. No RDE has been established for 2012 or 2013 notable losses and therefore as at December 31, 2013 the Company had no remaining reserve for potential development on notable loss events.

Edgar Filing: VALIDUS HOLDINGS LTD - Form 10-K

For disclosure purposes, only those notable loss events which had an initial ultimate loss estimate above a defined threshold are disclosed separately and included in the reserves for notable loss event roll forward table below. To the extent that there are increased complexity and volatility factors relating to notable loss events in the aggregate, additions to the RDE may be established for a specific accident year. The Company increased the threshold for disclosure for notable loss events effective January 1, 2011, from \$5.0 million to \$15.0 million and further increased the threshold effective January 1, 2013 from \$15.0 million to \$30.0 million.

The reserve for notable loss events table below does not disclose 2010 notable loss events. Deepwater Horizon and the Christchurch earthquake, both 2010 events, had closing reserves as at December 31, 2013, of \$82.2 million and \$90.1 million, respectively.

Reserves for Notable Loss Events (Dollars in thousands)

2011 Notable Loss Events	Year Ended December 31, 2011			Year Ended December 31, 2012			Year Ended December 31, 2013			
	Initial Estimate (a)	Development (Favorable) / Unfavorable of RDE (b)	Closing Estimate (c) Allocations 31-Dec-11	Development (Favorable) / Unfavorable of RDE (b)	Closing Estimate (c) Allocations 31-Dec-12	Development (Favorable) / Unfavorable of RDE (b)	Closing Estimate (c) Allocations 31-Dec-13			
Tohoku earthquake	\$148,926	\$37,963	\$29,788	\$216,677	\$(6,652)	\$16,342	\$226,367	\$(7,770)	\$—	\$218,597
Thailand floods	54,148	—	—	54,148	10,704	14,262	79,114	(4,260)	—	74,854
Gryphon Alpha	52,434	9,151	—	61,585	874	5,356	67,815	(353)	1,971	69,433
Cat 46	43,806	18,553	—	62,359	118	—	62,477	(3,264)	—	59,213
Christchurch earthquake	41,881	16,854	20,212	78,947	(495)	20,121	98,573	183	40,209	138,965
Hurricane Irene	32,451	3	—	32,454	(10,788)	—	21,666	(2,421)	—	19,245
Cat 48	31,481	9,190	—	40,671	5,612	—	46,283	(5,778)	—	40,505
Brisbane floods	31,023	4,848	—	35,871	(1,394)	—	34,477	(1,757)	—	32,720
CNRL Horizon	19,500	(8,706)	—	10,794	558	—	11,352	102	—	11,454
Danish flood	19,429	5,987	—	25,416	2,566	7,665	35,647	(2,363)	—	33,284
Jupiter 1	15,008	(73)	—	14,935	(166)	—	14,769	30	—	14,799
Total 2011 Notable Loss Events	\$490,087	\$93,770	\$50,000	\$633,857	\$937	\$63,746	\$698,540	\$(27,651)	\$42,180	\$713,069
Notable Loss				Closing Reserve (d) 31-Dec-11			Closing Reserve (d) 31-Dec-12			Closing Reserve (d) 31-Dec-13
				Paid Loss (Recovery) \$59,100			Paid Loss (Recovery) \$94,011			Paid Loss (Recovery) \$25,986
				\$157,577			\$73,256			\$39,500

Edgar Filing: VALIDUS HOLDINGS LTD - Form 10-K

Tohoku earthquake						
Thailand floods	1,748	52,400	13,017	64,349	23,740	36,349
Gryphon Alpha	8,686	52,899	19,487	39,641	36,039	5,221
Cat 46	51,429	10,930	1,700	9,348	3,310	2,774
Christchurch earthquake	(42	) 78,989	5,708	92,907	53,365	79,934
Hurricane Irene	8,669	23,785	3,743	9,254	832	6,001
Cat 48	19,934	20,737	14,032	12,317	2,610	3,929
Brisbane floods	16,151	19,720	10,998	7,328	1,662	3,909
CNRL Horizon	5,600	5,194	5,746	6	12	96
Danish flood	7,872	17,544	15,099	12,676	3,142	7,171
Jupiter 1	14,342	593	245	182	87	125
Total 2011 Notable Loss Events	\$193,489	\$440,368	\$183,786	\$321,264	\$150,785	\$185,009

