DIME COMMUNITY BANCSHARES INC
Form 10-Q
May 09, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016
OR

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

For the transition period from to

Commission file number 0-27782

Dime Community Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Delaware	11-3297463
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
209 Havemeyer Street, Brooklyn, NY	11211
(Address of principal executive offices)	(Zip Code)

(718) 782-6200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

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

LARGE ACCELERATED FILER	ACCELERATED FILER	NON -ACCELERATED FILER	SMALLER REPORTING COMPANY

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Classes of Common Stock	Number of Shares Outstanding at May 6, 2016
$.01 Par Value	37,595,550

This Quarterly Report on Form 10-Q contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements may be identified by use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "seek," "may," "outlook," "plan," "potential," "predict," "project," "should," "will," "would" and similar terms and phrases, including references to assumptions.

Forward-looking statements are based upon various assumptions and analyses made by Dime Community Bancshares, Inc. (the "Holding Company," and together with its direct and indirect subsidiaries, the "Company") in light of management's experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond the Company's control) that could cause actual conditions or results to differ materially from those expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond the Company's control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- the net interest margin is subject to material short-term fluctuation based upon market rates;
- changes in deposit flows, loan demand or real estate values may adversely affect the business of The Dime Savings Bank of Williamsburgh (the "Bank");
- changes in accounting principles, policies or guidelines may cause the Company's financial condition to be perceived differently;
- changes in corporate and/or individual income tax laws may adversely affect the Company's business or financial condition;
- general economic conditions, either nationally or locally in some or all areas in which the Company conducts business, or conditions in the securities markets or the banking industry may be less favorable than the Company currently anticipates;

- legislation or regulatory changes may adversely affect the Company's business;
- technological changes may be more difficult or expensive than the Company anticipates;
- success or consummation of new business initiatives may be more difficult or expensive than the Company anticipates;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may delay the occurrence or non-occurrence of events longer than the Company anticipates; and
- The risks referred to in the section entitled "Risk Factors."

The Company has no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

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Item 1. Unaudited Condensed Consolidated Financial Statements

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
(Dollars in thousands except share amounts)

	March 31, 2016	December 31, 2015
ASSETS:		
Cash and due from banks	$192,917	$ 64,154
Total cash and cash equivalents	192,917	64,154
Investment securities held-to-maturity (estimated fair value of $6,878 and $7,051 at March 31, 2016 and December 31, 2015, respectively)(fully unencumbered)	5,290	5,242
Investment securities available-for-sale, at fair value (fully unencumbered)	3,787	3,756
Mortgage-backed securities available-for-sale, at fair value (fully unencumbered)	417	431
Trading securities	10,368	10,201
Loans:		
Real estate, net	5,055,293	4,695,186
Consumer loans	1,354	1,590
Less allowance for loan losses	(18,513)	(18,514)
Total loans, net	5,038,134	4,678,262
Premises and fixed assets, net	13,770	15,150
Premises held for sale	1,379	8,799
Federal Home Loan Bank of New York ("FHLBNY") capital stock	63,681	58,713
Other real estate owned ("OREO")	18	148
Bank Owned Life Insurance ("BOLI")	85,579	85,019
Goodwill	55,638	55,638
Other assets	46,381	47,359
Total Assets	$5,517,359	$ 5,032,872
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Due to depositors:		
Interest bearing deposits	$3,189,417	$ 2,925,129
Non-interest bearing deposits	250,339	259,181
Total deposits	3,439,756	3,184,310
Escrow and other deposits	126,315	77,130
FHLBNY advances	1,277,125	1,166,725
Trust Preferred securities payable	70,680	70,680
Other liabilities	63,576	40,080
Total Liabilities	4,977,452	4,538,925
Commitments and Contingencies		
Stockholders' Equity:		
Preferred stock ($0.01 par, 9,000,000 shares authorized, none issued or outstanding at March 31, 2016 or December 31, 2015)	-	-
Common stock ($0.01 par, 125,000,000 shares authorized, 53,326,753 and 53,326,753 shares issued at March 31, 2016 and December 31, 2015, respectively, and 37,399,150 and 37,371,992 shares outstanding at March 31, 2016 and December 31, 2015, respectively)	533	533
Additional paid-in capital	263,206	262,798
Retained earnings	496,518	451,606

