VALIDUS HOLDINGS LTD
Form 10-K
February 17, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

Commission file number 001-33606

VALIDUS HOLDINGS, LTD.

(Exact name of registrant as specified in its charter)

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

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

(441) 278-9000
(Registrant's telephone number, including area code)

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

Title of Each Class:	**Name of Each Exchange on Which Registered:**
Common Shares, $0.175 par value per share	New York Stock Exchange

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

None

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

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

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 ý No o

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 ý No o

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

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2011 was $2,393.6 million computed upon the basis of the closing sales price of the Common Shares on June 30, 2011. 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 15, 2012, there were 99,478,305 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, 2011.

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

PART I

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

Item 1. Business

Overview

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

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

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

- 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;
- At the time of the Company's formation an executive management team was assembled with an average of 20 years of industry experience and senior expertise spanning multiple aspects of the global insurance and reinsurance business;
- Building a risk analytics staff comprised of over 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;

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Commencing in November of 2009, repurchasing $947.2 million or 35.0 million shares of the Company's common stock, representing 26.7% of the outstanding common shares at the repurchase starting point of September 30, 2009; and

Raising $185.0 million of initial capital for AlphaCat Re 2011, Ltd. ("AlphaCat Re 2011") on May 25, 2011 and a further $71.0 million of additional capital on December 23, 2011.

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 Ltd. is a non-consolidated affiliate.

Our Segments

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

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

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

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,

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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 May 25, 2011, the Company joined with other investors in capitalizing AlphaCat Re 2011, a new special purpose "sidecar" reinsurer formed for the purpose of writing collateralized reinsurance and retrocessional reinsurance. At the time of formation, Validus Re had an equity interest in AlphaCat Re 2011 and as Validus Re held a majority of AlphaCat Re 2011's outstanding voting rights, the financial statements of AlphaCat Re 2011 were included in the consolidated financial statements of the Company.

On December 23, 2011, the Company completed a secondary offering of common shares of AlphaCat Re 2011 to third party investors, along with a partial sale of Validus Re's common shares to one of the third party investors. As a result of these transactions, Validus Re maintained an equity interest in AlphaCat Re 2011; however its share of AlphaCat Re 2011's outstanding voting rights decreased to 43.7%. As a result of the Company's voting interest falling below 50%, the individual assets and liabilities and corresponding noncontrolling interest of AlphaCat Re 2011 have been derecognized from the consolidated balance sheet of the Company as at December 31, 2011 and the remaining investment in AlphaCat Re 2011 is treated as an equity method investment as at December 31, 2011. The portion of AlphaCat Re 2011's earnings attributable to third party investors for the year ended December 31, 2011 is recorded in the Consolidated Statements of Operations and Comprehensive Income as net income attributable to noncontrolling interest.

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, 2011 Gross Premiums Written	Year Ended December 31, 2011 Gross Premiums Written (%)	Year Ended December 31, 2010 Gross Premiums Written	Year Ended December 31, 2010 Gross Premiums Written (%)	Year Ended December 31, 2009(a) Gross Premiums Written	Year Ended December 31, 2009(a) Gross Premiums Written (%)
Property	$ 862,664	72.5%	$ 790,590	71.8%	$ 526,428	68.5%
Marine	232,401	19.5%	227,135	20.6%	152,853	19.9%
Specialty	95,155	8.0%	83,514	7.6%	88,803	11.6%
Total	$ 1,190,220	100.0%	$ 1,101,239	100.0%	$ 768,084	100.0%

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

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

in nature, providing protection against losses from earthquakes and hurricanes, as well as other natural and man-made catastrophes such as floods, tornadoes, fires and storms. The predominant exposures covered are losses stemming from property damage and business interruption coverage resulting from a covered peril. Certain risks, such as war or nuclear contamination may be excluded, partially or wholly, from certain contracts. Gross premiums written on property catastrophe business during the year ended December 31, 2011 were $666.9 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. Risk excess of loss reinsurance protects insurance companies on their primary insurance risks on a "single risk" basis. A "risk" in this context might mean the insurance coverage on one building or a group of buildings or the insurance coverage under a single policy which the reinsured treats as a single risk. Coverage is usually triggered by a large loss sustained by an individual risk rather than by smaller losses which fall below the specified retention of the reinsurance contract. Such property per risk coverages are generally written on an excess of loss basis, which provides the reinsured protection beyond a specified amount up to the limit set within the reinsurance contract. Gross premiums written on property per risk business during the year ended December 31, 2011 were $70.0 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, 2011 were $125.8 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, 2011 were $232.4 million.

Specialty: Validus Re underwrites other lines of business depending on an evaluation of pricing and market conditions, which include aerospace and aviation, agriculture, terrorism, life and accident & health, financial lines, nuclear, workers' compensation catastrophe and crisis management. The Company seeks to underwrite other specialty lines with very limited exposure correlation with its property, marine and energy portfolios. With the exception of the aerospace line of business, which has a meaningful portion of its gross premiums written volume on a proportional basis, the Company's other specialty lines are written on an excess of loss basis. Gross premiums written on specialty business during the year ended December 31, 2011 were $95.2 million.

Talbot: On July 2, 2007, the Company acquired all of the outstanding shares of Talbot. Talbot is the Bermuda parent of a specialty insurance group primarily operating within the Lloyd's insurance market through Syndicate 1183. The acquisition of Talbot provides the Company with significant benefits in terms of product line and geographic diversification as well as offering the Company broader access to underwriting expertise. Similar to Validus Re, Talbot writes primarily short-tail lines of business but, as a complement to Validus Re, focuses mostly on insurance, as opposed to reinsurance risks, and on specialty lines where Validus Re currently has limited or no presence (e.g., war, financial institutions, contingency, 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. Underwriting Risk Services, Inc., Underwriting Risk

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Services (Middle East) Ltd., Validus Reaseguros, Inc., Validus Re Chile S.A. and Talbot Risk Services Pte Ltd, act as approved Lloyd's coverholders for Syndicate 1183.

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

	Year Ended December 31, 2011		Year Ended December 31, 2010		Year Ended December 31, 2009	
(Dollars in thousands)	**Gross Premiums Written**	**Gross Premiums Written (%)**	**Gross Premiums Written**	**Gross Premiums Written (%)**	**Gross Premiums Written**	**Gross Premiums Written (%)**
Property	$ 306,317	30.2%	$ 314,769	32.1%	$ 269,583	29.3%
Marine	341,821	33.7%	315,102	32.1%	307,385	33.4%
Specialty	365,984	36.1%	351,202	35.8%	342,938	37.3%
Total	$ 1,014,122	100.0%	$ 981,073	100.0%	$ 919,906	100.0%

Property: The main sub-classes within property are international and North American direct and facultative contracts, onshore energy, lineslips and binding authorities together with a book of business written on a treaty reinsurance basis. The business written is mostly commercial and industrial insurance though there is a modest personal lines component. The business is short-tail with premiums for reinsurance and, direct and facultative business, substantially earned within 12 months and premiums for lineslips and binding authorities substantially earned within 12 months of the expiry of the contract. Gross premiums written on property business during the year ended December 31, 2011 were $306.3 million, including $96.1 million of treaty reinsurance.

Marine: The main types of business within marine are hull, cargo, energy, marine and energy liabilities, yachts and marinas and other treaty. Hull consists primarily of ocean going vessels and cargo and covers worldwide risks. Energy covers a variety of oil and gas industry risks. The marine and energy liability account provides cover for protection and indemnity clubs and a wide range of companies operating in the marine and energy sector. Yacht and marina policies historically have been written through Underwriting Risk Services Ltd., an underwriting agency that is a subsidiary of Talbot. Each of the sub-classes within marine has a different profile of contracts written some, such as energy, derive up to 27.9% of their business through writing facultative contracts while others, such as cargo, only derive 12.8% 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 $51.7 million of the $341.8 million of gross premiums written during the year ended December 31, 2011, is the primary long-tail class in this line. The business written is mainly on a direct and facultative basis with a small element written on a reinsurance basis either as excess of loss reinsurance or proportional reinsurance.

Specialty: This class consists of war (comprising marine & aviation war, political risks and political violence, including war on land), financial institutions, contingency, accident and health, airlines and aviation treaty. With the exception of aviation treaty, most of the business written under the specialty accounts is written on a direct or facultative basis or under a binding authority through a coverholder. Gross premiums written on specialty business during the year ended December 31, 2011 were $366.0 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. The

attritional losses on the account are traditionally low but the account can be affected by large individual losses. Talbot is a market leader in the war and political violence classes. Gross premiums written on war business during the year ended December 31, 2011 were $174.9 million.

Financial Institutions: Talbot's financial institutions team predominantly underwrites bankers blanket bond, professional indemnity and directors' and officers' coverage for various types of financial institutions and similar companies. Bankers blanket bond insurance products are specifically designed to protect against direct financial loss caused by fraud/criminal actions and mitigate the damage such activities may have on the asset base of 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 the director or officer. Gross premiums written on financial institutions business for the year ended December 31, 2011 were $37.5 million, comprising:

	Year Ended December 31, 2011	
(Dollars in thousands)	**Gross Premiums Written**	**Gross Premiums Written (%)**
Bankers blanket bond	$ 22,565	60.1%
Professional indemnity	13,058	34.8%
Directors' and Officers'	1,904	5.1%
Other	4	0.0%
Total	$ 37,531	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 40.2% of gross premiums written in 2011 generated in Europe, 10.5% from the U.S. and 49.3% 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. As of December 31, 2011, the Company had gross reserves related to the financial institutions business of $176.7 million, comprised of $69.5 million, or 39.4% of incurred but not reported ("IBNR") and $107.2 million, or 60.6% of case reserves. For comparison, as at December 31, 2010 the Company had gross reserves related to the financial institutions business of $171.5 million, comprising $83.0 million, or 48.4% of IBNR and $88.5 million, or 51.6% of case reserves. As of December 31, 2011, Talbot had minimal exposure to U.S. directors' and officers' risks.

Contingency: The main types of covers written under the contingency account are event cancellation and non-appearance business. Gross premiums written on contingency business during the year ended December 31, 2011 were $19.8 million.

Accident and Health: The accident and health account provides insurance in respect of individuals in both their personal and business activity together with corporations where they have an insurable interest relating to death or disability of employees or those under contract. Gross premiums written on accident and health business during the year ended December 31, 2011 were $21.9 million.

Aviation: The aviation account insures major airlines, general aviation, aviation hull war 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, 2011 were $110.8 million.

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Enterprise Risk Management

Validus has implemented an Enterprise Risk Management ("ERM") framework (the "Framework") to identify, assess, quantify and manage risks and opportunities in order to protect our capital and maximize shareholder returns. This framework is incorporated into the business activities of the Company and its strategic planning processes.

The Company's Board of Directors has established a separate Risk Committee that is responsible for, among other things, approving the Company's ERM 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 for underwriting, investment, operational, business and other risks. The Company's Chief Risk Officer prepares a quarterly presentation for the Risk Committee and communicates with the chairman of the Risk Committee on an informal basis periodically throughout the year.

The management committee of the Company that oversees risk management is the Group Risk Management Committee ("GRMC"). The GRMC is comprised of senior executives including among others; the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Actuary, Chief Operating Officer, Chief Executive Officer of Validus Re and Chief Executive Officer of the Talbot Group.

To efficiently asses risks to the Company the GRMC has identified six key risk categories. Potential risks may span several or all of these key risk areas and as such risks are considered both within the context of these areas and the Company as a whole. The key risk areas are; Credit Risk, Market Risk, Liquidity Risk, Insurance Risk, Operational Risk and Group Risk.

Risk Appetite

The Group's risk appetite sets a context within which all risks and opportunities are viewed. The risk appetite is proposed by management and approved by the Board, it represents the amount of risk the Company wants to take, within the constraints of capital resources, strategy, regulation and the rating agency environment.

Economic Capital Model

The Group uses economic capital modeling for capital adequacy assessment, risk-adjusted performance measurement and group-level and operating entity-level risk analysis.

Modeling

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 based on risk levels determined by the Risk Committee of the Board of Directors.

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

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version 11 into its vendor models. The Company models property exposures that could potentially lead to an over-aggregation of property risks (i.e., catastrophe-exposed business) using the vendor models. The vendor models enable 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's review of market practice revealed a number of areas where quantitative expertise can be used to improve the reliability of the vendor model outputs:

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

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

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

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

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

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

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

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

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

Underwriting Risk Management

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

All of the Company's underwriters are subject to a set of underwriting guidelines. At Validus Re, these guidelines are established by the Chief Executive Officer and approved by the Company's Board of Directors. At Talbot, the guidelines are established by executive management at Talbot and approved by their Board of Directors. These guidelines are then subject to review and approval by the Risk Committee of our Board of Directors. Underwriters are also issued 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:

- lines of business that a particular underwriter is authorized to write;
- exposure limits by line of business;
- contractual exposures and limits requiring mandatory referrals to the Chief Executive Officer at Validus Re and the Chief Executive Officer at Talbot; and
- level of analysis to be performed by lines of business.

In general, our underwriting approach is to:

- seek high quality clients who have demonstrated superior performance over an extended period;
- evaluate our clients' exposures and make adjustments where their exposure is not adequately reflected;
- apply the comprehensive knowledge and experience of our entire underwriting team to make progressive and cohesive decisions about the business they underwrite;
- employ our well-founded and carefully maintained market contacts within the group to enhance our robust distribution capabilities; and
- refer submissions to the Chief Underwriting Officer at Validus Re, the Chief Executive Officer at Talbot, Chief Executive Officer at Validus Re and the Risk Committee of our Board of Directors according to our underwriting guidelines.

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

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

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

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

Talbot: Our risk review and control processes have been designed to ensure that all written risks comply with underwriting and risk control strategies. The workflow system is designed to automate the referral of risks to the relevant reviewer who has an appropriate level of authority to review the risk. These reviews are documented, monitored and reports are prepared on a regular basis.

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

- Validating that underwriting decisions are in accordance with risk appetite, authorities, agreed business plans and standards for type, quality and profitability of risk;
- Providing an experienced and suitably qualified second review of individual risks;
- Ensuring that risks identified as significant undergo the highest level of technical underwriting review;
- Elevating technical underwriting queries and/or need for remedial actions on a timely basis; and
- Improving database accuracy and coding for subsequent management reporting.

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

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

Peer Review: The majority of risks are peer reviewed by another underwriter within a specified number of working days of data entry being completed. There is an agreed matrix of underwriters authorized to peer review.

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

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

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

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

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

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

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

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

The key focuses of each committee are as follows:

- The TUL Executive Committee manages key risks with regard to strategy and reserves;
- The Insurance Management Committee manages insurance risks;
- The Operational Risk Committee manages risk related to people, processes, systems and external events; and
- The Financial Risk Committee manages credit risk associated with reinsurers, brokers, coverholders and investments, market risk and liquidity risk.

Performance against underwriting targets is measured regularly throughout the year. Risks written are subject to peer review, an internal quality control process. Pricing is controlled by the monitoring of rate movements and the comparison of technical prices to actual prices for certain classes of business. Controls over aggregation of claims exposures vary by class of business. They include limiting coastal risks, monitoring aggregation by county/region/blast zones and applying line size limits in all cases. Catastrophe modeling software and techniques are used to model expected loss outcomes for Lloyd's Realistic Disaster Scenario returns and in-house catastrophe event scenarios. Reserves are reviewed for adequacy on a quarterly basis. The syndicate also purchases reinsurance, with an appropriate number of reinstatements, to arrive at an acceptable net retained risk.