Edgar Filing: VALIDUS HOLDINGS LTD - Form 10-K

Reserves for Notable Loss Events (continued) (Dollars in thousands)

2012 Notable Loss Events		Year Ended December 31, 2012			Year Ended December 31, 2013		
Notable Loss	Initial Estimate (a)	Development (Favorable) / Allocations of RDE (b)		Closing Estimate (c)	Development (Favorable) / Allocations of RDE (b)		Closing Estimate (c)
				30-Dec-12			30-Dec-13
Hurricane Sandy	\$361,036	\$—	\$—	\$361,036	\$(2,009)	\$—	\$359,027
Costa Concordia	76,197	(2,061)	—	74,136	39,567	—	113,703
Cat 67	22,713	5,377	—	28,090	(8,817)	—	19,273
U.S. drought	22,021	—	—	22,021	4,619	—	26,640
Hurricane Isaac	15,209	67	—	15,276	(9,374)	—	5,902
Total 2012 Notable Loss Events	\$497,176	\$3,383	\$—	\$500,559	\$23,986	\$—	\$524,545

2012 Notable Loss Events		Year Ended December 31, 2012		Year Ended December 31, 2013			
Notable Loss	Initial Estimate (a)	Paid Loss (Recovery) (b)		Closing Reserve (d)	Paid Loss (Recovery) (b)		Closing Reserve (d)
				31-Dec-12			31-Dec-13
Hurricane Sandy	\$361,036	\$38,515	\$—	\$322,521	\$134,978	\$—	\$185,534
Costa Concordia	76,197	13,040	—	61,096	36,456	—	64,207
Cat 67	22,713	13,432	—	14,658	2,332	—	3,509
U.S. drought	22,021	12,346	—	9,675	14,294	—	—
Hurricane Isaac	15,209	313	—	14,963	3,727	—	1,862
Total 2012 Notable Loss Events	\$497,176	\$77,646	\$—	\$422,913	\$191,787	\$—	\$255,112

2013 Notable Loss Event		Year Ended December 31, 2013		
Notable Loss	Initial Estimate (a)	Development (Favorable) / Allocations of RDE (b)		Closing Estimate (c)
				31-Dec-13
European Floods	\$77,587	\$(16,762)	\$—	\$60,825
Total 2013 Notable Loss Events	\$77,587	\$(16,762)	\$—	\$60,825

2013 Notable Loss Event		Year Ended December 31, 2013		
Notable Loss	Initial Estimate (a)	Paid Loss (Recovery) (b)		Closing Reserve (d)
				31-Dec-13
European Floods	\$77,587	\$8,006	\$—	\$52,819
Total 2013 Notable Loss Events	\$77,587	\$8,006	\$—	\$52,819

Total 2013
Notable Loss
Events

- (a) Includes paid losses, case reserves and IBNR reserves.
- (b) Development other than allocation of RDE.
- (c) Excludes impact of movements in foreign exchange rates.
- (d) Closing Reserve for the period equals Closing Estimate for the period less cumulative Paid Losses (Recovery).

97

	Reserve for potential development on 2010 notable loss events	Reserve for potential development on 2011 notable loss events	Reserve for potential development on 2012 and 2013 notable loss events	Total Reserve for potential development on notable loss events
Reserve for Development on Notable Loss Events (RDE)				
(Dollars in thousands)				
As at December 31, 2010	\$ 33,386	\$—	\$—	\$ 33,386
Reserve for potential development additions	—	128,000	—	128,000
Reserve for potential development allocations (a)	(14,769)	(50,000)	—	(64,769)
Reserve for potential development releases	—	—	—	—
As at December 31, 2011 (b)	\$ 18,617	\$ 78,000	\$—	\$ 96,617
Reserve for potential development additions (c)	—	27,926	—	27,926
Reserve for potential development allocations (a)	(18,617)	(63,746)	—	(82,363)
Reserve for potential development releases	—	—	—	—
As at December 31, 2012 (b)	\$—	\$ 42,180	\$—	\$ 42,180
Reserve for potential development additions	—	—	—	—
Reserve for potential development allocations (a)	—	(42,180)	—	(42,180)
Reserve for potential development releases	—	—	—	—
As at December 31, 2013 (b)	\$—	\$—	\$—	\$—