Accumulated other comprehensive loss, net of deferred taxes	(8,549)	(8,801)
Unallocated common stock of Employee Stock Ownership Plan ("ESOP")	(2,256)	(2,313)
Unearned Restricted Stock Award common stock	(2,279)	(2,271)
Common stock held by Benefit Maintenance Plan ("BMP")	(9,353)	(9,354)
Treasury stock, at cost (15,927,603 and 15,954,761 shares at March 31, 2016 and December 31, 2015, respectively)	(197,913)	(198,251)
Total Stockholders' Equity	539,907	493,947
Total Liabilities and Stockholders' Equity	$5,517,359	$ 5,032,872

See notes to unaudited condensed consolidated financial statements.

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DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in thousands except per share amounts)

	Three Months Ended March 31,	
	2016	2015
Interest income:		
Loans secured by real estate	$45,651	$41,788
Other loans	24	24
Mortgage-backed securities	2	181
Investment securities	173	169
Federal funds sold and other short-term investments	661	650
Total interest income	46,511	42,812
Interest expense:		
Deposits and escrow	6,794	5,220
Borrowed funds	5,086	7,498
Total interest expense	11,880	12,718
Net interest income	34,631	30,094
Credit for loan losses	(21)	(172)
Net interest income after credit for loan losses	34,652	30,266
Non-interest income:		
Service charges and other fees	685	750
Net mortgage banking income	28	72
Net gain on securities and other assets	46	1,450
Net gain on the sale of premises held for sale	68,187	-
Income from BOLI	560	606
Other	235	423
Total non-interest income	69,741	3,301
Non-interest expense:		
Salaries and employee benefits	8,830	5,900
Stock benefit plan amortization expense	878	941
Occupancy and equipment	2,627	2,944
Data processing costs	1,195	875
Federal deposit insurance premiums	739	551
Other	3,600	2,653
Total non-interest expense	17,869	13,864
Income before income taxes	86,524	19,703
Income tax expense	36,487	7,925
Net income	$50,037	$11,778
Earnings per Share:		
Basic	$1.37	$0.33
Diluted	$1.36	$0.33

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

Net Income	$50,037	$11,778
Amortization and reversal of net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of tax expense of $5 and $11 during the three months ended March 31,	6	13

2016 and 2015, respectively		
Reduction in non-credit component of other than temporary impairment ("OTTI"), net of deferred taxes of $4 during the three months ended both March 31, 2016 and 2015	4	4
Reclassification adjustment for securities sold during the period, net of income tax benefit of $(624) during the three months ended March 31, 2015 (reclassified from net gain on securities and other assets)	-	(762)
Net unrealized securities gains arising during the period, net of deferred tax expense of $7 and $19 during the three months ended March 31, 2016 and 2015, respectively	8	24
Change in pension and other postretirement obligations, net of deferred tax expense (benefit) of $191 and $(268) during the three months ended March 31, 2016 and 2015, respectively	234	(329)
Total other comprehensive income (loss)	252	(1,050)
Comprehensive Income	$50,289	$10,728

See notes to unaudited condensed consolidated financial statements.

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DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
(Dollars in thousands)

	Three Months Ended March 31,	
	2016	2015
Common Stock (Par Value $0.01):		
Balance at beginning of period	$533	$529
Shares issued in exercise of options	-	-
Balance at end of period	533	529
Additional Paid-in Capital:		
Balance at beginning of period	262,798	254,358
Stock options exercised	-	149
Excess tax benefit related to stock benefit plans	-	(27)
Amortization of excess fair value over cost – ESOP stock and stock options expense	273	270
Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares	135	-
Balance at end of period	263,206	254,750
Retained Earnings:		
Balance at beginning of period	451,606	427,126
Net income for the period	50,037	11,778
Cash dividends declared and paid	(5,125)	(5,041)
Balance at end of period	496,518	433,863
Accumulated Other Comprehensive Loss, Net of Deferred Taxes:		
Balance at beginning of period	(8,801)	(8,547)
Other comprehensive (loss) income recognized during the period, net of tax	252	(1,050)
Balance at end of period	(8,549)	(9,597)
Unallocated Common Stock of ESOP:		
Balance at beginning of period	(2,313)	(2,545)
Amortization of earned portion of ESOP stock	57	58
Balance at end of period	(2,256)	(2,487)
Unearned Equity Awards:		
Balance at beginning of period	(2,271)	(3,066)
Amortization of earned portion of restricted stock awards	438	494
Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares	(446)	-
Balance at end of period	(2,279)	(2,572)
Common Stock Held by BMP:		
Balance at beginning of period	(9,354)	(9,164)
Award distribution	1	-
Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares	-	-
Balance at end of period	(9,353)	(9,164)
Treasury Stock, at cost:		
Balance at beginning of period	(198,251)	(198,966)
Treasury shares repurchased (20,000 shares during the three months ended March 31, 2015)	-	(300)
Release from treasury stock for equity awards, net of return of shares to treasury for forfeited shares (27,158 shares)	338	-
Balance at end of period	(197,913)	(199,266)