Program Limits

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

Geographic Diversification

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

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exposure to the maximum limit permitted or less. The following table summarizes our Gross Premiums Written by geographic zone:

	Year ended December 31, 2011				
	Gross Premiums Written				
(Dollars in thousands)	Validus Re	Talbot	Eliminations	Total	%
United States	$ 520,241	$ 117,178	$ (9,494)	$ 627,925	29.6%
Worldwide excluding United States(a)	48,047	247,367	(14,146)	281,268	13.2%
Europe	89,705	52,018	(1,988)	139,735	6.6%
Latin America and Caribbean	43,627	94,859	(27,857)	110,629	5.2%
Japan	43,032	7,380	(458)	49,954	2.3%
Canada	518	10,583	(507)	10,594	0.5%
Rest of the world(b)	58,908			58,908	2.8%
Sub-total, non United States	283,837	412,207	(44,956)	651,088	30.6%
Worldwide including United States	121,941	50,723	(2,852)	169,812	8.0%
Marine and Aerospace(c)	264,201	434,014	(22,349)	675,866	31.8%
Total	$ 1,190,220	$ 1,014,122	$ (79,651)	$ 2,124,691	100.0%

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

(b) Represents risk in one geographic zone.

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

The effectiveness of geographic zone limits in managing risk exposure depends on the degree to which an actual event is confined to the zone in question and on the Company's ability to determine the actual location of the risks believed to be covered under a particular insurance or reinsurance program. 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

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

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

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

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

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

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

The review and modification is based upon the following:

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

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

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

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

Distribution

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

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

	Year Ended December 31, 2011				
	Gross Premiums Written				
(Dollars in thousands)	Validus Re	Talbot	Eliminations	Total	%
Name of Broker					
Marsh Inc./Guy Carpenter & Co.	$ 390,312	$ 172,651	$ (13,560)	$ 549,403	25.9%
Aon Benfield Group Ltd.	238,298	133,634	(10,496)	361,436	17.0%
Willis Group Holdings Ltd.	356,682	162,084	(12,730)	506,036	23.8%
Sub-total	985,292	468,369	(36,786)	1,416,875	66.7%
All Others	204,928	545,753	(42,865)	707,816	33.3%
Total	$ 1,190,220	$ 1,014,122	$ (79,651)	$ 2,124,691	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:

	As at December 31, 2011		
(Dollars in thousands)	Gross case reserves	Gross IBNR	Total Gross Reserve for Loss and Loss Expenses
Property	$ 736,448	$ 575,556	$ 1,312,004
Marine	437,367	350,833	788,200
Specialty	240,627	290,312	530,939
Total	$ 1,414,442	$ 1,216,701	$ 2,631,143

	As at December 31, 2011		
(Dollars in thousands)	Net case reserves	Net IBNR	Total Net Reserve for Loss and Loss Expenses
Property	$ 611,385	$ 512,730	$ 1,124,115
Marine	375,364	326,218	701,582
Specialty	190,506	242,455	432,961
Total	$ 1,177,255	$ 1,081,403	$ 2,258,658

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

The nature of the Company's high excess of loss liability and catastrophe business can result in loss payments that are both irregular and significant. Such loss payments are part of the normal course of business for the Company. Adjustments to reserves for individual years can also be irregular and

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significant. Conditions and trends that have affected development of liabilities in the past may not necessarily occur in the future. Accordingly, it is inappropriate to extrapolate future redundancies or deficiencies based upon historical experience. See Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations Cautionary Note Regarding Forward-Looking Statements."

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

Analysis of Losses and Loss Expense Reserve Development Net of Recoveries

	Year Ended December 31,					
(Dollars in thousands)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
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
Liability estimated as of:						
One year later	60,106	722,010	1,018,930	1,283,759	1,596,720	
Two years later	54,302	670,069	937,696	1,181,987		
Three years later	50,149	606,387	902,161			
Four years later	46,851	584,588				
Five years later	45,946					
Cumulative redundancy (deficiency)(a)	31,417	207,125	194,346	258,382	156,119	
Cumulated paid losses, net of reinsurance recoveries, as of:						
One year later	$ 27,180	$ 216,469	$ 353,476	$ 384,828	476,779	
Two years later	34,935	320,803	562,831	634,041		
Three years later	39,520	350,521	662,319			
Four years later	41,746	374,788				
Five years later	41,901					

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

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Analysis of Losses and Loss Expense Reserve Development Gross of Recoveries

	Year Ended December 31,					
(Dollars in thousands)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
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
Liability estimated as of:						
One year later	60,106	846,863	1,223,018	1,484,646	1,854,565	
Two years later	54,302	791,438	1,164,923	1,385,533		
Three years later	50,149	745,624	1,134,043			
Four years later	46,851	721,730				
Five years later	45,946					
Cumulative redundancy (deficiency)(a)	31,417	204,387	171,260	236,601	181,408	
Cumulative paid losses, gross of reinsurance recoveries, as of:						
One year later	$ 27,180	$ 245,240	$ 437,210	$ 455,182	557,894	
Two years later	34,935	394,685	709,218	650,572		
Three years later	39,520	452,559	830,435			
Four years later	41,746	480,277				
Five years later	41,901					

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

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:

	Year Ended December 31,		
(Dollars in thousands)	**2011**	**2010**	**2009**
Gross reserves at beginning of year	$ 2,035,973	$ 1,622,134	$ 1,305,303
Losses recoverable at beginning of year	(283,134)	(181,765)	(208,796)
Net reserves at beginning of year	1,752,839	1,440,369	1,096,507
Net loss reserves acquired in purchase of IPC			304,957
Incurred losses current year	1,400,520	1,144,196	625,810
Incurred losses change in prior accident years	(156,119)	(156,610)	(102,053)
Incurred losses	1,244,401	987,586	523,757
Paid losses current year	(272,479)	(288,974)	(122,351)
Paid losses prior year	(470,547)	(384,448)	(385,084)
Total net paid losses	(743,026)	(673,422)	(507,435)
Foreign exchange	4,444	(1,694)	22,583
Net reserves at year end	2,258,658	1,752,839	1,440,369
Losses recoverable at year end	372,485	283,134	181,765
Gross reserves at year end	$ 2,631,143	$ 2,035,973	$ 1,622,134

Validus Re: Validus Re's loss reserves are established based upon an estimate of the total cost of claims that have been incurred, including estimates of unpaid liability on known individual claims, the costs

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

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

Loss reserves represent estimates, including actuarial and statistical projections at a given point in time, of the expectations of the ultimate settlement and administration costs of claims incurred. Such estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends in loss severity and frequency and other variable factors such as inflation, litigation and tort reform. This uncertainty is heightened by the short time in which Validus Re has operated, thereby providing limited claims loss emergence patterns that directly pertain to Validus Re's operations. This has necessitated the use of industry loss emergence patterns in deriving IBNR, which despite management's and our actuaries' care in selecting them, will differ from actual experience. Further, expected losses and loss ratios are typically developed using vendor and proprietary computer models and these expected losses and loss ratios are a significant component in the calculation deriving IBNR. Finally, the uncertainty surrounding estimated costs is greater in cases where large, unique events have been reported and the associated claims are in early stages of resolution. As a result of these uncertainties, it is likely that the ultimate liability will differ from such estimates, perhaps materially. During 2010 and 2011, given the complexity and severity of notable loss events in the year, an explicit reserve for potential development on 2010 and 2011 notable loss events (RDE) was included within the Company's IBNR reserving process. As uncertainties surrounding initial estimates on notable loss events develop, it is expected that this reserve will be allocated to specific notable loss events.

The requirement for a reserve for potential development on notable loss events in a quarter is a function of (a) the number of significant events occurring in that quarter and (b) the complexity and volatility of those events. These factors are considered in the aggregate for the events occurring in the quarter, recognizing that it is more likely that one or some of the events may deteriorate significantly, rather than all deteriorating proportionately. The evaluation of each quarter's requirement for a reserve for 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 in the quarter, and therefore it is not 'assigned to a contract on the basis of a specific review'. The reserve for development on notable loss events is evaluated by our in-house actuaries as part of their normal process in setting of indicated reserves for the quarter. In ensuing quarters senior management revisits and re-estimates each event previously considered in the catastrophe loss event process, as well as events that have subsequently emerged in the current quarter. Changes to the reserve for potential development on notable loss events will be considered in light of changes to previous loss estimates from notable losses in this re-estimation process.

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

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

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

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

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

Investment Management

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

Substantially all of the fixed maturity investments held at December 31, 2011 were publicly traded. At December 31, 2011, the average duration of the Company's fixed maturity portfolio was 1.63 years (December 31, 2010: 2.27 years). Management emphasizes capital preservation for the portfolio and maintains a significant allocation of short-term investments. At December 31, 2011, the average rating of the portfolio was AA- (December 31, 2010: AA+). At December 31, 2011, the total fixed maturity portfolio was $4,894.1 million (December 31, 2010: $4,823.9 million), of which $882.9 million (December 31, 2010: $2,946.5 million) were rated AAA.

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Please refer to our Current Report on Form 8-K furnished to the Securities and Exchange Commission (the "SEC") on February 2, 2012 for additional disclosure with respect to the composition of our investment portfolio.

Claims Management

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

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

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

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

Competition

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

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

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

- Premiums charged and other terms and conditions offered;
- Services provided;

Financial ratings assigned by independent rating agencies;

Speed of claims payment;

Reputation;

Perceived financial strength; and

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

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

Regulation

United States

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

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

We currently conduct our business in a manner such that we expect that Validus Re will not be subject to insurance and/or reinsurance licensing requirements or regulations in the United States. Although we do not currently intend for Validus Re to engage in activities which would require it to comply with insurance and reinsurance licensing requirements in the United States, should we choose to engage in activities that would require Validus Re to become licensed in the United States, we cannot assure you that we will be able to do so or to do so in a timely manner. Furthermore, the laws and regulations applicable to direct insurers could indirectly affect us, such as collateral requirements in various U.S. states to enable such insurers to receive credit for reinsurance ceded to us.

In addition, the insurance and reinsurance regulatory framework of Bermuda and the insurance of U.S. risk by companies based in Bermuda and not licensed or authorized in the United States recently has become 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.

United Kingdom

The financial services industry in the UK is regulated by the Financial Services Authority ("FSA"). The FSA is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. Although accountable to treasury ministers and through them to Parliament, it is

funded entirely by the firms it regulates. The FSA has wide ranging powers in relation to rule-making, investigation and enforcement to enable it to meet its four statutory objectives, which are summarized as one overall aim: "to promote efficient, orderly and fair markets and to help retail consumers achieve a fair deal."

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

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

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

The U.K. government has set out proposals to replace the current system of financial regulation, which it believes has weaknesses, with a new regulatory framework. The key weakness it identified was that no single institution has the responsibility, authority and tools to monitor the financial system as a whole, and respond accordingly. That power will be given to the Bank of England. The U.K. government intends to create a new Financial Policy Committee (FPC) within the Bank, which will look at the wider economic and financial risks to the stability of the system.

In addition, the FSA will cease to exist in its current form, and the U.K government will create two new focused financial regulators:

- A new Prudential Regulation Authority (PRA) will be responsible for the day-to-day supervision of financial institutions that are subject to significant prudential regulation. It will adopt a more judgment-focused approach to regulation so that business models can be challenged, risks identified and action taken to preserve financial stability.

- A new Financial Conduct Authority (FCA) will have a strong mandate for promoting confidence and transparency in financial services and to give greater protection for consumers of financial services.

The Financial Services Bill was introduced to Parliament on January 26, 2012. Subject to the parliamentary timetable the U.K government's aim is for the Bill to gain Royal Assent by the end of 2012, and for the new system to be operational in early 2013.

In November 2007 Talbot established Talbot Risk Services Pte Ltd in Singapore to source business in the Far East under the Lloyd's Asia Scheme. The 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, is due to be considered by the European Parliament in 2012. The proposed Solvency II insurance directive is currently expected to come into force with a soft launch on January 1, 2013 and a full implementation on January 1, 2014. 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. The Company's implementation plans are well underway, although final Solvency II guidelines have not been published.

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Bermuda

General. As a holding company, Validus Holdings, Ltd. is not subject to Bermuda insurance regulation. However, the Insurance Act 1978 regulates the Company's operating subsidiaries in Bermuda, and it provides that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the "BMA") under the Insurance Act. The Insurance Act makes no distinction between insurance and reinsurance business. The Company has four Bermuda based-subsidiaries, Validus Re, a Class 4 insurer, Validus Re Americas, Ltd (formerly IPCRe Limited), a Class 4 insurer, Talbot Insurance (Bermuda) Ltd., a Class 3 insurer, and AlphaCat Reinsurance, Ltd, a Class 3 insurer, each registered under the Insurance Act 1978 (Bermuda), and its Related Regulations ("The Act").

Principal Representative. 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. The principal representative must be knowledgeable in insurance and is responsible for arranging the maintenance and custody of the statutory accounting records and for filing the Annual Statutory Financial Return and Capital and Solvency Return.

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

Supervision. The BMA may appoint an inspector with extensive powers to investigate the affairs of any of the Company's Bermuda insurance subsidiaries if it believes that such an investigation is in the best interests of such insurer's policyholders or persons who may become policyholders. In order to verify or supplement information otherwise provided to the BMA, the BMA may direct any of the Company's Bermuda insurance subsidiaries to produce documents or information relating to matters connected with its business. If it appears to the BMA that there is a risk of any of the Company's Bermuda insurance subsidiaries becoming insolvent, or being in breach of the Insurance Act, or any conditions imposed upon its registration under the Insurance Act, the BMA may, among other things, direct the relevant entity or entities: (i) not to take on any new insurance business; (ii) not to vary any insurance contract if the effect would be to increase its liabilities; (iii) not to make certain investments; (iv) to realize certain investments; (v) to maintain in or transfer to the custody of a specified bank certain assets; (vi) not to declare or pay any dividends or other distributions, or to restrict the making of such payments; and/or (vii) to limit its premium income.

Restrictions on Dividends. Under the Bermuda Companies Act 1981, as amended, a Bermuda company, including the Company, may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than its liabilities. Further, an insurer may not declare or pay any dividends during any financial year if it would cause the insurer to fail to meet its relevant margins, and an insurer which fails to meet its relevant margins on the last day of any financial year may not, without the approval of the BMA, declare or pay any dividends during the next financial year. In addition, as Class 4 Insurers, Validus Re and Validus Re Americas, Ltd. may not in any financial year pay dividends which would exceed 25 percent of its total statutory capital and surplus, as shown on its statutory balance sheet in relation to the previous financial year, unless it files a solvency affidavit at least seven days in advance.

Enhanced Capital Requirements and Minimum Solvency. In 2008, the Bermuda insurance supervisory framework underwent major revision with the passage of the Insurance Amendment Act 2008 (the

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Amendment Act). The Amendment Act established new risk-based regulatory capital adequacy and solvency margin requirements for Bermuda insurers. These requirements are updated periodically.

The new risk-based capital model, or Bermuda Solvency Capital Requirement ("BSCR"), is a tool to assist the BMA in measuring risk and in determining appropriate levels of capitalization. The BSCR employs a standard mathematical model that correlates risk underwritten by Bermuda insurers to the capital that is dedicated to their business. The framework that has been developed applies a standard measurement format to the risk associated with an insurer's assets, liabilities and premiums, including a formula to take account of catastrophe risk exposure. In order to minimize the risk of shortfall in capital arising from an unexpected adverse deviation and in moving towards the implementation of a risk-based capital approach, the BMA requires that insurers operate at or above a threshold capital level (termed the Target Capital Level (TCL)), which exceeds the BSCR or approved internal model minimum amounts.

In order to minimize the risk of a shortfall in capital arising from an unexpected adverse deviation and in moving towards the implementation of a risk-based capital approach, the BMA proposes that insurers operate at or above a threshold captive level (termed the Target Capital Level ("TCL")), which exceeds the BSCR (Enhanced Capital Requirement ("ECR")) or approved internal model minimum amounts. Presently the BSCR model applies to Validus Re and Validus Re Americas, Ltd.