During the year ended December 31, 2011, \$14.8 million was allocated to Deepwater Horizon from the 2010 reserve for development on notable loss events. During the same period, \$29.8 million was allocated to the Tohoku earthquake and \$20.2 million was allocated to the Christchurch earthquake from the 2011 reserve for development on notable loss events.

During the year ended December 31, 2012, \$18.6 million was allocated to Deepwater Horizon from the 2010 reserve for development on notable loss events. During the same period, \$16.3 million was allocated to the Tohoku earthquake, \$20.1 million was allocated to the Christchurch earthquake, \$7.7 million was allocated to the Danish flood and \$14.3 million was allocated to the Thailand floods and \$5.4 million was allocated to the Gryphon Alpha mooring failure from the 2011 reserve for development on notable loss events.

During the year ended December 31, 2013, \$40.2 million was allocated to the Christchurch earthquake and \$2.0 million to the Gryphon Alpha mooring failure from the 2011 reserve for potential development on notable loss events.

Notable losses for the year ended December 31, 2011 were Tohoku earthquake, Gryphon Alpha mooring failure, Christchurch earthquake, Brisbane floods, CNRL Horizon, Cat 46, Cat 48, Jupiter 1, Danish floods, Hurricane Irene and Thailand floods.

Notable losses for the year ended December 31, 2012 were Costa Concordia, Cat 67, U.S. drought, Hurricane Isaac and Hurricane Sandy.

Notable loss for the year ended December 31, 2013 was the European floods.

(c) The 2011 notable loss events, principally the Tohoku earthquake, the Christchurch earthquake and the Thailand floods continued to experience adverse development as shown in the notable loss roll forward table. During the year ended December 31, 2012, based on the potential that one or some of the 2011 notable loss events eligible for

potential allocation from the 2011 RDE may experience adverse development, rather than all deteriorating proportionately, an addition to the 2011 RDE of \$27.9 million was made.

- (d) The RDE is included as part of the Company's overall reserve requirement as defined and disclosed in the Critical Accounting Policies and Estimates section.

Sources of Liquidity

Holding Company Liquidity

Validus Holdings, Ltd. is a holding company and conducts no operations of its own. The Company relies primarily on cash dividends and other permitted payments from operating subsidiaries within the Validus Re, AlphaCat and Talbot segments to pay dividends, finance expenses and other holding company expenses. There are restrictions on the payment of dividends from most operating subsidiaries, primarily due to regulatory requirements in the jurisdictions in which the operating subsidiaries are domiciled. Please refer to Part I, Item 1, "Regulation" for further discussion on the regulatory requirements in the jurisdictions in which the Company operates. Please also refer to Part II, Item 5, "Market for Registrants Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities" for further discussion of the Company's dividend policy. We believe the dividend/distribution capacity of the Company's subsidiaries will provide the Company with sufficient liquidity for the foreseeable future. We continue to generate substantial cash from operating activities and remain in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing our capital structure to meet short and long-term objectives.