TOTAL STOCKHOLDERS' EQUITY AT THE END OF PERIOD	$539,907	$466,056

See notes to unaudited condensed consolidated financial statements.

DIME COMMUNITY BANCSHARES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollars in thousands)

	Three Months Ended March 31, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$50,037	$11,778
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on investment and mortgage backed securities sold	-	(1,388)
Net gain recognized on trading securities	(6)	(62)
Net gain on the sale of OREO	(40)	-
Net gain on the sale of premises held for sale	(68,187)	-
Net depreciation, amortization and accretion	536	834
Stock plan compensation (excluding ESOP)	438	517
ESOP compensation expense	357	305
Credit for loan losses	(21)	(172)
Increase in cash surrender value of BOLI	(560)	(606)
Deferred income tax provision	456	1,532
Excess tax benefit from stock benefit plans	-	27
Changes in assets and liabilities:		
Decrease(Increase) in other assets	317	(1,452)
Increase(Decrease) in other liabilities	23,921	(884)
Net cash provided by Operating Activities	7,248	10,429
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities held-to-maturity	-	84
Proceeds from sales of investment securities available-for-sale	-	70
Proceeds from sale of mortgage backed securities available for sale	-	24,307
Purchases of investment securities available-for-sale	(17)	(8)
Purchases of mortgage backed securities available-for-sale	-	-
Acquisition of trading securities	(161)	(126)
Principal collected on mortgage backed securities available-for-sale	14	1,551
Proceeds from the sale of loans	-	2,330
Purchases of loans	(152,637)	-
Loans originated, net of repayments	(207,214)	(118,021)
Net proceeds from the sale of premises held for sale	75,899	-
Proceeds from the sale of OREO	170	-
Net Disposals (Purchases) of fixed assets	523	(257)
(Purchase) Redemption of FHLBNY capital stock	(4,968)	5,625
Net cash used in Investing Activities	(288,391)	(84,445)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in due to depositors	255,446	182,642
Increase in escrow and other deposits	49,185	22,555
Repayments of FHLBNY advances	(1,367,500)	(563,000)
Proceeds from FHLBNY advances	1,477,900	438,000
Proceeds from exercise of stock options	-	149
Excess tax benefit from stock benefit plans	-	(27)
Treasury shares repurchased	-	(300)
Cash dividends paid to stockholders	(5,125)	(5,041)

Net cash provided by Financing Activities	409,906	74,978
INCREASE IN CASH AND CASH EQUIVALENTS	128,763	962
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	64,154	78,437
CASH AND CASH EQUIVALENTS, END OF PERIOD	$192,917	$79,399
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$9,050	$4,457
Cash paid for interest	11,861	12,887
Loans transferred to OREO	-	130
Transfer of premises to held for sale	1,379	-
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	11	24
Net decrease in non-credit component of OTTI	8	8

See notes to unaudited condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(Dollars in Thousands Except Per Share Amounts)

1. NATURE OF OPERATIONS

The Holding Company is a Delaware corporation and parent company of the Bank, a New York State chartered stock savings bank. The Holding Company's direct subsidiaries are the Bank, 842 Manhattan Avenue Corp., and Dime Community Capital Trust 1. The Bank's direct subsidiaries are Boulevard Funding Corp., Dime Insurance Agency Inc., DSBW Preferred Funding Corporation, DSBW Residential Preferred Funding Corp., Dime Reinvestment Corp., 195 Havemeyer Corp. and DSB Holdings NY, LLC.