In addition to the new risk-based solvency capital regime described above is the minimum solvency margin test set out in the Insurance Returns and Solvency Amendment Regulations 1980 (as amended) applicable to all Bermuda insurance companies. While it must calculate its ECR annually by reference to either the BSCR or an approved internal model, a Class 4 Insurer is also required to meet a margin of solvency as well as minimum amounts of paid-up capital for registration (termed the Regulatory Capital Requirement) ("RCR")). Under the RCR, the value of the general business assets of a Class 4 insurer must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin, being equal to the greater of:

(a) $100,000,000;

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

(c) 15% of net losses and loss expense reserves.

The Company's Bermuda insurance subsidiaries must prepare annual statutory financial statements and file them with the BMA, together with audited annual financial statements prepared in accordance with U.S. GAAP, International Financial Reporting Standards (IFRS) or any such GAAP as the BMA may recognize. These audited financial statements are made public by the BMA.

Prudential Standards: The BMA may make Rules prescribing prudential standards in relation to enhanced capital requirements, capital and solvency returns, insurance reserves and eligible capital and may impose different requirements to be complied with by different classes of insurers, in different situations and in respect of different activities. The Rules may allow the BMA to exercise powers and discretion in relation to prudential standards including the power to approve, improve, adjust or exclude specific prudential standards in relation to a particular insurer or a specific class of insurer. The Rules may provide for summary offences in relation to the making of false or misleading statements or returns. An insurer may make application to be exempted from the requirement to comply with any prudential standard. The BMA will not grant such an exemption unless it is satisfied that it is appropriate having regard to the obligations of the insurer towards its policyholders.

Adjustments to ECR and Available Statutory Capital and Surplus: The BMA, under specified circumstances, may make adjustments to an insurer's enhanced capital requirements and available statutory capital and surplus. Such adjustments may require an increase in the amount of insurance

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reserves to the level of existing prudential standards. The BMA shall notify an insurer of its intention and provide the insurer with an opportunity to make written representations. An insurer also has the opportunity to make application to the BMA for an adjustment to its enhanced capital requirements or available statutory capital and surplus. The BMA will make such adjustments as it determines to be appropriate.

Group Supervision. Emerging international norms in the regulation of global insurance and reinsurance groups are trending increasingly towards the imposition of group-wide supervisory regimes by one principal "home" regulator over all the legal entities in the group, no matter where incorporated. The Insurance Amendment Act 2010 ("2010 Amendment Act") which became operative on March 25, 2010, introduced such a regime into Bermuda insurance regulation.

The 2010 Amendment Act introduced into the Insurance Act a new part concerning group supervision. The new part includes new provisions regarding group supervision, the authority to exclude specified entities from group supervision, the power of the BMA to withdraw as group supervisor, the functions of the BMA as group supervisor and the power of the BMA to make rules regarding group supervision. The BMA has subsequently released Insurance (Group Supervision) Rules 2011, which, when operative, will be applicable to the Company. The BMA is the group supervisor for the Company and its subsidiaries.

The Bermuda Insurance Code of Conduct. The BMA has implemented a new insurance code, the Insurance Code of Conduct (the "Bermuda Insurance Code"), which came into effect on July 1, 2010. The BMA established July 1, 2011 as the date of compliance for commercial insurers, such as the Company's Bermuda insurance subsidiaries.

The Code is divided into six categories, including:

(a) Proportionality Principle;

(b) Corporate Governance;

(c) Risk Management;

(d) Governance Mechanism;

(e) Outsourcing; and

(f) Market Discipline and Disclosure.

These categories contain the duties, requirements and compliance standards to be adhered to by all insurers. It stipulates that in order to achieve compliance with the Bermuda Insurance Code, insurers are to develop and apply policies and procedures capable of assessment by the BMA.

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 us permission to, subject to our ordinary or voting shares being listed on an appointed stock exchange, issue, grant, create, sell and transfer

any of our shares, stock, bonds, notes (other than promissory notes), debentures, debenture stock, units under a unit trust scheme, shares in an oil royalty, options, warrants, coupons, rights and depository receipts, collectively, the "Securities", to and among persons who are either resident or non-resident of Bermuda for exchange control purposes, whether or not the Securities (excluding, for the avoidance of doubt, our ordinary or voting shares) are listed on an appointed stock exchange.

Controller Notification. Under the Insurance Act each shareholder or prospective shareholder will be responsible for notifying the BMA in writing of his becoming a controller, directly or indirectly, of 10%, 20%, 33% or 50% of the Company and/or any of the Company's Bermuda insurance subsidiaries 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 no longer fit and proper to be such a controller. 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 insurance subsidiaries 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 any of the Bermuda insurance subsidiaries.

Employment Practices

The Company prides itself on its ability to attract extraordinarily talented people from all over the world to help us build our business. We are in a knowledge business, and the competition for talent is intense. We have developed an outstanding group of deeply talented professionals. Most importantly, we are able to retain this talented group and harness them toward providing risk management solutions for our clients and for our Company. We believe our relations with our employees are excellent.

The following table details our personnel by geographic location as at December 31, 2011:

Location	Validus Re	Talbot	Corporate	Total	%
London, England		285		285	58.2%
Hamilton, Bermuda	60	1	47	108	22.0%
Waterloo, Canada			29	29	5.9%
Republic of Singapore	8	14		22	4.5%
Miami, United States	16			16	3.3%
New York, United States		13	4	17	3.5%
Dubai, United Arab Emirates		6		6	1.2%
Santiago, Chile	6			6	1.2%
Hamburg, Germany	1			1	0.2%
Total	91	319	80	490	100.0%

Available Information

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

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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.

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

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

The Company manages exposure to catastrophic losses by analyzing the probability and severity of the occurrence of catastrophic events and the impact of such events on our overall (re)insurance and investment portfolio. The Company uses 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 the investment portfolio. VCAPS, a proprietary risk modeling software, enables Validus Re to assess the adequacy of reinsurance risk pricing and to monitor the overall exposure to insurance and reinsurance risk in correlated geographic zones. The Company cannot assure the models and assumptions used by the software will accurately predict losses. Further, the Company cannot assure that it is free of defects in the modeling logic or in the software code. In addition, the Company has not sought copyright or other legal protection for VCAPS.

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In addition, much of the information that the Company enters 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 the Company might incur from an actual catastrophe could be materially higher than its expectation of losses generated from modeled catastrophe scenarios, and its financial condition and results of operations could be adversely affected.

A modeled outcome of net loss from a single event also relies in significant part on the reinsurance and retrocessional arrangements in place, or expected to be in place at the time of the analysis, and may change during the year. Modeled outcomes assume that the reinsurance in place responds as expected with minimal reinsurance failure or dispute. Reinsurance and retrocessional coverage is purchased to protect the inwards exposure in line with the Company's 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 the reinsurance program are purchased with limited reinstatements and, therefore, the number of claims or events which may be recovered from second or subsequent events is limited. It should also be noted that renewal dates of the reinsurance and retrocessional program do not necessarily coincide with those of the inwards business written. Where inwards business is not protected by risks attaching reinsurance and retrocessional programs, the programs could expire resulting in an increase in the possible net loss retained and as such, could have a material adverse effect on our financial condition and results of operations.

The Company also seeks to limit loss exposure through loss limitation provisions in its policies, such as limitations on the amount of losses that can be claimed under a policy, limitations or exclusions from coverage and provisions relating to choice of forum, which are intended to assure that its 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 its favor. If the loss limitation provisions in the policies are not enforceable or disputes arise concerning the application of such provisions, the losses we might incur from a catastrophic event could be materially higher than expectation 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 may experience greater competition on most insurance and reinsurance lines. This could adversely affect the rates we receive for our reinsurance and our gross premiums written.

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

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 an adverse effect on our growth and profitability. If we are unable to compete effectively against these competitors, we may not be able to retain market share.

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 insurance premiums.

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.

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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. 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 and on our assessment of currently available data, predictions of future developments and estimates of future trends and other variable factors such as inflation. Establishing an appropriate level of our loss reserve estimates is an inherently uncertain process. It is likely that the ultimate liability will be greater or less than these estimates and that, at times, this variance will be material. Our reserve estimates are regularly refined as experience develops and claims are reported and settled. Establishing an appropriate level for our reserve estimates is an inherently uncertain process. In addition, as we operate 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 the use of industry loss emergence patterns in deriving IBNR. Loss emergence patterns are development patterns used to project current reported or paid loss amounts to their ultimate settlement value or amount. Further, expected losses and loss ratios are typically developed using vendor and proprietary computer models and these expected loss ratios are a material component in the calculation deriving IBNR. Actual loss ratios will deviate from expected loss ratios and ultimate loss ratios will be greater or less than expected loss ratios. Because of these uncertainties, it is possible that our estimates for reserves at any given time could prove inadequate.

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

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

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Management believes the item that requires the most subjective and complex estimates is the reserve for losses and loss expenses. Due to 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; Joseph E. (Jeff) Consolino, President and Chief Financial Officer; C.N. Rupert Atkin, Chief Executive Officer of the Talbot Group; Michael E.A. Carpenter, Chairman of the Talbot Group; C. Jerome Dill, Executive Vice President and General Counsel; Andrew M. Gibbs, Executive Vice President and Group Controller; Andrew E. Kudera, Executive Vice President and Chief Actuary; Robert F. Kuzloski, Executive Vice President and Chief Corporate Legal Officer; Stuart W. Mercer, Executive Vice President and Chief Risk Officer; Jonathan P. Ritz, Executive Vice President, Business Operations; and Conan M. Ward, Executive Vice President of the Company and Chief Executive Officer of Validus Reinsurance, Ltd., among other key employees. The loss of any of their services or the services of other members of our management team or any difficulty in attracting and retaining other talented personnel could impede the further implementation of our business strategy, reduce our revenues and decrease our operational effectiveness. Although we have an employment agreement with each of the above named executives, there is a possibility that these employment agreements may not be enforceable in the event any of these employees leave. The employment agreements for each of the above-named executives provide that the terms of the agreement will continue for a defined period after either party giving notice of termination, and will terminate immediately upon the Company giving notice of termination for cause. We do not currently maintain key man life insurance policies with respect to them or any of our other employees.

The operating location of our head office and our Validus Re subsidiary may be an impediment to attracting and retaining experienced personnel. Under Bermuda law, non-Bermudians (other than spouses of Bermudians) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. Our success may depend in part on the continued services of key employees in Bermuda. A work permit may be granted or renewed upon demonstrating that, after proper public advertisement, no Bermudian (or spouse of a Bermudian or a holder of a permanent resident's certificate or holder of a working resident's certificate) is available who meets the minimum standards reasonably required by the employer. The Bermuda government's policy places a six-year term limit on individuals with work permits, subject to certain exemptions for key employees. A work permit is issued with an expiry date (up to five years) and no assurances can be given that any work permit will be issued or, if issued, renewed upon the expiration of the relevant term. If work permits are not obtained, or are not renewed, for our principal employees, we would lose their services, which could materially affect our business. Work permits are currently required for 48 of our Bermuda employees, the majority of whom have obtained three- or five-year work permits.

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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.

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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, 2011, our business was primarily sourced from the following brokers: Marsh Inc./Guy Carpenter & Co. 25.9%, Aon Benfield Group Ltd. 17.0% and Willis Group Holdings Ltd. 23.8%. These three brokers provided a total of 66.7% of our gross premiums written for the year ended December 31, 2011. 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 proportion 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 adequately to 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 you 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.

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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 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, oversees our investment strategy, and in consultation with our portfolio advisors, has established investment guidelines. The investment guidelines dictate the portfolio's overall objective, benchmark portfolio, eligible securities, duration, limitations on the use of derivatives and inclusion of foreign securities, diversification requirements and average portfolio rating. Management and the Finance Committee periodically review these guidelines in light of our investment goals and consequently they may change at any time.

The investment return, including net investment income, net realized gains (losses) on investments, net unrealized (losses) gains on investments, on our invested assets was $120.8 million, or 2.3% for the year ended December 31, 2011. 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 Investments."

Investment results will also be affected by general economic conditions, market volatility, interest rate fluctuations, liquidity and credit risks beyond our control. In addition, our need for liquidity may result in investment returns below our expectations. Also, with respect to certain of our investments, we are subject to prepayment or reinvestment risk. In particular, our fixed income portfolio is subject to reinvestment risk, and as at December 31, 2011, 16.9% of our fixed income portfolio is comprised of mortgage backed and asset backed securities which are subject to prepayment risk. Although we attempt to manage the risks of investing in a changing interest rate environment, a significant increase in interest rates could result in significant losses, realized or unrealized, in the fair value of our investment portfolio and, consequently, could have an adverse affect on our results of operations.

Our operating results may be adversely affected by currency fluctuations.

Our functional currency is the U.S. dollar. Many of our companies maintain both assets and liabilities in local currencies. Therefore, we are exposed to foreign exchange risk on the assets 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 foreign exchange risk are the British pound sterling and the Euro. As of December 31, 2011, $797.0 million, or 10.5% of our total assets and $890.5 million, or 21.4% of our total liabilities were held in foreign currencies. As of December 31, 2011, $88.8 million, or 2.1% of our total net liabilities held in foreign currencies was non-monetary items which do not require revaluation at each reporting date. We look to manage our foreign currency exposure through the use of currency derivatives as well as matching of our major foreign denominated assets and liabilities. 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 income portfolio contains certain Eurozone non-U.S. Government and Government Agency securities and Eurozone Non-U.S. 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, 2011 our fixed income portfolio contains $159.4 million or 3.3% of Eurozone Non-U.S. Government securities and $267.5 or 5.5% of Eurozone Non-U.S. 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 affect on our results of operations.

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;
- establishing satisfactory budgetary and other financial controls;
- funding increased capital needs and overhead expenses;
- obtaining management personnel required for expanded operations;
- funding cash flow shortages that may occur if anticipated sales and revenues are not realized or are delayed, whether by general economic or market conditions or unforeseen internal difficulties;
- the value of assets related to acquisitions or new ventures may be lower than expected or may diminish due to credit defaults or changes in interest rates and liabilities assumed may be greater than expected;
- the assets and liabilities related to acquisitions or new ventures may be subject to foreign currency exchange rate fluctuation; and
- financial exposures in the event that the sellers of the entities we acquire are unable or unwilling to meet their indemnification, reinsurance and other obligations to us.

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

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

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

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

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, is due to be considered by the European Parliament in 2012. The proposed Solvency II insurance directive is currently expected to come into force with a soft launch on January 1, 2013 and a full implementation on January 1, 2014. 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. The Company and Talbot's implementation plans are well underway, although final Solvency II guidelines have not been published. There can be no assurance that future legislation will not have an adverse effect on Talbot or the Company. Talbot continues to work towards a January 1, 2013 implementation date as agreed with Lloyd's and the FSA.

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.

The future structure of U.K. financial regulation

The U.K. government has set out proposals to replace the current system of financial regulation, which it believes has weaknesses, with a new regulatory framework. The key weakness it identified was that no single institution has the responsibility, authority and tools to monitor the financial system as a whole, and respond accordingly. That power will be given to the Bank of England. The U.K. government will create a new Financial Policy Committee (FPC) within the Bank, which will look at the wider economic and financial risks to the stability of the system.

In addition, the FSA will cease to exist in its current form, and the Government will create two new focused financial regulators:

- A new Prudential Regulation Authority (PRA) will be responsible for the day-to-day supervision of financial institutions that are subject to significant prudential regulation. It will adopt a more judgment-focused approach to regulation so that business models can be challenged, risks identified and action taken to preserve financial stability.

- A new Financial Conduct Authority (FCA) will have a strong mandate for promoting confidence and transparency in financial services and to give greater protection for consumers of financial services.

The Financial Services Bill was introduced to Parliament on January 26, 2012. Subject to the parliamentary timetable the U.K. government's aim is for the Bill to gain Royal Assent by the end of 2012, and for the new system to be operational in early 2013.