The following table details the capital of the Company's more significant subsidiaries on an unconsolidated basis:

(Dollars in thousands)	Capital at December 31, 2013	
Validus Reinsurance, Ltd. (consolidated), excluding IPCRe, Ltd. and Validus UPS, Ltd.	\$2,634,536	
IPCRe, Ltd. (formerly Validus Re Americas)	993,319	
Validus UPS, Ltd. (formerly Flagstone)	126,693	
Total Validus Reinsurance, Ltd. (consolidated)	3,754,548	
Noncontrolling interest in PaCRe, Ltd.	497,657	
Redeemable noncontrolling interest in AlphaCat ILS funds	86,512	
Talbot Holdings, Ltd. (consolidated)	767,064	
Other subsidiaries, net	65,117	
Other, net	(94,021)
Total consolidated capitalization	5,076,877	
Senior notes payable	(247,198)
Debentures payable	(541,416)
Redeemable noncontrolling interest	(86,512)
Total shareholders' equity	\$4,201,751	

Sources and Uses of Cash

The Company has written certain (re)insurance business that has loss experience generally characterized as having low frequency and high severity. This results in volatility in both results and operational cash flows. The potential for large claims or a series of claims under one or more reinsurance contracts means that substantial and unpredictable payments may be required within relatively short periods of time. As a result, cash flows from operating activities may fluctuate, perhaps significantly, between individual quarters and years. Management believes the Company's unused credit facility amounts and highly liquid investment portfolio are sufficient to support any potential operating cash flow deficiencies.

In addition to relying on premiums received and investment income from the investment portfolio, the Company intends to meet these cash flow demands by carrying a substantial amount of short and medium term investments that would mature, or possibly be sold, prior to the settlement of expected liabilities. The Company cannot provide assurance, however, that it will successfully match the structure of its investments with its liabilities due to uncertainty related to the timing and severity of loss events.

There are three main sources of cash flows for the Company: operating activities, investing activities and financing activities. The movement in net cash provided by or used in operating, investing and financing activities and the effect of foreign currency rate changes on cash and cash equivalents for the years ended December 31, 2013, 2012 and 2011 is shown in the following table.

(Dollars in thousands)	Years Ended December 31,		
	2013	2012 (a)	2011
Net cash provided by operating activities	\$265,274	\$543,165	\$545,140
Net cash (used in) investing activities	(157,895)	(268,915)	(392,834)
Net cash (used in) provided by financing activities	(264,048)	94,745	68,681
Effect of foreign currency rate changes on cash and cash equivalents	(6,364)	17,540	(8,883)
Net (decrease) increase in cash	\$(163,033)	\$386,535	\$212,104

(a) The results of operations for Flagstone are consolidated from the November 30, 2012 date of acquisition.

Operating Activities

Cash flow from operating activities is derived primarily from the receipt of premiums less the payment of losses and loss expenses related to underwriting activities.

Net cash provided by operating activities during 2013 was \$265.3 million compared to \$543.2 million for 2012, an unfavorable movement of \$277.9 million. This unfavorable movement reflected lower underwriting cash flows, mainly due to the increase in losses and loss expense payments of \$325.5 million, partially offset by an increase in net premium receipts.

We anticipate that cash flows from operations will continue to be sufficient to cover cash outflows under our contractual commitments as well as most loss scenarios through the foreseeable future. Refer to the “Capital Resources” section below for further information on our anticipated obligations.

Investing Activities

Cash flow from investing activities is derived primarily from the receipt of net proceeds on the Company’s investment portfolio. As at December 31, 2013, the Company’s portfolio was composed of fixed income investments, short-term and other investments amounting to \$6,912.4 million or 86.7% of total cash and investments. For further details related to investments pledged as collateral, see note 7 (d) to the Consolidated Financial Statements in Part II, Item 8. Net cash used in investing activities during 2013 was (\$157.9) million compared to (\$268.9) million for 2012, a favorable movement of \$111.0 million. This favorable movement was driven primarily by the returns on investment from AlphaCat Re 2011 and AlphaCat Re 2012 totaling \$86.6 million during 2013, offset by an additional investment of \$22.0 million in AlphaCat 2014. This is compared to the cost of purchasing shares in AlphaCat Re 2012, AlphaCat 2013 and the ILS funds totaling \$91.5 million during 2012.

Financing Activities

Cash flow from financing activities is derived primarily from the issuance of shares in the Company and its subsidiaries, and notes to operating affiliates.