The Bank maintains its headquarters in the Williamsburg section of Brooklyn, New York and operates twenty-five full service retail banking offices located in the New York City ("NYC") boroughs of Brooklyn, Queens, and the Bronx, and in Nassau County, New York. The Bank's principal business is gathering deposits from customers within its market area and via the Internet, and investing them primarily in multifamily residential, commercial real estate and mixed used loans, as well as mortgage-backed securities ("MBS"), obligations of the U.S. Government and Government Sponsored Enterprises ("GSEs"), and corporate debt and equity securities. All of the Bank's lending occurs in the greater NYC metropolitan area.

2. SUMMARY OF ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair presentation of the Company's financial condition as of March 31, 2016 and December 31, 2015, the results of operations and statements of comprehensive income for the three-month periods ended March 31, 2016 and 2015, and the changes in stockholders' equity and cash flows for the three-month periods ended March 31, 2016 and 2015. The results of operations for the three-month periods ended March 31, 2016 are not necessarily indicative of the results of operations for the remainder of the year ending December 31, 2016. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been omitted pursuant to the rules and regulations of the U. S. Securities and Exchange Commission ("SEC').

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Please see "Part I - Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies" for a discussion of areas in the accompanying unaudited condensed consolidated financial statements utilizing significant estimates.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2015 and notes thereto.

3. RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in ASU 2016-01 also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. For the Company, ASU 2016-01 is effective for fiscal years and interim periods beginning after December 31, 2017. The Company is currently evaluating ASU 2016-01 to determine the impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"), which requires lessees to recognize assets and liabilities related to certain operating leases on the balance sheet. ASU 2016-02 also requires additional disclosures by lessees and contains targeted changes to accounting by lessors. For the Company, ASU 2016-02 is effective for fiscal years and interim periods beginning after December 31, 2018. The Company is currently evaluating ASU 2016-02 to determine the impact on its consolidated financial statements.

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In March 2016, the FASB issued ASU No. 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which eliminates the Additional Paid in Capital pool for excess tax benefits and requires that all excess tax benefits and tax deficiencies be recognized as an income tax benefit or expense in the income statement. All excess tax benefits and deficiencies are to be recognized in the period they are deducted on the income tax return, and shall not be anticipated when determining the annual estimated effective tax rate. Excess tax benefits are instead considered discrete items in the reporting period in which they occur. Under ASU 2016-09, entities can elect to either continue to apply current GAAP to forfeitures, or reverse compensation cost of forfeited awards when they occur, and can withhold up to the maximum individual statutory tax rate in the applicable jurisdiction and classify the entire award as equity. For the Company, ASU 2016-09 is effective for fiscal years and interim periods beginning after December 31, 2016. The Company is currently evaluating ASU 2016-09 to determine the impact on its consolidated financial statements.

In March 2016, the FASB issued an update (ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations.) The amendments in this update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers. The amendments do not change the core principal of the guidance, but rather clarify the implementation guidance on principal versus agent considerations. The amendments in this update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently evaluating the impact on the consolidated financial statements and related disclosures.

4. TREASURY STOCK

There were no treasury stock repurchases during the three months ended March 31, 2016. The Holding Company repurchased 20,000 shares of its common stock into treasury during the three months ended March 31, 2015 at a weighted average cost of $15.00 per share.

On March 24, 2016, 28,044 shares of the Holding Company's common stock were released from treasury in order to satisfy potential future performance-based equity awards. The closing price of the Holding Company's common stock on that date was $17.35, and the shares were released utilizing the average historical cost method.

Shares either released from treasury stock for earned equity awards or returned to treasury stock due to forfeited equity awards were otherwise immaterial during the three-month periods ended both March 31, 2016 and 2015.

5. OTHER COMPREHENSIVE INCOME (LOSS)

The before and after tax amounts allocated to each component of other comprehensive income (loss) are presented in the table below. Reclassification adjustments related to securities available-for-sale are included in the line entitled net gain on securities and other assets in the accompanying condensed consolidated statements of income.