Lloyd's is keeping abreast of these developments and lobbying on behalf of the market when necessary. It is likely that Lloyd's itself and managing agency businesses will come under the day-to-day supervision of the PRA in due course although Talbot will also have to interact with the FCA. We are unable to determine the impact, if any, the change in U.K. financial regulation will have on Talbot's financial condition and results of operations.

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

Lloyd's 1992 and prior liabilities.

Lloyd's currently has a number of contingent liabilities in respect of risks under certain policies allocated to 1992 or prior years of account.

Notwithstanding the "firebreak" introduced when Lloyd's implemented the Reconstruction and Renewal Plan in 1996, and the phase II completion which was effective June 30, 2009 which, as a result Equitas and relevant policyholders now benefit from $7.0 billion of reinsurance cover provided under this arrangement, Lloyd's members, including Talbot subsidiaries, remain indirectly exposed in a number of ways to 1992 and prior business then reinsured by Equitas, including through the application of overseas deposits and the central fund.

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

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

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

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

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

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

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

We may be subject to U.S. tax.

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

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

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

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

Related Person Insurance Income: If the related person insurance income ("RPII") of any of the Company's non-U.S. insurance subsidiaries were to equal or exceed 20% of that subsidiary's gross insurance income in any taxable year, and U.S. persons were treated as owning 25% or more of the subsidiary's stock, by vote or value, a U.S. person who directly or indirectly owns any common shares on the last day of such taxable year on which the 25% threshold is met would be required to include in income for U.S. federal income tax purposes that person's ratable share of that subsidiary's RPII for the taxable year. The amount 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

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because, through Validus Re, Talbot 2002 Underwriting Capital Ltd. and Talbot Underwriting Ltd., it intends to be predominantly engaged in the active conduct of a global insurance and reinsurance business. We cannot assure you, however, that the Company will not be deemed to be a PFIC by the IRS. No regulations currently exist regarding the application of the PFIC provisions to an insurance company.

Changes in U.S. tax laws may be retroactive and could subject a U.S. holder of 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 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.

The Obama administration's proposed budget for Fiscal Year 2013 could subject a U.S. holder of common shares to adverse tax consequences.

Under current U.S. law, non-corporate U.S. holders of our common shares generally are taxed on dividends at a capital gains tax rate of 15% rather than ordinary income tax rates. The Obama administration's proposed budget for fiscal year 2013 contains a proposal that would not extend the current 0% and 15% tax rates for qualified dividends that would be taxable in the 36% or 39.6% tax brackets. This proposal would be effective for taxable years beginning after December 31, 2012. If this proposal becomes law, certain individual U.S. shareholders would no longer benefit from the current tax rate of 15% on dividend paid by us.

The Obama administration's proposed budget for Fiscal Year 2013 could disallow a deduction for premiums paid for reinsurance.

Insurance companies are generally allowed a deduction for premiums paid for reinsurance. The proposed budget for fiscal year 2013 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. The current proposal would only apply to policies issued in tax years beginning after December 31, 2012. Based on the information currently available to us, it is uncertain to which extent this legislation will adversely impact us.

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 proviso that it is not to be construed to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda or to prevent the application of any tax payable in accordance with the provisions of the Land Tax Act 1967 or otherwise payable in relation to any property leased to us. We and Validus Re each pay annual Bermuda government fees; Validus Re pays annual insurance license fees. In addition, all entities employing individuals in Bermuda are required to pay a payroll tax and there are other sundry taxes payable, directly or indirectly, to the Bermuda government.

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 resident in the U.K. if its business is centrally managed and controlled from the U.K.. Because the concept of central management and control is not defined in statute but derives from case law and the determination of residence is subjective, the U.K. Inland Revenue might contend successfully that one or more of our companies is 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. U.K. Inland Revenue might contend successfully that one or more of our non-U.K. companies, is conducting business in the U.K. For U.K. tax purposes, a non-U.K. tax resident company will only be subject to U.K. corporation tax if it carries on a trade in the U.K. through a U.K. permanent establishment. However, that company will still have an income tax liability in the U.K. if it carries on a trade in the U.K., even absent a permanent establishment, unless that company is treaty-protected.

On July 19, 2011, the U.K. government passed the Finance Act 2011 which reduced the U.K. corporate income tax rate from 27% to 26% (as of April 1, 2011) and provided for a further reduction in the U.K. corporate income tax rate from 26% to 25% (effective April 1, 2012)

On December 6, 2011, the U.K. government released draft legislation for a number of key tax reforms which includes a further reduction in U.K. corporation tax rate to 24% (effective April 1, 2013) and 23% (effective April 1, 2014). The effect of a change in an enacted tax law should be recognized through an adjustment to income from continuing operations in the period that legislation is enacted.

The deferred tax liability for underwriting profit taxable in future periods arises because of a difference in timing, for tax payment purposes, between when Talbot syndicate underwriting income is subject to tax and when corresponding corporate name reinsurance premiums are allowable for tax. Under current U.K. tax legislation, syndicate underwriting income for a particular underwriting year of account is taxed in the year the syndicate closes. However the corresponding corporate name reinsurance premiums are allowable for tax as they are accounted for on an accruals basis. On December 6, 2011, HM Revenue & Customs announced that this timing difference will be eliminated by legislating that the corporate name reinsurance premiums will only allowable for tax in the same period that the syndicate underwriting income for the corresponding underwriting year of account is subject to tax. This change only applies to the 2012 and future underwriting years of account. Therefore, it is expected that the deferred tax liability will be eliminated in future accounting periods as a result of this change.

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 United States and Bermuda." Although we do not currently intend to engage in activities which would require us to comply with insurance and reinsurance licensing requirements of other jurisdictions, should we choose to engage in activities that would require us to become licensed in such jurisdictions, we cannot assure that we will be able to do so or to do so in a timely manner. Furthermore, the laws and regulations applicable to direct insurers could indirectly affect us, such as collateral requirements in various U.S. states to enable such insurers to receive credit for reinsurance ceded to us.

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

Risks Related to Ownership of Our Common Shares

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

We conduct substantially all of our operations through subsidiaries. Our ability to meet our ongoing cash requirements, including any debt service payments or other expenses, and pay dividends on our common shares in the future, will depend on our ability to obtain cash dividends or other cash payments or obtain loans from these subsidiaries and 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 law and regulations. The Insurance Act provides that our Bermuda subsidiaries may not declare or pay in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its statutory balance sheet in relation to the previous financial year) unless it files an affidavit with the BMA at least seven days prior to the payment signed by at least two directors and such subsidiary's principal representative, stating that in their opinion such subsidiaries will continue to satisfy the required margins following declaration of those dividends, though there is no additional requirement for BMA approval. In addition, before reducing its total statutory capital by 15% or more (as set out in its previous years' statutory financial statements) each of these subsidiaries must make application to the BMA for permission to do so, such application to consist of an affidavit signed by at least two directors and such subsidiary's principal representative stating that in their opinion the proposed reduction in capital will not cause such subsidiaries to fail to meet its relevant margins, and such other information as the BMA may require. At December 31, 2011, the excesses of statutory capital and surplus above minimum solvency margins for Validus Re and Talbot Insurance (Bermuda), Ltd., a Talbot subsidiary, were $2,822.7 million and $449.2 million, respectively. These amounts are available for distribution as dividend payments to the Company, subject to approval of the BMA. These amounts were calculated using the BMA's risk-based capital model, or Bermuda Solvency Capital Requirement ("BSCR"), and are based on draft regulatory filings for Validus Re and Talbot Insurance (Bermuda) Ltd.

The timing and amount of any cash dividends on our common shares are at the discretion of our Board of Directors and will depend upon our results of operations and cash flows, our financial position

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

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

As of February 15, 2012 (but without giving effect to unvested restricted shares), we had 99,478,305 common shares outstanding and 6,916,678 shares issuable upon exercise of outstanding warrants. Approximately 11,385,084 of these outstanding shares were subject to the volume limitations and other conditions of Rule 144 under the Securities Act of 1933, as amended, which we refer to as the "Securities Act." Furthermore, certain of our sponsoring shareholders and their transferees have the right to require us to register these common shares under the Securities Act for sale to the public, either in an independent offering pursuant to a demand registration or in conjunction with a public offering, subject to a "lock-up" agreement of no more than 90 days. Following any registration of this type, the common shares to which the registration relates will be freely transferable. In addition, we have filed one or more registration statements on Form S-8 under the Securities Act to register common shares issued or reserved for issuance under our 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 4,109,215 shares remain available as of December 31, 2011. We cannot predict what effect, if any, future sales of our common shares, or the availability of common shares for future sale, will have on the market price of our common shares. Sales of substantial amounts of our common shares in the public market, or the perception that sales of this type could occur, could depress the market price of our common shares and may make it more difficult for our shareholders to sell their common shares at a time and price that they deem appropriate.

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

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

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

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

In general, and except as provided below, shareholders have one vote for each voting common share held by them and are entitled to vote at all meetings of shareholders. However, if, and for so long as, the common shares of a shareholder, including any votes conferred by "controlled shares" (as defined below), would otherwise represent more than 9.09% of the aggregate voting power of all common shares entitled to vote on a matter, including an election of directors, the votes conferred by such shares will be reduced by whatever amount is necessary such that, after giving effect to any such reduction (and any other reductions in voting power required by our Bye-laws), the votes conferred by such shares represent 9.09% of the aggregate voting power of all common shares entitled to vote on such matter. "Controlled shares" include, among other things, all shares that a person is deemed to own directly, indirectly or constructively (within the meaning of Section 958 of the Code, or Section 13(d)(3) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act")). At December 31, 2011, there were 101,046,056 voting common shares, of which 9,185,086 voting common shares would confer votes that represent 9.09% of the aggregate voting power of all common shares entitled to vote generally at an election of directors. An investor who does not hold, and is not deemed under the provisions of our Bye-laws to own, any of our common shares may therefore purchase up to such amount without being subject to voting cutback provisions in our Bye-laws.

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

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

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

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

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

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

We were incorporated under the laws of Bermuda and our business is based in Bermuda. In addition, certain of our directors and officers reside outside the United States, and a portion of our assets and the assets of such persons may be located in jurisdictions outside the United States. As such, it may be difficult

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company does not own any real property. The Company and its subsidiaries currently occupy office space as described below. 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 Re	Pembroke, Bermuda	December 31, 2021
Validus Re	Hamilton, Bermuda	April 30, 2012
Validus Re	Hamburg, Germany	July 1, 2012
Validus Research Inc.	Waterloo, Canada	March 31, 2015
Validus Reaseguros, Inc.	Miami, Florida, USA	April 1, 2018
Validus Services, Inc.	New York, New York, USA	November 8, 2015
Underwriting Risk Services, Inc.	New York, New York, USA	November 8, 2015
Talbot Holding Ltd and Talbot Underwriting Services Ltd.	London, England	June 22, 2024
Validus Reinsurance, Ltd.	Republic of Singapore	August 31, 2013
Talbot Risk Services PTE Ltd.	Republic of Singapore	December 31, 2015
Underwriting Services (Middle East) Ltd.	Dubai, United Arab Emirates	January 31, 2014
Validus Re Chile S.A.	Santiago, Chile	May 1, 2014

Item 3. Legal Proceedings

Similar to the rest of the insurance and reinsurance industry, we are subject to litigation and arbitration in the ordinary course of business.

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Executive Officers of the Company

The following table provides information regarding our executive officers and key employees as of February 17, 2012:

Name	Age	Position
Edward J. Noonan	53	Chairman of the Board of Directors and Chief Executive Officer of the Validus Group
Joseph E. (Jeff) Consolino	45	President and Chief Financial Officer
C.N. Rupert Atkin	53	Chief Executive Officer of the Talbot Group
Michael E.A. Carpenter	62	Chairman of the Talbot Group and Director of the Company
C. Jerome Dill	51	Executive Vice President and General Counsel
Andrew M. Gibbs	50	Executive Vice President and Group Controller
Andrew E. Kudera	52	Executive Vice President and Chief Actuary
Robert F. Kuzloski	48	Executive Vice President and Chief Corporate Legal Officer
Stuart W. Mercer	52	Executive Vice President and Chief Risk Officer
Jonathan P. Ritz	44	Executive Vice President, Business Operations
Conan M. Ward	44	Executive Vice President of the Company and Chief Executive Officer of Validus Reinsurance, Ltd.

Edward J. Noonan has been Chairman of our Board and the Chief Executive Officer of the Company since its formation. Mr. Noonan has 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.

Joseph E. (Jeff) Consolino was appointed President of the Company on November 15, 2010 and continues to serve as the Company's Chief Financial Officer, a position that he has held since March 2006. Mr. Consolino has over 18 years of experience in the financial services industry, specifically in providing investment banking services to the insurance industry, and most recently served as a managing director in Merrill Lynch's Financial Institutions Group specializing in insurance company advisory and financing transactions. He serves as a Director of National Interstate Corporation, a property and casualty company based in Ohio and of AmWINS Group, Inc., a wholesale insurance broker based in North Carolina.

C. 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 and appointed as the Chairman of the Lloyd's Market Association in 2012.

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Michael E. A. Carpenter joined Talbot in June 2001 as the Chief Executive officer. Following the sale of Talbot to Validus in the summer of 2007, Michael was appointed as Chairman. Prior to joining Talbot in 2001, Mr. Carpenter served as finance director and managing director of Limit plc, the UK listed Lloyd's group now part of QBE, from 1993 to 2000. Mr. Carpenter is a graduate of Cambridge University, a Member of the Chartered Institute for Securities & Investment (CISI) and a Fellow of the Institute of Chartered Accountants (FCA).

C. Jerome Dill has been Executive Vice President and General Counsel of the Company since April 1, 2007. Prior to joining the Company, Mr. Dill was a partner with the law firm of Appleby Hunter Bailhache, which he joined in 1986.

Andrew M. Gibbs has served as Executive Vice President and Controller of the Company since August 2008. Prior to joining the Company, Mr. Gibbs served in various finance and operational positions in the Ace Limited group of companies from 1996 to 2008. Mr. Gibbs is a Fellow of the Institute of Chartered Accountants in England & Wales, Associate of the Chartered Insurance Institute. Mr. Gibbs has over twenty five years experience in the insurance and reinsurance industry. Mr. Gibbs is a former partner with Ernst & Young.

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 Re from its inception through 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 serves as Executive Vice President and Chief Corporate Legal Officer of the Company. Prior to joining the Company in January of 2009, Mr. Kuzloski served as the 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.

Stuart W. Mercer has been Executive Vice President of the Company since its formation. Mr. Mercer has over 20 years of experience in the financial industry focusing on structured derivatives, energy finance and reinsurance. Previously, Mr. Mercer was a senior advisor to DTE Energy Trading.

Jonathan P. Ritz serves as Executive Vice President, Business Operations 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.

Conan M. Ward has been Chief Executive Officer of Validus Reinsurance, Ltd. since July of 2009. Prior to that time, Mr. Ward served as Executive Vice President and Chief Underwriting Officer of the Company since January 2006. Mr. Ward has over 16 years of insurance industry experience. Mr. Ward was Executive Vice President of the Global Reinsurance division of Axis Capital Holdings, Ltd. from November 2001 until November 2005, where he oversaw the division's worldwide property catastrophe, property per risk, property pro rata portfolios. He is one of the founders of Axis Specialty, Ltd and was a member of the operating board and senior management committee of Axis Capital. From July 2000 to November 2001, Mr. Ward was a Senior Vice President at Guy Carpenter & Co.