Net cash used in financing activities during 2013 was (\$264.0) million compared to net cash provided by financing activities of \$94.7 million during 2012, an unfavorable movement of \$358.8 million. This unfavorable movement was driven primarily by the increase of \$250.0 million in quarterly dividends and the special dividend during 2013, an increase of \$253.5 million in the repurchase of common shares under the share repurchase program and a reduction of \$303.2 million in third party capital contributions to consolidated AlphaCat subsidiaries. These movements were offset by receipts from an issuance of notes payable to operating affiliates of \$438.9 million.

Capital Resources

The following table details the Company's overall capital position as at December 31, 2013, 2012 and 2011.

Capitalization (Dollars in thousands)	December 31, 2013	December 31, 2012	December 31, 2011	
Senior Notes (a)	\$247,198	\$247,090	\$246,982	
Junior Subordinated Deferrable Debentures (JSDs) (b)	289,800	289,800	289,800	
Flagstone Junior Subordinated Deferrable Debentures (JSDs) (c)	251,616	250,909	—	
Total debt	788,614	787,799	536,782	
Redeemable noncontrolling interest	86,512	—	—	
Ordinary shares, capital and surplus available to Validus	3,704,711	4,023,780	3,455,026	
Accumulated other comprehensive (loss)	(617)	(2,953)	(6,601)	
Noncontrolling interest	497,657	434,280	—	
Total shareholders' equity (d)	4,201,751	4,455,107	3,448,425	
Total capitalization (d)	5,076,877	5,242,906	3,985,207	
Total capitalization available to Validus (e) (f)	\$4,492,708	\$4,808,626	\$3,985,207	
Debt to total capitalization	15.5	% 15.0	% 13.5	%
Debt (excluding JSDs) to total capitalization	4.9	% 4.7	% 6.2	%

Notes

(a) On January 21, 2010, the Company offered and sold \$250,000 of Senior Notes due 2040 (the "2010 Senior Notes") in a registered public offering. The 2010 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 net proceeds of \$244.0 million from the sale of the 2010 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 our outstanding capital stock and dividends to our shareholders.

(b) \$150.0 million of Junior Subordinated Deferrable Debentures (the "2006 Junior Subordinated Deferrable Debentures") were issued on June 15, 2006, mature on June 15, 2036 and have been redeemable at the Company's option at par since June 15, 2011. \$200.0 million of Junior Subordinated Deferrable Debentures ("2007 Junior Subordinated Deferrable Debentures") were issued on June 21, 2007, mature on June 15, 2037 and have been redeemable at the Company's option at par since June 15, 2012. During 2008 and 2009, the Company repurchased \$60.2 million principal amount of its 2007 Junior Subordinated Deferrable Debentures due 2037 from an unaffiliated financial institution.

(c) As part of the acquisition of Flagstone Reinsurance Holdings, S.A., the Company assumed \$137.2 million of junior subordinated deferrable interest debentures due 2036 (the "Flagstone 2006 Junior Subordinated Deferrable Debentures"). The Flagstone 2006 Junior Subordinated Deferrable Debentures mature on September 15, 2036 and have been redeemable at the Company's option at par since September 15, 2011. In addition, the Company assumed \$113.7 million of junior subordinated deferrable interest debentures due 2037 (the "Flagstone 2007 Junior Subordinated Deferrable Debentures"). \$88.8 million of the Flagstone 2007 Junior Subordinated Deferrable Debentures mature on July 30, 2037 and have been redeemable at the Company's option at par since July 30, 2012. \$25.0 million of the Flagstone 2007 Junior Subordinated Deferrable Debentures mature on September 15, 2037 and have been redeemable at the Company's option at par since September 15, 2012.

(d) Total capitalization equals total shareholders' equity plus borrowings drawn under credit facilities, Senior Notes and Junior Subordinated Deferrable Debentures and redeemable noncontrolling interests.

(e) Total capitalization available to Validus equals total capitalization less noncontrolling interests.

(f) The Company does not include notes payable to operating affiliate investors within total capitalization, since these are issued to some of the Company's operating affiliates specifically for the purpose of purchasing capital market products and writing collateralized reinsurance.

Shareholders' Equity

Shareholders' equity available to Validus at December 31, 2013 was \$3,704.1 million.