	Pre-tax Amount	Tax Expense (Benefit)	After tax Amount
Three Months Ended March 31, 2016			
Securities held-to maturity and transferred securities:			
Change in non-credit component of OTTI	$8	$ 4	$4
Change in unrealized loss on securities transferred to held to maturity	11	5	6
Total securities held-to-maturity and transferred securities	19	9	10
Securities available-for-sale:			
Change in net unrealized gain during the period	15	7	8
Total securities available-for-sale	15	7	8
Defined benefit plans:			

Reclassification adjustment for expense included in salaries and employee benefits expense	425	191	234
Change in the net actuarial gain or loss	-	-	-
Total defined benefit plans	425	191	234
Total other comprehensive income	$459	$ 207	$252
Three Months Ended March 31, 2015			
Securities held-to maturity and transferred securities:			
Change in non-credit component of OTTI	$8	$ 4	$4
Change in unrealized loss on securities transferred to held to maturity	24	11	13
Total securities held-to-maturity and transferred securities	32	15	17
Securities available-for-sale:			
Reclassification adjustment for net gains included in net gain on securities and other assets	(1,388)	(626)	(762)
Change in net unrealized gain during the period	43	19	24
Total securities available-for-sale	(1,345)	(607)	(738)
Defined benefit plans:			
Reclassification adjustment for expense included in salaries and employee benefits expense	467	210	257
Change in the net actuarial gain or loss	(1,064)	(478)	(586)
Total defined benefit plans	(597)	(268)	(329)
Total other comprehensive loss	$(1,910)	$ (860)	$(1,050)

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Activity in accumulated other comprehensive income (loss), net of tax, was as follows:

	Securities Held-to-Maturity and Transferred Securities	Securities Available-for-Sale	Defined Benefit Plans	Total Accumulated Other Comprehensive Loss
Balance as of January 1, 2016	$ (760)	$ (122)	$(7,919)	$ (8,801)
Other comprehensive income before reclassifications	10	8	-	18
Amounts reclassified from accumulated other comprehensive loss	-	-	234	234
Net other comprehensive income during the period	10	8	234	252
Balance as of March 31, 2016	$ (750)	$ (114)	$(7,685)	$ (8,549)
Balance as of January 1, 2015	$ (826)	$ 736	$(8,457)	$ (8,547)
Other comprehensive income (loss) before reclassifications	17	(762)	257	(488)
Amounts reclassified from accumulated other comprehensive loss	-	24	(586)	(562)
Net other comprehensive income (loss) during the period	17	(738)	(329)	(1,050)
Balance as of March 31, 2015	$ (809)	$ (2)	$(8,786)	$ (9,597)

6. EARNINGS PER SHARE ("EPS")

Basic EPS is computed by dividing income attributable to common stock by the weighted-average common shares outstanding during the reporting period. Diluted EPS is computed using the same method as basic EPS, but reflects the potential dilution that would occur if "in the money" stock options were exercised and converted into common stock. In determining the weighted average shares outstanding for basic and diluted EPS, treasury stock and unallocated ESOP shares are excluded. Vested restricted stock award shares are included in the calculation of the weighted average shares outstanding for basic and diluted EPS. Unvested restricted stock award shares are recognized as a special class of securities under ASC 260.

The following is a reconciliation of the numerators and denominators of basic and diluted EPS for the periods presented:

	Three Months Ended March 31,	
	2016	2015
Net income per the Consolidated Statements of Income	$50,037	$11,778
Less: Dividends paid and earnings allocated to participating securities	(31)	(41)
Income attributable to common stock	$50,006	$11,737
Weighted average common shares outstanding, including participating securities	36,813,347	36,275,586
Less: weighted average participating securities	(223,605)	(288,400)
Weighted average common shares outstanding	36,589,742	35,987,186
Basic EPS	$1.37	$0.33
Income attributable to common stock	$50,006	$11,737
Weighted average common shares outstanding	36,589,742	35,987,186
Weighted average common equivalent shares outstanding	73,209	66,273
Weighted average common and equivalent shares outstanding	36,662,951	36,053,459
Diluted EPS	$1.36	$0.33

Common equivalent shares resulting from the dilutive effect of "in-the-money" outstanding stock options are calculated based upon the excess of the average market value of the Holding Company's common stock over the exercise price of outstanding in-the-money stock options during the period.