Item 4. Mine Safety Disclosure Not Applicable

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PART II

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

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

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

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

	High	Low
2011:		
1st Quarter	$ 33.33	$ 29.85
2nd Quarter	$ 34.51	$ 29.65
3rd Quarter	$ 31.26	$ 23.45
4th Quarter	$ 31.41	$ 24.30

	High	Low
2010:		
1st Quarter	$ 27.99	$ 25.64
2nd Quarter	$ 27.42	$ 23.14
3rd Quarter	$ 26.78	$ 24.45
4th Quarter	$ 30.66	$ 26.64

There were approximately 47 record holders of our common shares as of December 31, 2011. This figure does not represent the actual number of beneficial owners of our common shares because such shares are frequently held in "street name" by securities dealers and others for the benefit of individual owners who may vote the shares.

Performance Graph

Set forth below is a line graph comparing the percentage change in the cumulative total shareholder return, assuming the reinvestment of dividends, over the period from the Company's IPO on July 25, 2007, through December 31, 2011 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*: Allied World Assurance Company Holdings, AG., 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., Flagstone Reinsurance Holdings SA,

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Montpelier Re Holdings Ltd., PartnerRe Ltd., Platinum Underwriters Holdings Ltd., RenaissanceRe Holdings Ltd., and Transatlantic Holdings, Inc.

Dividend Policy

The Company currently pays a quarterly cash dividend of $0.25 per common share and per common share equivalent for which each outstanding warrant is exercisable.

We are a holding company and have no direct operations. Our ability to pay dividends depends, in part, on the ability of Validus Re and Talbot to pay dividends to us. Each of the subsidiaries is subject to significant regulatory restrictions limiting its ability to declare and pay dividends. The Insurance Act provides that these subsidiaries may not declare or pay in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its statutory balance sheet in relation to the previous financial year) unless it files an affidavit with the BMA at least seven days prior to the payment signed by at least two directors and such subsidiary's principal representative, stating that in their opinion such subsidiaries will continue to satisfy the required margins following declaration of those dividends. In addition, before reducing its total statutory capital by 15% or more (as set out in its previous years' statutory financial statements) each of these subsidiaries must make application to the BMA for permission to do so, such application to consist of an affidavit signed by at least two directors and such subsidiary's principal representative stating that in their opinion the proposed reduction in capital will not cause such subsidiary to fail to meet its relevant margins, and such other information as the BMA may require. At December 31, 2011, the excesses of statutory capital and surplus above minimum solvency margins for Validus Re and Talbot Insurance (Bermuda), Ltd., a Talbot subsidiary, were $2,822.7 million and $449.1 million, respectively. These amounts are available for distribution as dividend payments to the Company, subject to approval of the BMA. These amounts were calculated using the BMA's risk-based capital model, or Bermuda Solvency Capital Requirement ("BSCR"), and are based on draft regulatory filings for Validus Re and Talbot Insurance (Bermuda) Ltd.

Talbot manages Syndicate 1183 (the "Syndicate") at Lloyd's. Lloyd's requires Talbot to hold cash and investments in trust for the benefit of policyholders either as Syndicate trust funds or as Funds at Lloyd's ("FAL"). Talbot may not distribute funds from the Syndicate into its corporate member's trust accounts unless, firstly, they are represented by audited profits and, secondly, the Syndicate has adequate future cash flow to service its policyholders. Talbot's corporate member may not distribute funds to Talbot's

unregulated bank or investment accounts unless they are represented by a surplus of cash and investments over the FAL requirement. Additionally, U.K. company law prohibits Talbot's corporate name from declaring a dividend to the Company unless it has "profits available for distribution". The determination of whether a company has profits available for distribution is based on its accumulated realized profits less its accumulated realized losses. While the U.K. insurance regulatory laws do not impose statutory restrictions on a corporate name's ability to declare a dividend, the U.K. Financial Services Authority's ("FSA") rules require maintenance of each insurance company's solvency margin within its jurisdiction.

In addition, the indenture governing our Junior Subordinated Deferrable Debentures would restrict us from declaring or paying dividends on our common shares if we are downgraded by A.M. Best to a financial strength rating of "B" (Fair) or below or if A.M. Best withdraws its financial strength rating on any of our material insurance subsidiaries. On February 6, 2012, A.M. Best upgraded our financial strength rating to A (Excellent) with a stable outlook. See "Business Regulation Bermuda," "Risk Factors Risks Related to Ownership of Our Common Shares Because we are a holding company and substantially all of our operations are conducted by our main operating subsidiaries, Validus Re and Talbot, our ability to meet any ongoing cash requirements and to pay dividends will depend on our ability to obtain cash dividends or other cash payments or obtain loans from Validus Re and Talbot," "Risk Factors Risks Related to Our Company We depend on ratings by A.M. Best Company. Our financial strength rating could be revised downward, which could affect our standing among brokers and customers, cause our premiums and earnings to decrease and limit our ability to pay dividends on our common shares."

Share Repurchase Program

In November 2009, the Board of Directors of the Company authorized an initial $400.0 million share repurchase program. On February 17, 2010, the Board of Directors of the Company authorized the Company to return up to $750.0 million to shareholders. This amount was in addition to, and in excess of, the $135.5 million of common shares purchased by the Company through February 17, 2010 under its previously authorized $400.0 million share repurchase program. On May 6, 2010, the Board of Directors authorized a self tender offer pursuant to which the Company has repurchased $300.0 million in common shares.

On November 4, 2010, the Company announced that its Board of Directors had approved share repurchase transactions aggregating $300.0 million. These repurchases were effected by a tender offer which the Company commenced on Monday November 8, 2010, for up to 7,945,400 of its common shares at a price of $30.00 per share. In addition, the Board of Directors authorized separate repurchase agreements with funds affiliated with or managed by each of Aquiline Capital Partners LLC, New Mountain Capital, LLC and Vestar Capital Partners pursuant to which the Company has repurchased $61.6 million in common shares. On December 20, 2010, the Board of Directors authorized the Company to return up to $400.0 million to shareholders. This amount was in addition to the $929.2 million of common shares purchased by the Company through December 23, 2010 under its previously authorized share repurchase program.

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.

The Company has repurchased approximately 35.0 million common shares for an aggregate purchase price of $947.2 million from the inception of the share repurchase program to February 15, 2012.

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 granted and the exercise of

stock appreciation rights. We purchased these shares at their fair market value, as determined by reference to the closing price of our common shares on the day the restricted shares vested or the stock appreciation rights were exercised.

		Share Repurchase Activity by Quarter			
Effect of share repurchases:	**As at December 31, 2010 (cumulative)**	**Quarter ended March 31, 2011**	**Quarter ended June 30, 2011**	**Quarter ended September 30, 2011**	**Quarter ended December 31, 2011**
	(Dollars in thousands, except share and per share amounts)				
Aggregate purchase price(a)	$ 941,170	$ 6,000	$	$	$
Shares repurchased	34,836,885	195,100			
Average price(a)	$ 27.02	$ 30.75	$	$	$
Estimated net accretive (dilutive) impact on:					
Diluted BV per common share(b)		$ 1.02	$ 1.16	$ 1.23	$ 1.25
Diluted EPS Quarter(c)		$ n/a	$ 0.26	$ 0.13	$ 0.05

		Share Repurchase Activity Post Year End			
Effect of share repurchases:	**As at December 31, 2011 (cumulative)**	**January 31, 2012**	**February 15, 2012**	**As at February 15, 2012**	**Cumulative to Date Effect**
	(Dollars in thousands, except share and per share amounts)				
Aggregate purchase price(a)	$ 947,170	$	$	$	$ 947,170
Shares repurchased	35,031,985				35,031,985
Average price(a)	$ 27.04	$	$	$	$ 27.04

(a) Share transactions are on a trade date basis through February 15, 2012 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 2009, 2010 and 2011 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 diluted earnings per share was calculated by comparing reported results versus i) net income per share plus an estimate of lost net investment income on the cumulative share repurchases divided by ii) weighted average diluted shares outstanding excluding the weighted average impact of cumulative share repurchases. The impact of cumulative share repurchases was accretive to diluted earnings per share.

Item 6. Selected Financial Data

The summary consolidated statement of operations data for the years ended December 31, 2011, December 31, 2010, December 31, 2009, December 31, 2008 and December 31, 2007 and the summary consolidated balance sheet data as of December 31, 2011, December 31, 2010, December 31, 2009, December 31, 2008 and December 31, 2007 are derived from our audited consolidated financial statements. The Company was formed on October 19, 2005 and completed the acquisitions of Talbot and IPC on July 2, 2007 and September 4, 2009, respectively. Talbot is included in the Company's consolidated results only for the six months ended December 31, 2007 and subsequent fiscal year ends. IPC is included in the Company's consolidated results only for the four months ended December 31, 2009 and subsequent fiscal year ends. IPC is not included in consolidated results for the years ended December 31, 2007, and December 31, 2008.

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

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands, except share and per share amounts)				
Revenues					
Gross premiums written	$ 2,124,691	$ 1,990,566	$ 1,621,241	$ 1,362,484	$ 988,637
Reinsurance premiums ceded	(289,241)	(229,482)	(232,883)	(124,160)	(70,210)
Net premiums written	1,835,450	1,761,084	1,388,358	1,238,324	918,427
Change in unearned premiums	(33,307)	39	61,219	18,194	(60,348)
Net premiums earned	1,802,143	1,761,123	1,449,577	1,256,518	858,079
Gain on bargain purchase, net of expenses(a)			287,099		
Net investment income	112,296	134,103	118,773	139,528	112,324
Realized gain on repurchase of debentures			4,444	8,752	
Net realized gains (losses) on investments	28,532	32,498	(11,543)	(1,591)	1,608
Net unrealized (losses) gains on investments(b)	(19,991)	45,952	84,796	(79,707)	12,364
Other income	5,718	5,219	4,634	5,264	3,301
Foreign exchange (losses) gains	(22,124)	1,351	(674)	(49,397)	6,696
Total revenues	1,906,574	1,980,246	1,937,106	1,279,367	994,372
Expenses					
Losses and loss expenses	1,244,401	987,586	523,757	772,154	283,993
Policy acquisition costs	314,184	292,899	262,966	234,951	134,277
General and administrative expenses(c)	197,497	209,290	185,568	123,948	100,765
Share compensation expenses	34,296	28,911	27,037	27,097	16,189
Finance expenses	54,817	55,870	44,130	57,318	51,754
Fair value of warrants issued					2,893
Transaction expenses(d)	17,433				
Total expenses	1,862,628	1,574,556	1,043,458	1,215,468	589,871
Net income (loss) before taxes	43,946	405,690	893,648	63,899	404,501
Tax (expense) benefit	(824)	(3,126)	3,759	(10,788)	(1,505)
Net income	43,122	402,564	897,407	53,111	402,996
Net income attributable to noncontrolling interest	(21,793)				
Net income available to Validus	21,329	402,564	897,407	53,111	402,996
Comprehensive income					
Foreign currency translation adjustments	(1,146)	(604)	3,007	(7,809)	(49)
Comprehensive income	$ 20,183	$ 401,960	$ 1,797,821	$ 98,413	$ 402,947
Earnings per share(e)					
Weighted average number of common shares and common share equivalents outstanding					
Basic	98,607,439	116,018,364	93,697,194	74,677,903	65,068,093
Diluted	100,928,284	120,630,945	97,168,409	75,819,413	67,786,673

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	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands, except share and per share amounts)				
Basic earnings per share available to common shareholders	$ 0.14	$ 3.41	$ 9.51	$ 0.62	$ 6.19
Diluted earnings per share available to common shareholders	$ 0.14	$ 3.34	$ 9.24	$ 0.61	$ 5.95
Cash dividends declared per share	$ 1.00	$ 0.88	$ 0.80	$ 0.80	$
Selected financial ratios					
Losses and loss expenses(f)	69.1%	56.1%	36.1%	61.5%	33.1%
Policy acquisition cost(g)	17.4%	16.6%	18.1%	18.7%	15.6%
General and administrative expense(h)	12.9%	13.5%	14.7%	12.0%	13.3%
Expense ratio(i)	30.3%	30.1%	32.8%	30.7%	28.9%
Combined ratio(j)	99.4%	86.2%	68.9%	92.2%	62.0%
Annualized return on average equity(k)	0.6%	10.8%	31.8%	2.7%	26.9%

The following table sets forth summarized balance sheet data as of December 31, 2011, 2010, 2009, 2008 and 2007:

	As at December 31,				
	2011	2010	2009	2008	2007
	(Dollars in thousands, except share and per share amounts)				
Summary Balance Sheet Data:					
Investments at fair value	$ 5,191,123	$ 5,118,859	$ 5,388,759	$ 2,831,537	$ 2,662,021
Cash and cash equivalents	832,844	620,740	387,585	449,848	444,698
Total assets	7,618,471	7,060,878	7,019,140	4,322,480	4,144,224
Reserve for losses and loss expenses	2,631,143	2,035,973	1,622,134	1,305,303	926,117
Unearned premiums	772,382	728,516	724,104	539,450	557,344
Senior notes payable	246,982	246,874			
Debentures payable	289,800	289,800	289,800	304,300	350,000
Total shareholders' equity	3,448,425	3,504,831	4,031,120	1,978,734	1,934,800
Book value per common share(l)	34.67	35.76	31.38	25.64	26.08
Diluted book value per common share(m)	32.28	32.98	29.68	23.78	24.00

(a)

The gain on bargain purchase, net of expenses, arises from the acquisition of IPC Holdings, Ltd. on September 4, 2009 and is net of transaction related expenses.

(b)

During the first quarter of 2007, the Company adopted authoritative guidance on "Fair Value Measurements and Disclosures" and "Financial Instruments" and elected the fair value option on all securities previously accounted for as available-for-sale. Unrealized gains and losses on available-for-sale investments at December 31, 2006 of $875,000, previously included in accumulated other comprehensive income, were treated as a cumulative-effect adjustment as of January 1, 2007. The cumulative-effect adjustment transferred the balance of unrealized gains and losses from accumulated other comprehensive income to retained earnings and has no impact on the results of operations for the annual or interim periods beginning January 1, 2007. The Company's investments were accounted for as trading for the annual or interim periods beginning January 1, 2007 and as such all unrealized gains and losses are included in net income.

(c)

General and administrative expenses for the year ended December 31, 2007 include $4,000,000 related to our Advisory Agreement with Aquiline. Our Advisory Agreement with Aquiline terminated upon completion of our IPO, in connection with which the Company recorded general and administrative expense of $3,000,000 in the third quarter of the year ended December 31, 2007.

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(d)

The transaction expenses relate to cost 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.

(e)

U.S. GAAP fair value recognition provisions for *"Stock Compensation"* require that any unrecognized stock-based compensation expense that will be recorded in future periods be included as proceeds for purposes of treasury stock repurchases, which is applied against the unvested restrictmily:inherit;font-size:10pt;">2.07

$
1.52

Refer to Note 17, “Shareholders’ Equity”, for disclosures related to the stock repurchase program and retired shares.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

13. Retirement and Other Employee Benefits

The following table sets forth the net periodic benefit costs of our pension plans and post-retirement plans (U.S. dollars in millions):

	Quarter ended		Six months ended	
	June 29, 2012	July 1, 2011	June 29, 2012	July 1, 2011
Service cost	$1.0	$0.9	$2.1	$1.8
Interest cost	1.5	1.7	3.1	3.5
Expected return on assets	(0.8)	(0.9)	(1.7)	(1.9)
Amortization of net actuarial loss	0.4	0.3	0.7	0.7
Net periodic benefit costs	$2.1	$2.0	$4.2	$4.1

We funded our U.S. based non-contributory defined benefit pension plan by an additional $0.8 million and $1.2 million during the six months ended June 29, 2012 and July 1, 2011. The funding was actuarially determined based on U.S. funding regulations.

14. Business Segment Data

We are principally engaged in one major line of business, the production, distribution and marketing of bananas, other fresh produce and prepared food. Our products are sold in markets throughout the world with our major producing operations located in North, Central and South America, Europe, Asia and Africa.