On February 5, 2014, the Company announced a quarterly cash dividend of \$0.30 per common share and \$0.30 per common share equivalent for which each outstanding warrant is exercisable, which is payable on March 31, 2014 to shareholders and warrant holders of record on March 14, 2014. The timing and amount of any future cash dividends, however, will be at the discretion of the

Board and will depend upon our results of operations and cash flows, our financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that the Board deems relevant.

On February 6, 2013, the Company approved a special dividend in the amount of \$2.00 per common share and common share equivalent. The dividend was paid on February 26, 2013 to shareholders and warrant holders of record on February 19, 2013. On the same date the Board also approved an increase in the Company's regular quarterly dividend to \$0.30 from \$0.25 per common share and common share equivalent for which each outstanding warrant is exercisable.

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. On February 5 and October 31, 2013, the Board of Directors of the Company approved increases in its common share repurchase authorization to \$500.0 million and \$500.0 million, respectively. On February 5, 2014, the Board of Directors of the Company approved a further increase to the Company's common share repurchase authorization to \$500.0 million. This amount is in addition to the \$1,774.4 million of common shares repurchased by the Company through February 5, 2014 under its previously authorized share repurchase programs.

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.

Debt and financing arrangements

The following table details the Company's debt and financing arrangements as at December 31, 2013.

(Dollars in thousands)	Maturity Date / Term (a)	Commitments	In Use/Outstanding (b)
2006 Junior Subordinated Deferrable Debentures	June 15, 2036	\$ 150,000	\$ 150,000
2007 Junior Subordinated Deferrable Debentures	June 15, 2037	200,000	139,800
2010 Senior Notes due 2040	January 26, 2040	250,000	250,000
\$400,000 syndicated unsecured letter of credit facility	March 9, 2016	400,000	—
\$525,000 syndicated secured letter of credit facility	March 9, 2016	525,000	358,567
\$200,000 bi-lateral secured letter of credit facility	Evergreen	200,000	16,726
Talbot FAL Facility	December 31, 2015	25,000	25,000
PaCRe senior secured letter of credit facility	Evergreen	10,000	294
AlphaCat Reinsurance secured letter of credit facility	Evergreen	24,800	24,800
IPC Bi-Lateral Facility	Evergreen	40,000	20,177
Flagstone Bi-Lateral Facility	Evergreen	375,000	305,686
Flagstone 2006 Junior Subordinated Deferrable Debentures	September 15, 2036	137,866	137,866
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 15, 2037	113,750	113,750
Total		\$ 2,451,416	\$ 1,542,666

(a) The arrangement is indicated as evergreen if, unless written notice to the contrary is given, it automatically renews on a regular basis.

(b) Indicates utilization of commitment amount, not necessarily drawn borrowings.

For additional information about our debt, including the terms of our financing arrangements, basis for variable interest rates and debt covenants, Please refer to Note 19 "Debt and financing arrangements" to the Consolidated Financial Statements (Part II, Item 8) for further details.

Noncontrolling interest

On April 2, 2012, the Company joined with other investors in capitalizing PaCRe, a Class 4 Bermuda reinsurer formed for the purpose of writing high excess property catastrophe reinsurance. The total capital invested was \$500.0 million, of which the Company has an equity interest of 10% and the remaining 90% interest is held by third party investors.

102

The Company has also joined with other investors in capitalizing three AlphaCat ILS funds, which invest in instruments with returns linked to property catastrophe reinsurance, retrocession and insurance linked securities contracts. Two of the three funds are variable interest entities and are consolidated by the Company as the primary beneficiary, with the economics not attributable to the Company being shown as noncontrolling interest.

As at December 31, 2013, the amount of the Company's total capitalization owed to these third parties as redeemable noncontrolling interest or noncontrolling interest was \$584.2 million.

Contractual Obligations and Commitments

The Company's contractual obligations and commitments as at December 31, 2013 are set out below:

(Dollars in thousands)	Payment Due by Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Reserve for losses and loss expenses(a)	\$3,030,399	\$1,521,255			