There were 124,622 and 205,710 weighted-average stock options outstanding for the three-month periods ended March 31, 2016 and 2015, respectively, which were not considered in the calculation of diluted EPS since their exercise prices exceeded the average market price during the period.

7. ACCOUNTING FOR STOCK BASED COMPENSATION

During the three-month periods ended both March 31, 2016 and 2015, the Holding Company and Bank maintained the Dime Community Bancshares, Inc. 2001 Stock Option Plan for Outside Directors, Officers and Employees, the 2004 Stock Incentive Plan and the 2013 Equity and Incentive Plan (collectively, the "Stock Plans"), which are discussed more fully in Note 14 to the Company's audited consolidated financial statements for the year ended December 31, 2015, and which are subject to the accounting requirements of ASC 505-50 and ASC 718.

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Stock Option Awards

Combined activity related to stock options granted under the Stock Plans during the periods presented was as follows:

	At or for the Three Months Ended March 31,	
	2016	2015
Options outstanding – beginning of period	465,246	979,916
Options granted	-	-
Options exercised	-	(14,776)
Options that expired prior to exercise	-	(59,360)
Options outstanding – end of period	465,246	905,780
Intrinsic value of options exercised	$-	$84
Compensation expense recognized	-	23
Remaining unrecognized compensation expense	-	8
Intrinsic value of outstanding options at period end	1,323	1,459
Intrinsic value of vested options at period end	1,323	1,446
Weighted average exercise price of vested options – end of period	14.87	14.69

There were no grants of stock options during the three-month periods ended March 31, 2016 or 2015.

Restricted Stock Awards

Prior to June 2014, the Company issued restricted stock awards to outside directors and certain officers under the 2004 Stock Incentive Plan. Since that time, the Company has issued restricted stock awards periodically to outside directors and certain officers under the 2013 Equity and Incentive Plan. Typically, awards to outside directors fully vest on the first anniversary of the grant date, while awards to officers vest in equal annual installments over a four-year period.

The following is a summary of activity related to the restricted stock awards granted under the 2004 Stock Incentive Plan or 2013 Equity and Incentive Plan during the periods indicated:

	At or for the Three Months Ended March 31,	
	2016	2015
Unvested allocated shares – beginning of period	223,894	289,660
Shares granted	-	-
Shares vested	(866)	(4,050)
Shares forfeited	(886)	-
Unvested allocated shares – end of period	222,142	285,610
Compensation recorded to expense	$438	$494

Performance Based Equity Awards

During the three months ended March 31, 2016, the Company established a long term incentive award program to certain officers that meets the criteria for equity-based accounting. For each award, threshold (50% of target), target (100% of target) and maximum (150% of target) payment opportunities are eligible to be earned over a three-year performance period based on the Company's relative performance on certain measurement goals that were established at the onset of the performance period and cannot be altered subsequently.

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The following table summarizes these awards as of the period indicated:

	At or for the Three Months Ended March 31, 2016
Weighted average grant date fair value of award shares	$17.35
Minimum aggregate share payout	-
Maximum aggregate share payout	28,044
Likely aggregate share payout	18,696
Compensation expense recognized	27

8. LOANS RECEIVABLE AND CREDIT QUALITY

Loans are reported at the principal amount outstanding, net of unearned fees or costs and the allowance for loan losses. Interest income on loans is recorded using the level yield method. Under this method, discount accretion and premium amortization are included in interest income. Loan origination fees and certain direct loan origination costs are deferred and amortized as yield adjustments over the contractual loan terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying them as to credit risk. This analysis includes all non-homogeneous loans, such as multifamily residential, mixed use residential (i.e., loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but the majority of such income is generated from the residential units), mixed use commercial real estate (i.e., loans in which the aggregate rental income of the underlying collateral property is generated from both residential and commercial units, but the majority of such income is generated from the commercial units), commercial real estate, and construction and land acquisition loans, as well as one-to four family residential and cooperative and condominium apartment loans with balances in excess of the Fannie Mae ("FNMA") conforming loan limits for high-cost areas such as the Bank's primary lending area ("FNMA Limits") that are deemed to meet the definition of impaired. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of then existing facts, conditions, and values, highly questionable and improbable.