Our operations are aggregated into business segments on the basis of our products: bananas, other fresh produce and prepared food. Other fresh produce includes pineapples, melons, non-tropical fruit (including grapes, apples, pears, peaches, plums, nectarines, avocados, citrus and kiwis), fresh-cut products, other fruit and vegetables, a third-party ocean freight business and a plastic product and box manufacturing business. Prepared food includes prepared fruit and vegetables, juices, beverages, snacks, poultry and meat products.

We evaluate performance based on several factors, of which net sales and gross profit by product are the primary financial measures (U.S. dollars in millions):

	Quarter ended			
	June 29, 2012		July 1, 2011	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Banana	$424.9	$37.5	$466.0	$40.7
Other fresh produce	453.8	65.9	476.6	44.6
Prepared food	78.9	13.0	97.1	17.6
Totals	$957.6	$116.4	$1,039.7	$102.9

	Six months ended			
	June 29, 2012		July 1, 2011	
	Net Sales	Gross Profit	Net Sales	Gross Profit
Banana	$822.4	$76.4	$893.5	$92.2

Other fresh produce	874.9	126.1	929.2	99.7
Prepared food	158.2	26.3	191.0	33.8
Totals	$ 1,855.5	$ 228.8	$ 2,013.7	$ 225.7

15. Derivative Financial Instruments

We account for derivative financial instruments in accordance with the ASC guidance on "Derivatives and Hedging". This ASC requires us to recognize the value of derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated as a hedge and qualifies as part of a hedging relationship. The accounting also depends on the type of hedging relationship, whether a cash flow hedge, a fair value hedge, or hedge of a net investment in a foreign operation. On entry into a derivative instrument, we formally designate and document it as a hedge of a specific underlying exposure, as well as the risk management objectives and strategies for undertaking the hedge transaction.

Derivatives are recorded in our Consolidated Balance Sheets at fair value in prepaid expenses and other current assets, other noncurrent assets, accounts payable and accrued expenses or other noncurrent liabilities, depending on whether the amount is an asset or liability and whether it is short-term or long-term in nature. The fair values of derivatives used to hedge or modify our risks fluctuate over time. These fair value amounts should not be viewed in isolation, but rather in relation to the cash flows or fair value of the underlying hedged transactions or assets and other exposures, as well as the overall reduction in our risk. In addition, the earnings impact resulting from our derivative instruments is recorded in the same line item within the Consolidated Statements of Income as the underlying exposure being hedged.

We predominantly designate our hedges as cash flow hedges. A cash flow hedge requires that the effective portion of the change in the fair value of a derivative instrument be recognized in other comprehensive income, a component of shareholders' equity, and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the change in fair value of a derivative instrument is to be recognized in earnings in the same line in which the hedge transaction affects earnings.

Counterparties expose us to credit loss in the event of non-performance on hedges. We monitor our exposure to counterparty non-performance risk both at inception of the hedge and at least quarterly thereafter. However, because these contracts are entered into with highly rated financial institutions, we do not anticipate non-performance by any of the counterparties. The exposure is usually the amount of the unrealized gains, if any, in such contracts.

Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the cash flows or fair value of the underlying exposures being hedged. In addition, we perform an assessment of hedge effectiveness, both at inception and at least quarterly thereafter, in order to determine whether the financial instruments that are used in hedging transactions are effective at offsetting changes in the cash flows or fair value of the related underlying exposures. Any ineffective portion of a financial instrument's change in fair value is immediately recognized in earnings.

Foreign Currency Hedges

We are exposed to fluctuations in currency exchange rates against the U.S. dollar on our results of operations and financial condition and we mitigate that exposure by entering into foreign currency forward contracts. Certain of our subsidiaries periodically enter into foreign currency forward contracts in order to hedge portions of forecasted sales or cost of sales denominated in foreign currencies, which generally expire within one year. Our foreign currency hedges

were entered into to hedge our 2012 foreign currency exposure.

The foreign currency forward contracts qualifying as cash flow hedges were designated as single-purpose cash flow hedges of forecasted cash flows. Based on our formal assessment of hedge effectiveness of our qualifying foreign currency forward contracts, we determined that the impact of hedge ineffectiveness was de minimis for the quarters ended June 29, 2012 and July 1, 2011, respectively.

Bunker Fuel Hedges

We are exposed to fluctuations in bunker fuel prices on our results of operations and financial condition and mitigate that exposure by entering into bunker fuel swap agreements, which permit us to lock in bunker fuel purchase prices. One of our subsidiaries entered into bunker fuel swap agreements in order to hedge fuel costs incurred by our owned and chartered vessels through 2012. We designated our bunker fuel swap agreements as cash flow hedges.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

15. Derivative Financial Instruments (continued)

Certain of our derivative instruments contain provisions that require the current credit relationship between the Company and its counterparty to be maintained throughout the term of the derivative instruments. If that credit relationship changes, certain provisions could be triggered, and the counterparty could request immediate collateralization of derivative instruments in net liability position above a certain threshold. The aggregate fair value of all derivative instruments with a credit-risk-related contingent feature that are in a liability position on June 29, 2012 is $5.6 million. As of June 29, 2012, no triggering event has occurred and thus we are not required to post collateral. If the credit-risk-related contingent features underlying these agreements were triggered on June 29, 2012, we would not be required to post collateral to our counterparty because the collateralization threshold has not been met.

We had the following outstanding foreign currency forward and bunker fuel swap contracts as of June 29, 2012:

Foreign Currency Contracts Qualifying as Cash Flow Hedges:	Notional Amount			Bunker Fuel Swap Contracts Qualifying as Cash Flow Hedges:	Notional Amount	
Euro	€	70.1	million	3% U.S. Gulf Coast	79,011	barrels
British pound	£	3.6	million	3.5% Rotterdam Barge	12,218	metric tons
Japanese yen	JPY	4,749.1	million	Singapore 380	1,870	metric tons
Costa Rican colon	CRC	12,539.9	million			
Chilean peso	CLP	1,883.8	million			
Brazilian real	BRL	8.0	million			
Kenya shilling	KES	729.0	million			

The following table reflects the fair values of derivative instruments , all of which are designated as Level 2 of the fair value hierarchy, as of June 29, 2012 and December 30, 2011 (U.S. dollars in millions):

Derivatives Designated as Hedging Instruments [1]

	Foreign exchange contracts		Bunker fuel swap agreements
Balance Sheet Location:	June 29, 2012 [2]	December 30, 2011	June 29, 2012
Asset derivatives:			
Prepaid expenses and other current assets	$12.7	$22.3	$—
Total asset derivatives	$12.7	$22.3	$—
Liability derivatives:			
Accounts payable and accrued expenses	$4.7	$14.8	$1.7
Total liability derivatives	$4.7	$14.8	$1.7

[1] See Note 16, "Fair Value Measurements", for fair value disclosures.
[2] We expect that $6.6 million of the net fair value of hedges recognized as a net gain in accumulated other comprehensive income ("AOCI") will be transferred to earnings during the next 12 months.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

15. Derivative Financial Instruments (continued)

The following table reflects the effect of derivative instruments on the Consolidated Statements of Income for the quarters and six months ended June 29, 2012 and July 1, 2011, respectively (U.S. dollars in millions):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives (Effective Portion)		Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	
	Quarter ended			Quarter ended	
	June 29, 2012	July 1, 2011		June 29, 2012	July 1, 2011
Foreign exchange contracts	$—	$(6.2)	Net sales	$4.3	$(9.3)
Foreign exchange contracts	(0.4)	1.4	Cost of products sold	0.8	0.3
Bunker fuel swap agreements [1]	(3.5)	—	Cost of products sold	0.2	—
Total	$(3.9)	$(4.8)		$5.3	$(9.0)
	Six months ended			Six months ended	
	June 29, 2012	July 1, 2011		June 29, 2012	July 1, 2011
Foreign exchange contracts	$0.1	$(4.5)	Net sales	$7.7	$(12.2)
Foreign exchange contracts	0.5	0.9	Cost of products sold	2.0	0.4
Bunker fuel swap agreements (1)	(1.7)	—	Cost of products sold	0.2	—
Total	$(1.1)	$(3.6)		$9.9	$(11.8)

[1] The bunker fuel swap agreements had an ineffective portion of $0.1 million for the six months ended June 29, 2012. There was no ineffective portion for the quarter ended June 29, 2012.

16. Fair Value Measurements

We measure fair value for financial instruments, such as derivatives and equity securities, on an ongoing basis. We measure fair value for non-financial assets when a valuation is necessary, such as for impairment of long-lived and indefinite-lived assets when indicators of impairment exist. Fair value is measured in accordance with the ASC on "Fair Value Measurements and Disclosures". The ASC on "Fair Value Measurements and Disclosures" defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value.

Derivative Instruments

We may choose to mitigate the risk of fluctuations in currency exchange rates and bunker fuel prices on our results of operations and financial condition by entering into foreign currency cash flow hedges and bunker fuel hedges,

respectively. We account for the fair value of the related forward contracts as either an asset in other current assets or a liability in accrued expenses. We use an income approach to value our outstanding foreign currency and bunker fuel cash flow hedges. An income approach consists of a discounted cash flow model that takes into account the present value of future cash flows under the terms of the contracts using current market information as of the measurement date such as foreign currency and bunker fuel spot and forward rates. Additionally, we built an element of default risk based on observable inputs into the fair value calculation. Due to the fact that inputs to fair value these derivative instruments can be observed, these derivatives are classified as Level 2.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

16. Fair Value Measurements (continued)

Equity Securities

During the quarter ended June 29, 2012, we purchased equity securities for $11.0 million The fair value of these equity securities is $10.3 million as of June 29, 2012. These equity securities are classified as available-for-sale and are stated at fair value with the unrealized gains and losses reported in other comprehensive income. During the quarter ended June 29, 2012, we recorded an unrealized loss of $0.7 million in other comprehensive income. We have the intent and ability to hold these securities until they recover in value and as such the unrealized loss is not other than temporary. These equity securities are publicly traded within an active market. These available-for-sale investments, which are included in prepaid expenses and other current assets on our Consolidated Balance Sheets, are valued using quoted active market prices for identical assets and are classified as Level 1.

The following table provides a summary of the fair values of assets and liabilities measured on a recurring basis under the ASC on “Fair Value Measurements and Disclosures” (U.S. dollars in millions):

	Fair Value Measurements Foreign currency forward contracts, net asset (liability)		Bunker fuel swap agreements, net asset (liability)		Equity securities	
	June 29, 2012	December 30, 2011	June 29, 2012	December 30, 2011	June 29, 2012	December 30, 2011
Quoted Prices in Active Markets for Identical Assets (Level 1)	$—	$—	$—	$—	$10.3	$—
Significant Observable Inputs (Level 2)	8.0	7.5	(1.7)	—	—	—
Significant Unobservable Inputs (Level 3)	—	—	—	—	—	—

In estimating our fair value disclosures for financial instruments, we use the following methods and assumptions:

Cash and cash equivalents: The carrying amount of these items approximates fair value due to their liquid nature.

Trade accounts receivable and other accounts receivable, net: The carrying value reported in the Consolidated Balance Sheets for these items is net of allowances for doubtful accounts, which includes a degree of counterparty non-performance risk.

Accounts payable and other current liabilities: The carrying value reported in the Consolidated Balance Sheets for these items approximates their fair value, which is the likely amount for which the liability with short settlement periods would be transferred to a market participant with a similar credit standing to ours.

Capital lease obligations: The carrying value of our capital lease obligations reported in the Consolidated Balance Sheets approximates their fair value based on current interest rates, which contain an element of default risk. Refer to Note 10, “Long-Term Debt and Capital Lease Obligations”.

Long-term debt: The carrying value of our long-term debt reported in the Consolidated Balance Sheets approximates their fair value since they bear interest at variable rates or fixed rates which contain an element of default risk. Refer to Note 10, “Long-Term Debt and Capital Lease Obligations”.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

16. Fair Value Measurements (continued)

Fair Value of Non-Financial Assets

The fair value of the banana and prepared food reporting unit’s goodwill and prepared food trademarks are highly sensitive to differences between the estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of these assets. Lower tomato sales volumes and per unit sales prices as a result of decreased customer demand in North America has caused the tomato and vegetable reporting unit's goodwill to also be highly sensitive to cash flow estimates and discount rates. If we are unable to recover the tomato pricing and volumes in North America the tomato and vegetable reporting unit's goodwill may be at risk for impairment.

The following table highlights the sensitivity of the tomato and vegetable goodwill at risk as of June 29, 2012 (U.S. dollars in millions):

Tomato and Vegetable Reporting Unit Goodwill Sensitivity		
Carrying Value	$ 66.1	
Approximate percentage by which the fair value exceeds the carrying value	5	%
Amount that a one percentage point increase in the discount rate and a 5% decrease in cash flows would cause the carrying value to exceed the fair value and trigger a fair valuation	$ 11.2	

We disclosed the sensitivities related to the banana and prepared food unit’s goodwill in our annual financial statements included in our Annual Report on Form 10-K for the year ended December 30, 2011.

The following is a tabular presentation of the non-recurring fair value measurement along with the level within the fair value hierarchy in which the fair value measurement in its entirety falls (U.S. dollars in millions):

	2012 Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
United Kingdom under-utilized distribution center	$4.4	$—	$4.4	$—
	$4.4	$—	$4.4	$—

In the first quarter of 2012, we recognized $1.8 million in impairment charges related to an under-performing banana ripening facility in the United Kingdom. The carrying value of the assets were $6.2 million and was written down to

$4.4 million. These assets related predominantly to building and machinery and equipment included in property, plant and equipment, net on our Consolidated Balance Sheets. We estimated the fair value of the underlying assets by using the market approach. We used observable inputs based on market participant information, as such, we classify the fair value of these banana ripening assets within Level 2.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

16. Fair Value Measurements (continued)

The following is a tabular presentation of the non-recurring fair value measurement along with the level within the fair value hierarchy in which the fair value measurement in its entirety falls (U.S. dollars in millions):

	2011 Fair Value Measurements			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Central American melon assets	$2.8	$—	$—	$2.8
	$2.8	$—	$—	$2.8

In the second quarter of 2011, we recognized $7.7 million in impairment charges related to the melon program rationalization. The carrying value of these assets was $10.5 million including $7.2 million in property, plant and equipment consisting primarily of buildings and machinery and equipment and $3.3 million of melon goodwill. Property, plant and equipment were written down to a fair value of $2.8 million. We estimated the fair value of these assets using the income based approach considering the cash flows that would be obtained as a result of the production and distribution of melons in areas of continued production. The income based approach utilizes unobservable inputs. Due to the use of unobservable inputs, we classify the fair value of these growing areas within Level 3.

As a result of the decision to discontinue planting certain melon varieties in Central America, which significantly reduced melon volumes in the future, we estimated an implied fair value of the melon reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). This exercise yielded a write-off of the melon goodwill of $3.3 million.

17. Shareholders’ Equity

Our shareholders have authorized 50,000,000 preferred shares, $0.01 par value, of which none are issued or outstanding. Our shareholders have authorized 200,000,000 ordinary shares of common stock, $0.01 par value, of which 58,001,277 are issued and outstanding at June 29, 2012, respectively.

Ordinary share activity for the quarters ended June 29, 2012 and July 1, 2011 is summarized as follows:

	Six months ended	
	June 29, 2012	July 1, 2011
Ordinary shares issued/ (retired) as a result of:		
Stock option exercises	209,250	1,081,252
Restricted stock grants	27,573	27,853

On July 31, 2009, our Board of Directors approved a three-year stock repurchase program of up to $150 million of our Ordinary Shares. On May 5, 2010, our Board of Directors approved an additional three-year stock repurchase program of up to $150 million of our ordinary shares. We have repurchased $158 million, or 7,214,337 ordinary shares, under the aforementioned $300.0 million repurchase programs. We have retired all of the 7,214,337 ordinary shares. We have a maximum dollar amount value of $142.0 million of shares that may yet be purchased under the stock repurchase program. During the quarter and six months ended June 29, 2012, no repurchases were made under the aforementioned plans.

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FRESH DEL MONTE PRODUCE INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued) (Unaudited)

17. Shareholders' Equity (continued)

The following is a summary of the dividends declared per share for the six months ended June 29, 2012 and July 1, 2011:

Six months ended June 29, 2012		Six months ended July 1, 2011	
Dividend Declared Date	Cash Dividend Declared, per Ordinary Share	Dividend Declared Date	Cash Dividend Declared, per Ordinary Share
May 2, 2012	$0.10	May 4, 2011	$0.05
February 29, 2012	$0.10	March 3, 2011	$0.05

On August 3, 2011, our Board of Directors increased the interim cash dividend from $0.05 to $0.10 per ordinary share.
We paid $11.6 million and $5.9 million in dividends for the six months ended June 29, 2012 and July 1, 2011, respectively.

18. Subsequent Event

On July 28th and 29th, 2012, we experienced flooding in our Costa Rica banana operations. At this time, we are not able to determine the effect on our financial condition or results of operations due to this event.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are one of the world's leading vertically integrated producers, marketers and distributors of high-quality fresh and fresh-cut fruit and vegetables, as well as a leading producer and marketer of prepared fruit and vegetables, juices, beverages and snacks in Europe, Africa, the Middle East and countries formerly part of the Soviet Union. We market our products worldwide under the DEL MONTE® brand, a symbol of product innovation, quality, freshness and reliability since 1892. Our global sourcing and logistics system allows us to provide regular delivery of consistently high-quality produce and value-added services to our customers. Our major producing operations are located in North, Central and South America, Asia and Africa. Production operations are aggregated on the basis of our products: bananas, other fresh produce and prepared foods. Other fresh produce includes pineapples, melons, tomatoes, non-tropical fruit (including grapes, apples, pears, peaches, plums, nectarines, avocados, citrus and kiwis), fresh-cut produce, other fruit and vegetables, a plastic product and box manufacturing business and a third-party ocean freight service. Prepared foods include prepared fruit and vegetables, juices, beverages, snacks, poultry and meat products.

Liquidity and Capital Resources

Net cash provided by operating activities was $193.9 million for the first six months of 2012 as compared with $243.6 million for the first six months of 2011, a decrease of $49.7 million. The decrease in cash provided by operating activities was principally attributable to changes in operating assets and liabilities, principally higher levels of finished goods inventory and lower levels of accounts payable and accrued expenses as compared to June of the prior year, partially offset by higher net income.

Working capital was $446.4 million at June 29, 2012 compared with $522.2 million at December 30, 2011, a decrease of $75.8 million. This decrease in working capital is principally attributable to the classification of the outstanding amount of the Credit Facility of $37.0 million that as of June 29, 2012 is classified as current portion of long-term debt due to its January 17, 2013 maturity date combined with lower inventory balances and higher income taxes and other taxes payable, partially offset by higher balances in trade accounts receivable as a result of seasonal variations.

Net cash used in investing activities for the first six months of 2012 was $38.9 million compared with $41.3 million for the first six months of 2011. Net cash used in investing activities for the first six months of 2012 consisted of capital expenditures of $34.1 million and purchases of available-for-sale investments of $11.0 million, partially offset by proceeds from sales of property, plant and equipment of $6.0 million and proceeds from sale of unconsolidated subsidiary of $0.2 million. Capital expenditures for the first six months of 2012 were primarily for expansion and improvements of production facilities in Saudi Arabia and Kenya related to the prepared food segment and in Costa Rica and Guatemala related to the other fresh produce and banana segments. Capital expenditures for the first six months of 2012 also included improvements of distribution facilities in North America and Costa Rica principally related to the banana segment and additional transportation equipment in North America. The purchases of available-for-sale investments consisted of purchases of publicly traded equity securities which we plan to hold as investments. Proceeds from sales of property, plant and equipment for the first six months of 2012 consisted primarily of the sale of surplus land in Guatemala and the sale of a refrigerated vessel and other surplus equipment.

Net cash used in investing activities for the first six months of 2011 consisted of capital expenditures of $42.4 million, partially offset by proceeds from sales of property, plant and equipment of $1.1 million. Capital expenditures for the first six months of 2011 were primarily for improvements and expansion of production facilities in Jordan, Kenya and Greece related to the prepared food segment and Costa Rica, Guatemala and the Middle East related to the other fresh produce segment. Capital expenditures for the first six months of 2011 also included improvements of distribution facilities in North America and production facilities in Guatemala principally related to the banana segment. Proceeds

from sale of property, plant and equipment for the first six months of 2011 consisted primarily of the sale of surplus equipment.

Net cash used in financing activities for the first six months of 2012 was $171.1 million compared with $196.4 million for the first six months of 2011. Net cash used in financing activities for the first six months of 2012 consisted of net repayments on long-term debt of $173.0 million and $11.6 million of dividends paid, partially offset by contributions from noncontrolling interests, net of $5.0 million and proceeds from stock options exercised of $4.5 million.

Net cash used in financing activities for the first six months of 2011 consisted of net repayments on long-term debt of $208.3 million, $5.9 of dividends paid and $3.1 million of distributions to noncontrolling interests, partially offset by $20.9 million of proceeds from options exercised.

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We finance our working capital and other liquidity requirements primarily through cash from operations and borrowings under our $300 million senior secured revolving credit facility (the “Credit Facility”) administered by Rabobank Nederland, New York Branch. The Credit Facility has a 3.5 years term, with a scheduled termination date of January 17, 2013. The Credit Facility includes a swing line facility and a letter of credit facility with a $100.0 million sub-limit. Borrowings under the Credit Facility bear interest at a spread over the London Interbank Offer Rate (“LIBOR”) that varies with our leverage ratio. On March 28, 2011, we amended the Credit Facility by lowering the applicable margins over LIBOR or base rate borrowings that vary with our leverage ratio.

The Credit Facility is collateralized directly or indirectly by substantially all of our assets and is guaranteed by certain of our subsidiaries. At June 29, 2012, we had $37.0 million outstanding under the Credit Facility bearing interest at a per annum rate of 1.99%. In addition, we pay a fee on unused commitments.

The Credit Facility requires us to be in compliance with financial and other covenants, including limitations on capital expenditures, the amount of dividends that can be paid in the future, the amount and types of liens and indebtedness, material asset sales and mergers. As of June 29, 2012, we were in compliance with all of the financial and other covenants contained in the Credit Facility.

The Credit Facility expires on January 17, 2013 and represents our principal method of supplementing operating cash flows for our working capital and other liquidity requirements. We plan to refinance our Credit Facility during 2012. Our expectation is based on our history of earnings and positive cash flows along with our long-standing relationships with our current bank group and our credit rating. We expect that our interest rates will remain relatively flat or increase slightly from the current levels. In addition to the renewal of our current bank debt corporate loan, our capital market options include, among others, asset based loans, high-yield bonds and receivables-based credit facilities. We believe that our operating cash flows, together with our ability to renew the Credit Facility and obtain other available financing, will be adequate to meet our operating, investing and financing needs in the foreseeable future. There are no assurances that increased volatility and uncertainty in the global capital markets will not impair our ability to access these markets on terms that are favorable to us.

At June 29, 2012, we had $273.1 million available under committed working capital facilities, primarily under the Credit Facility. At June 29, 2012, we applied $12.2 million to the letter of credit facility, comprised primarily of certain contingent obligations and other governmental agencies and purchases of equipment guarantees. We also had $8.5 million in other letters of credit and bank guarantees not included in the letter of credit facility.

As of June 29, 2012, we had $41.5 million of long-term debt and capital lease obligations, including the current portion, consisting of $37.0 million outstanding under the Credit Facility, $0.8 million of capital lease obligations and $3.7 million of other long-term debt and notes payable.

Based on our operating plan, combined with our borrowing capacity under our Credit Facility, we believe we will have sufficient resources to meet our cash obligations in the foreseeable future.

As of June 29, 2012, we had cash and cash equivalents of $32.0 million.

As a result of the closure of distribution centers in the United Kingdom, we paid approximately $1.5 million in contractual obligations during the first six months of 2012. We expect to make additional payments of approximately $4.2 million principally related to the previously announced closure of our Hawaii pineapple operations and the closure of certain facilities in the United Kingdom. In addition, during the first six months of 2012, we paid $2.1 million as a result of an unfavorable outcome to litigation regarding a tax position in a foreign jurisdiction. These cash outlays will be funded from operating cash flows and available borrowings under our credit facilities.

The fair value of our derivatives changed from a net asset of $7.5 million as of December 30, 2011, to a net asset of $6.3 million as of June 29, 2012 related to our foreign currency cash flow and bunker fuel swap hedges. For foreign currency hedges, these fluctuations are primarily related to a stronger U.S. dollar relative to the euro offset by the weaker U.S. dollar relative to the Japanese yen when compared to the contracted exchange rates. We also entered into Bunker Fuel Swap agreements during the first six months of 2012 that are in a net liability position of $1.7 million. We expect that $6.6 million will be transferred to earnings during the next 12 months, along with the earnings effect of the related forecasted transactions.

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Recent Development

On July 25, 2012, we voluntarily lowered the borrowing capacity under the Credit Facility from $300 million to $150 million in order to reduce our unused commitment fee.

On July 28th and 29th, 2012, we experienced flooding in our Costa Rica banana operations. At this time, we are not able to determine the effect on our financial condition or results of operations due to this event.

Results of Operations

The following tables present for each of the periods indicated (i) net sales by geographic region and (ii) net sales and gross profit by product category, and in each case, the percentage of the total represented thereby (U.S. dollars in millions, except percent data):

Net sales by geographic region:

	Quarter ended						Six months ended					
	June 29, 2012			July 1, 2011			June 29, 2012			July 1, 2011		
North America	$504.7	53	%	$514.0	50	%	$993.7	54	%	$1,030.7	51	%
Europe	195.4	20	%	258.1	25	%	400.5	21	%	492.1	25	%
Asia	138.2	14	%	138.4	13	%	241.6	13	%	247.6	12	%
Middle East	100.7	11	%	115.5	11	%	181.8	10	%	210.1	10	%
Other	18.6	2	%	13.7	1	%	37.9	2	%	33.2	2	%
Total	$957.6	100	%	$1,039.7	100	%	$1,855.5	100	%	$2,013.7	100	%

Product net sales and gross profit:

	Quarter ended											
	June 29, 2012						July 1, 2011					
	Net Sales			Gross Profit			Net Sales			Gross Profit		
Banana	$424.9	45	%	$37.5	32	%	$466.0	45	%	$40.7	40	%
Other fresh produce	453.8	47	%	65.9	57	%	476.6	46	%	44.6	43	%
Prepared food	78.9	8	%	13.0	11	%	97.1	9	%	17.6	17	%
Totals	$957.6	100	%	$116.4	100	%	$1,039.7	100	%	$102.9	100	%

	Six months ended											
	6/29/2012						7/1/2011					
	Net Sales			Gross Profit			Net Sales			Gross Profit		
Banana	$822.4	44	%	$76.4	33	%	$893.5	44	%	$92.2	41	%
Other fresh produce	874.9	47	%	126.1	55	%	929.2	46	%	99.7	44	%
Prepared food	158.2	9	%	26.3	12	%	191.0	10	%	33.8	15	%
Totals	$1,855.5	100	%	$228.8	100	%	$2,013.7	100	%	$225.7	100	%

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Second Quarter 2012 Compared with Second Quarter 2011

Net Sales. Net sales for the second quarter of 2012 were $957.6 million compared with $1,039.7 million for the second quarter of 2011. The decrease in net sales of $82.1 million was attributable to lower net sales of bananas, other fresh produce and prepared food.

- Net sales of bananas decreased by $41.1 million principally due to lower sales volume in Europe and the Middle East, and lower per unit sales prices in North America and Asia. Worldwide banana sales volume decreased 5% and per unit sales prices decreased 4%.
Europe banana net sales decreased primarily due to lower sales volumes in Germany and the United Kingdom as a result of our decision not to enter into unprofitable banana sales contracts with certain large retailers, partially offset by net sales increases in Southern Europe and higher per unit sales prices.
Middle East banana net sales decreased principally due to lower sales volumes that resulted from reduced shipments from Central America into secondary Middle East markets combined with lower purchases from independent growers in the Philippines, partially offset by higher per unit sales prices.
North America banana net sales decreased principally due to lower per unit sales prices partially offset by higher sales volumes. The lower per unit sales prices in North America were primarily due to the absence of a per box surcharge that was implemented in the latter part of first quarter of 2011 as a result of industry shortages. Sales volumes increased primarily as a result of higher production volumes in Costa Rica.
Asia banana net sales decreased principally due to lower per unit sales prices that resulted from increased industry supplies.

- Net sales in the other fresh produce segment decreased $22.8 million principally as a result of lower net sales of pineapples, tomatoes, melons and non-tropical fruit, partially offset by higher net sales of fresh-cut products.
Net sales of pineapples decreased principally as a result of lower sales volume in Europe, the Middle East and Asia as a result of reduced production from our Costa Rican and Philippines operations. Per unit sales prices were higher in all regions principally due to improved customer demand.
Net sales of tomatoes decreased principally due to lower sales volumes and per unit sales prices as a result of decreased customer demand and program rationalization.
Net sales of melons decreased principally as a result of lower sales volume due to planned rationalization of melon operations, partially offset by higher per unit sales prices that resulted from improved market conditions in North America.
Net sales of non-tropical fruit decreased principally due to lower sales volumes of apples in Europe and South America, citrus in the Middle East and other deciduous fruit in South America as a result of lower supplies. Partially offsetting these decreases in net sales of non-tropical fruit were higher per unit sales prices and sales volumes of grapes in Europe and higher sales volumes of grapes in Asia due to favorable market conditions.
Net sales of fresh-cut products increased primarily due to higher per unit sales prices and sales volume in North America and the Middle East that resulted from an expanded customer base and improved demand for our products in North America combined with expansion in new markets in the Middle East. Partially offsetting these increases in net sales of fresh-cut products were lower sales volumes in Europe that resulted from our planned closure of a fresh-cut prepared salad facility in the United Kingdom.

- Net sales in the prepared food segment decreased $18.2 million principally due to lower net sales of pineapple products in Europe as a result of reduced sales volumes of canned pineapple due to lower yields, combined with lower pricing for industrial products which resulted from higher industry supplies. Also contributing to the decrease in net sales of prepared food was lower net sales of canned deciduous products primarily as a result of lower customer demand.

Cost of Products Sold. Cost of products sold was $841.2 million for the second quarter of 2012 compared with $936.8 million for the second quarter of 2011, a decrease of $95.6 million. This decrease in cost of products sold was

primarily attributable to lower sales volumes of bananas and other fresh produce combined with lower ocean freight costs as a result of lower fuel cost and improved vessel utilization.

Gross Profit. Gross profit was $116.4 million for the second quarter of 2012 compared with $102.9 million for the second quarter of 2011, an increase of $13.5 million. The increase in gross profit was primarily attributable to higher gross profit on other fresh produce, partially offset by lower gross profit on prepared food and bananas.

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- Gross profit in the other fresh produce segment increased $21.3 million principally due to higher gross profit on pineapples, melons and fresh-cut products.
  Gross profit on pineapples increased principally due to higher per unit sales prices in all regions as a result of favorable market conditions combined with lower ocean freight costs principally due to lower fuel costs and improved vessel utilization. Worldwide per unit sales prices increased 14% and per unit cost increased 3%.
  Gross profit on melons increased principally due to higher per unit selling prices as a result of improved market conditions in North America.
  Gross profit on fresh-cut products increased principally due to improved pricing in Europe, the Middle East and North America, partially offset by higher fruit procurement costs.