The Bank had no loans classified as doubtful as of March 31, 2016 or December 31, 2015. All real estate loans not classified as Special Mention or Substandard were deemed pass loans at both March 31, 2016 and December 31, 2015.

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The following is a summary of the credit risk profile of real estate loans (including deferred costs) by internally assigned grade as of the dates indicated:

Grade	Balance at March 31, 2016 One- to Four- Family Residential, Including Condominium and Cooperative Apartment	Multifamily Residential and Residential Mixed Use	Commercial Mixed Use Real Estate	Commercial Real Estate	Construction	Total Real Estate Loans
Not Graded	$-	$-	$ -	$ -	$ -	$-
Pass	71,626	4,067,608	381,538	494,339	-	5,015,111
Special Mention	940	8,003	1,613	4,583	-	15,139
Substandard	2,168	9,752	5,565	7,558	-	25,043
Doubtful	-	-	-	-	-	-
Total	$74,734	$4,085,363	$ 388,716	$ 506,480	$ -	$5,055,293

Grade		Balance at December 31, 2015 One- to Four-Family Residential, Including Condominium and Cooperative Apartment	Multifamily Residential and Residential Mixed Use	Commercial Mixed Use Real Estate	Commercial Real Estate	Construction	$512,754		
		—	—	—	—	21,431	992,041	8,036	371,986
		—	—	—	—	17,478	809,057	17,479	809,103
		—	—	—	—	54,590	2,526,971	—	—
Jeffrey D. Sangster	(2)	17,393	—	18.13	October 16, 2016	3,760	174,050	5,539	256,400
		—	—	—	—	7,385	341,852	5,197	240,569
		—	—	—	—	13,859	641,533	11,303	523,216
		—	—	—	—	11,302	523,170	—	—
		—	—	—	—	34,616	1,602,375	—	—
C. N. Rupert Atkin	(3)	—	—	—	—	11,531	533,770	8,648	400,316
		—	—	—	—	21,002	972,183	7,876	364,580
		—	—	—	—	11,652	539,371	11,653	539,417
		—	—	—	—	39,504	1,828,640	—	—
Kean D. Driscoll	(4)	—	—	—	—	11,279	522,105	8,308	384,577
		—	—	—	—	11,078	512,801	7,876	364,580
		—	—	—	—	21,002	972,183	17,129	792,901
		—	—	—	—	17,129	792,901	—	—
		—	—	—	—	34,616	1,602,375	—	—
John J. Hendrickson	(5)	—	—	—	—	13,847	640,978	5,197	240,569

—	—	—	—	13,859	641,533	11,303	523,216
—	—	—	—	11,302	523,170	—	—
—	—	—	—	36,001	1,666,486	—	—

(1) Unvested Restricted Shares: 14,770 shares will vest on June 1, 2016; 21,431 shares will vest ratably over the next 2 years beginning June 1, 2016; 17,478 shares will vest ratably over the next 3 years beginning June 1, 2016; and 54,590 shares will vest on June 1, 2018. Unvested Performance Shares: 11,077 shares will vest on June 1, 2016; 8,036 shares will vest on June 1, 2017; and 17,479 shares will vest on June 1, 2018.

(2) Unvested Restricted Shares: 11,145 shares will vest on June 1, 2016; 13,859 shares will vest ratably over the next 2 years beginning on June 1, 2016; 11,302 shares will vest ratably over the next 3 years beginning on June 1, 2016; and 34,616 shares will vest on June 1, 2018. Unvested Performance Shares: 5,539 shares will vest on June 1, 2016; 5,197 shares will vest on June 1, 2017; and 11,303 shares will vest on June 1, 2018.

(3) Unvested Restricted Shares: 11,531 shares will vest on June 1, 2016; 21,002 shares will vest ratably over the next 2 years beginning June 1, 2016; 11,652 shares will vest ratably over the next 3 years beginning June 1, 2016; and 39,504 shares will vest on June 1, 2018; Unvested Performance Shares: 8,648 shares will vest on June 1, 2016; 7,876 shares will vest on June 1, 2017; and 11,653 shares will vest on June 1, 2018.