- Gross profit in the prepared food segment decreased by $4.6 million principally as a result of reduced sales volumes of canned pineapples as a result of lower yields and lower selling prices for industrial products which resulted from higher industry supplies. Partially offsetting these decreases were higher gross profit on deciduous canned products due to improved pricing and lower per unit costs principally as a result of operational improvements.

- Gross profit in the banana segment decreased $3.2 million primarily due to lower per unit sales prices in North America and Asia. Partially offsetting these decreases in gross profit were lower ocean freight costs as a result of lower fuel cost and improved vessel utilization and lower fruit costs principally due to improved yields. Worldwide per unit sales prices decreased 4% and per unit cost decreased 4%.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased $2.8 million from $48.4 million in the second quarter of 2011 to $45.6 million for the second quarter of 2012. The decrease was principally due to lower legal expenses.

Loss or (Gain) on Disposal of Property, Plant and Equipment. The gain on disposal of property, plant and equipment of $0.7 million during the second quarter of 2011 was principally related to the sale of surplus equipment.

Asset Impairment and Other Charges, Net. Asset impairment and other charges, net were $1.0 million during the second quarter of 2012 as compared with $10.3 million during the second quarter of 2011. During the second quarter of 2012, we recorded $1.0 million in termination benefits related to an under-performing fresh-cut facility in the United Kingdom. During the second quarter of 2011, we recorded $4.9 million in asset impairments and contract termination charges and a $3.3 million goodwill impairment charge as a result of our Central American melon program rationalization and we also recorded $1.1 million in other charges related to legal costs in Hawaii. These charges were related to the other fresh produce segment. In addition, during the second quarter of 2011, we recorded $1.0 million in asset impairments and other charges related to our banana segment in Costa Rica and the Philippines as a result of abandoned low-production areas.

Operating Income. Operating income for the second quarter of 2012 increased by $24.9 million from $44.9 million in the second quarter of 2011 to $69.8 million for the second quarter of 2012. The increase in operating income was primarily due to higher gross profit combined with lower selling, general and administrative expenses and lower asset impairment and other charges.

Interest Expense. Interest expense was $0.9 million for the second quarter of 2012 as compared with $1.5 million for the second quarter of 2011, a decrease of $0.6 million. This decrease was principally due to lower average debt balances.

Other Expense, Net. Other expense, net was $3.1 million for the second quarter of 2012 as compared with $0.4 million for the second quarter of 2011. The increase in other expense of $2.7 million was principally attributable to

foreign exchange losses recorded during the second quarter of 2012 as compared with a slight foreign exchange gain in the second quarter of 2011.

Provision for Income Taxes. Provision for income taxes was $7.4 million for the second quarter of 2012 as compared with $6.4 million for the second quarter of 2011. The increase in the provision for income taxes of $1.0 million is primarily due to increased earnings in certain higher tax jurisdictions during the second quarter of 2012.

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First Six Months of 2012 Compared with First Six Months of 2011

Net Sales. Net sales for the first six months of 2012 were $1,855.5 million compared with $2,013.7 million for the first six months of 2011. The decrease in net sales of $158.2 million was attributable to lower net sales of bananas, other fresh produce and prepared food.

- Net sales of bananas decreased by $71.1 million principally due to lower sales volume in Europe, the Middle East and Asia combined with lower per unit sales prices in North America. Worldwide banana sales volume decreased by 5% and per unit sales prices decreased 3%.
Europe banana net sales decreased primarily due to lower sales volumes in Germany and the United Kingdom as a result of our decision not to enter into unprofitable banana sales contracts with certain large retailers, partially offset by net sales increases in Southern Europe and higher per unit sales prices.
Middle East banana net sales decreased principally due to lower sales volumes that resulted from reduced shipments from Central America into secondary Middle East markets combined with lower purchases from independent growers in the Philippines, partially offset by higher per unit sales prices.
Asia banana net sales decreased principally due to lower per unit sales prices that resulted from increased industry supplies.
North America banana net sales decreased principally due to lower per unit sales prices partially offset by higher sales volumes. The lower per unit sales prices in North America were primarily due to the absence of a per box surcharge that was implemented in the latter part of the first quarter of 2011 as a result of industry shortages. Sales volumes increased primarily as a result of higher production volumes in Costa Rica.

- Net sales in the other fresh produce segment decreased $54.3 million principally as a result of lower net sales of tomatoes, pineapples, non-tropical fruit and melons, partially offset by higher net sales of fresh-cut products.
Net sales of tomatoes decreased principally due to lower sales volumes and per unit sales prices as a result of decreased customer demand and program rationalization.
Net sales of pineapples decreased principally as a result of lower sales volume in Europe, the Middle East and Asia as a result of reduced production from our Costa Rican and Philippines operations. Per unit sales prices were higher in all regions principally due to improved customer demand.
Net sales of non-tropical fruit decreased principally due to lower sales volumes of stonefruit in North America, apples in Europe and South America, citrus in the Middle East and other deciduous fruit in South America as a result of lower supplies. Partially offsetting these decreases in net sales of non-tropical fruit were higher per unit sales prices of grapes in Europe and higher grape sales volumes in Europe, the Middle East and Asia due to favorable market conditions.
Net sales of melons decreased principally as a result of lower sales volume due to planned rationalization of melon operations, partially offset by higher per unit sales prices that resulted from improved market conditions in North America.
Net sales of fresh-cut products increased primarily due to higher per unit sales prices and sales volume in North America and the Middle East that resulted from an expanded customer base and improved demand for our products in North America combined with expansion in new markets in the Middle East. Partially offsetting these increases in net sales of fresh-cut products were lower sales volumes in Europe that resulted from our planned closure of a fresh-cut prepared salad facility in the United Kingdom.

- Net sales in the prepared food segment decreased $32.8 million principally as a result of lower gross profit on canned pineapples which resulted from lower sales volumes due to lower yields and higher per unit costs as a result of lower yields. Also contributing to the decrease in gross profit for prepared food is lower selling prices for industrial products which resulted from higher industry supplies. Partially offsetting these decreases were higher gross profit on deciduous canned products due to improved pricing and lower per unit costs principally as a result of operational improvements.

Cost of Products Sold. Cost of products sold was $1,626.7 million for the first six months of 2012 compared with $1,788.0 million for the first six months of 2011, a decrease of $161.3 million. This decrease in cost of products sold was primarily attributable to lower sales volumes combined with lower ocean freight costs as a result of lower fuel cost and improved vessel utilization.

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Gross Profit. Gross profit was $228.8 million for the first six months of 2012 compared with $225.7 million for the first six months of 2011, an increase of $3.1 million. The increase in gross profit was primarily attributable to higher gross profit on other fresh produce, partially offset by lower gross profit on bananas and prepared food.

- Gross profit in the other fresh produce segment increased $26.4 million principally due to higher gross profit on melons, pineapples and fresh-cut products, partially offset by lower gross profit on tomatoes and non-tropical fruit. Gross profit on melons increased principally due to higher per unit selling prices in North America as a result of improved market conditions.
Gross profit on pineapples increased principally due to higher per unit sales prices in all regions as a result of favorable market conditions combined with lower ocean freight costs principally due to lower fuel costs and improved vessel utilization. Worldwide per unit sales prices increased 11% and per unit cost increased 2%.
Gross profit on fresh-cut products increased principally due to higher per unit selling prices in all regions partially offset by higher fruit procurement cost.
Gross profit on tomatoes decreased due to lower sales volumes and per unit selling prices that resulted from lower customer demand in North America.
Gross profit on non-tropical fruit decreased principally due to lower sales volumes and higher procurement cost of grapes in North America as a result of lower industry supply and lower per unit selling prices of stonefruit in Asia as a result of higher sales volumes. Partially offsetting these decreases in gross profit were lower procurement costs for avocados.

- Gross profit in the banana segment decreased $15.8 million primarily due to lower per unit sales prices in North America due to the absence of a per box surcharge that was implemented in the latter part of the first quarter of 2011 as a result of industry shortages combined with lower sales volumes in Asia and the Middle East due to reduced supplies from the Philippines. Partially offsetting these decreases in gross profit were lower fuel costs and higher per unit sales prices in Europe.

- Gross profit in the prepared food segment decreased by $7.5 million principally as a result of reduced sales volumes and increased per unit cost which resulted from lower yields and lower selling prices for industrial products which resulted from higher industry supplies. Partially offsetting these decreases were higher gross profit on deciduous canned products due to improved pricing and lower per unit costs principally as a result of operational improvements.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased $3.5 million from $94.5 million for the first six months of 2011 to $91.0 million for the first six months of 2012. The decrease was principally due to lower legal expenses and lower executive compensation.

Loss or (Gain) on Disposal of Property, Plant and Equipment. The loss on disposal of property, plant and equipment of $1.4 million during the first six months of 2012 was primarily related to the disposal of banana plants in certain areas of our Costa Rica plantation in order to replant and improve productivity. The gain on disposal of property, plant and equipment of $0.8 million during the first six months of 2011 related primarily to the sale of surplus equipment.

Asset Impairment and Other Charges, Net. Asset impairment and other charges, net were $1.1 million during the first six months of 2012 as compared with $12.2 million during the second quarter of 2011. During the first six months of 2012, we recorded $1.0 million in termination benefits related to an under-performing fresh-cut facility in the United Kingdom, $1.8 million of asset impairments related to an under-utilized facility in the United Kingdom in the banana segment, a credit of $1.8 million due to the sale of assets previously impaired in 2011 due to our melon program rationalization in Guatemala related to the other fresh produce segment and $0.1 million in other charges in Hawaii related to the other fresh produce segment. During the first six months of 2011, we recorded $4.9 million in asset impairments and contract termination charges and a $3.3 million goodwill impairment charge as a result of our decision to abandon as isolated area in our banana operations in the Philippines, $1.7 million in other charges and

legal costs related to Hawaii, $0.8 million related to the write-off of an abandoned banana producing area in Costa Rica due to low productivity and $0.2 million in other charges. These charges were related to the banana and the other fresh produce segments.

Operating Income. Operating income for the first six months of 2012 increased by $15.5 million from $119.8 million in the first six months of 2011 to $135.3 million for the first six months of 2012. The increase in operating income was due to higher gross profit, lower selling, general and administrative expenses and asset impairment charges, partially offset by a loss on disposal of property, plant and equipment.

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Interest Expense. Interest expense decreased by $1.5 million from $3.7 million for the first six months of 2011 to $2.2 million for the first six months of 2012, principally due to lower average debt balances.

Other Expense, Net. Other expense, net was $2.6 million for the first six months of 2012 as compared with $3.4 million for the first six months of 2011, a decrease of $0.8 million. The decrease in other expense is primarily attributable to equity income from unconsolidated companies during the first six months of 2012 as compared with an equity loss from unconsolidated companies during the first six months of 2011.

Provision for Income Taxes. Provision for income taxes was $9.5 million for the first six months of 2012 as compared with $20.3 million for the first six months of 2011. The tax provision for the first six months of 2012 includes approximately $8.1 million of credits due primarily to reversals of uncertain tax provisions due to a lapse in the statute of limitations and settlement of tax audits and litigation in certain foreign jurisdictions.

Fair Value Measurements

During the first quarter of 2012, we recognized $1.8 million in impairment charges related to an under-performing banana ripening facility in the United Kingdom. The carrying value of the assets was $6.2 million and was written down to $4.4 million. We estimated the fair value of the underlying assets by using the market approach. We used observable inputs based on market participant information, as such, we classify the fair value of these banana ripening assets within Level 2 of the fair value hierarchy.

Potential impairment exists if the fair value of a reporting unit to which goodwill has been allocated is less than the carrying value of the reporting unit. The amount of the impairment to recognize, if any, is calculated as the amount by which the carrying value of goodwill exceeds its implied value. Future changes in the estimates used to conduct the impairment review, including revenue projection, market values and changes in the discount rate used, could cause the analysis to indicate that our goodwill is impaired in subsequent periods and result in a write-off of a portion or all of goodwill. The discount rate used is based on independently calculated risks, our capital mix and an estimated market risk premium. The fair value of the banana, tomato and other vegetable and prepared food reporting unit’s goodwill is highly sensitive to differences between estimated and actual cash flows and changes in the related discount rate used to evaluate the fair value of this asset. If we are unable to recover from poor market conditions related to bananas, the banana reporting unit goodwill may be at risk for impairment in the future. If we are unable to recover from current challenging economic conditions in Europe, the prepared food reporting unit goodwill may be at risk for impairment in the future. Lower tomato sales volumes and per unit sales prices as a result of decreased customer demand in North America has caused the tomato and vegetable reporting unit's goodwill to also be highly sensitive to cash flow estimates and discount rates. If we are unable to recover the tomato pricing and volumes in North America the tomato and vegetable reporting unit's goodwill may be at risk for impairment. We disclosed the sensitivities related to the prepared food reporting unit’s goodwill in our annual financial statements included in our Annual Report on Form 10-K for the year ended December 30, 2011. The following table highlights the sensitivity of the tomato and vegetable goodwill at risk as of June 29, 2012 (U.S. dollars in millions):

Tomato and Vegetable Reporting Unit Goodwill Sensitivity		
Carrying Value	$ 66.1	
Approximate percentage by which the fair value exceeds the carrying value	5	%
	$ 11.2	

Amount that a one percentage point increase in the discount rate and a 5% decrease in cash flows would cause the carrying value to exceed the fair value and trigger a fair valuation

Seasonality

Interim results are subject to significant variations and may not be indicative of the results of operations that may be expected for the entire 2012 fiscal year. See the information under the caption "Seasonality" provided in Item 1. Business, of our Annual Report on Form 10-K for the year ended December 30, 2011.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our Annual Report on Form 10-K for the year ended December 30, 2011.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of June 29, 2012. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms. Such officers also confirm that there was no change in our internal control over financial reporting during the quarter ended June 29, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

See Note 11, “Commitments and Contingencies”, to the Consolidated Financial Statements, Part I, Item 1 included herein.

Item 1A. Risk Factors

There have been no material changes in the risk factors from the information provided in Item 1A. Risk Factors of our annual report on Form 10-K for the year ended December 30, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding our purchases of ordinary shares during the periods indicated:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program (1)(2)
March 31, 2012 through April 30, 2012	—	$—	—	$142,030,550
May 1, 2012 through May 31, 2012	—	$—	—	$142,030,550
June 1, 2012 through June 29, 2012	—	$—	—	$142,030,550
Total	—	$—	—	$142,030,550

(1) On August 3, 2009, we announced that our Board of Directors, at their July 31, 2009 board meeting, approved a three-year stock repurchase program of up to $150 million of our ordinary shares.

(2) On May 5, 2010, we announced that our Board of Directors, at their May 5, 2010 board meeting, approved a three-year stock repurchase program of up to $150 million of our ordinary shares in addition to the program announced on August 3, 2009.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 6. Exhibits

31.1*	Certification of Chief Executive Officer filed pursuant to 17 CFR 240.13a-14(a).
31.2*	Certification of Chief Financial Officer filed pursuant to 17 CFR 240.13a-14(a).
32*	Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to 17 CFR 240.13a-14(b) and 18 U.S.C. Section 1350.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

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* Filed herewith

** Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of June 29, 2012 and December 30, 2011, (ii) Consolidated Statements of Income for the quarter and six months ended June 29, 2012 and July 1, 2012, (iii) Consolidated Statements of Comprehensive Income for the quarter and six months ended June 29, 2012 and July 1, 2011, (iv) Consolidated Statement of Cash Flows for the six months ended June 29, 2012 and July 1, 2011 and (iv) Notes to Consolidated Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Fresh Del Monte Produce Inc.

Date: July 31, 2012

By: /s/ Hani El-Naffy
Hani El-Naffy
President & Chief Operating Officer

By: /s/ Richard Contreras
Richard Contreras
Senior Vice President & Chief Financial Officer

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