(4) Unvested Restricted Shares: 22,357 shares will vest on June 1, 2016; 21,002 shares will vest ratably over the next 2 years beginning June 1, 2016; 17,129 shares will vest ratably over the next 3 years beginning June 1, 2016; and 34,616 shares will vest on June 1, 2018. Unvested Performance Shares: 8,308 shares will vest on June 1, 2016; 7,876 shares will vest on June 1, 2017; and 17,129 will vest on June 1, 2018.

(5) Unvested Restricted Shares: 27,706 shares will vest ratably over the next 2 years beginning June 1, 2016; 11,302 shares will vest ratably over the next 3 years beginning June 1, 2016; and 36,001 shares will vest on June 1, 2018. Unvested Performance Shares: 5,197 shares will vest on June 1, 2017; and 11,303 shares will vest on June 1, 2018.

(6) These performance-based awards vest upon the achievement of established performance criteria during an applicable three-year period. The amounts shown represent the target performance goals.

(7) Based on the closing price of the Company's common stock on December 31, 2015 of $46.29.

Option Exercises and Stock Vested

The following table summarizes information underlying each exercise of stock options and vesting of restricted shares for each named executive officer in 2015:

Name	Vested Stock Awards			Options Exercised		
	Vest Date	Number of Vested Stock Awards	Value of Vested Stock Awards (1)	Exercise Date	Number of Shares Acquired on Exercise	Value Realized on Exercise
Edward J. Noonan	June 1, 2015	51,951	$2,238,569	March 5, 2015	471,397	$19,605,433
Jeffrey D. Sangster	June 1, 2015	21,074	908,079	—	—	—
C. N. Rupert Atkin	June 1, 2015	41,172	1,774,101	—	—	—
Kean D. Driscoll	June 1, 2015	37,356	1,609,670	March 16, 2015	235	5,847
				April 15, 2015	3,274	76,637
John J. Hendrickson	June 1, 2015	13,852	596,883	—	—	—

(1) Based on the Company's closing share price on June 1, 2015 of $43.09.

Pension Benefits

The Company does not maintain a defined benefit pension or retirement plan for our named executive officers.

Nonqualified Deferred Compensation Table for the Fiscal Year Ended December 31, 2015:

Name	Executive Contributions in Last FY	Registrant Contributions in Last FY (1)	Aggregate Earnings (Losses) in Last FY	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last FYE (2)
Edward J. Noonan	$—	$—	$—	$—	$—
Jeffrey D. Sangster	—	—	—	—	—
C. N. Rupert Atkin	—	768,368 (3)	—	—	768,368
Kean D. Driscoll	—	—	(100)	—	20,128
John J. Hendrickson	—	41,208	46	—	114,046

(1) These amounts will be included, when earned, as compensation in the Summary Compensation Table under the "All Other Compensation" column.

(2) These amounts were previously reported in the Summary Compensation Table.

(3) Represents 51.6% of current year annual bonus. The remaining 48.4% will be paid the following year, pursuant to the terms of Mr. Atkin's employment agreement.

The Nonqualified Supplemental Deferred Compensation Plan permits certain non-U.S. members of management and highly compensated employees selected by the Company to defer a portion of their salary and/or bonuses. The Company may, at its discretion, make additional contributions to the participant's deferral account, which will vest at the rate of 100% after two years of service (subject to full vesting at age 65, death or disability). The deferred amounts are invested in one or more of the available investment funds as selected by the participant. The participant may at any time change his or her selection of investment funds or make transfers from an investment fund to any of the other available investment funds. Vested deferred amounts, as adjusted for earnings and losses, are paid in a lump sum following retirement, death or other termination of employment. In-service withdrawals are not permitted.

The annual incentive plan for Talbot employees, including Mr. Atkin, provides that one-half of the annual incentive compensation in excess of $51,717 will be payable in the following year, subject to continued employment and other conditions as determined by the Compensation Committee.

Potential Payments upon Termination or Change in Control

The following summaries set forth potential payments payable to our named executive officers upon termination of their employment or a change in control of the Company under their current employment agreements and our 2005 Amended and Restated Long-Term Incentive Plan.

Employment Agreements

The employment agreement of each named executive officers entitles him to benefits if the Company terminates his employment under a variety of circumstances, as described below.

Edward J. Noonan. Mr. Noonan's term of employment will continue until the Date of Termination, which is the first to occur of the following: (a) the 12-month anniversary of the Company providing notice of termination without cause to Mr. Noonan; (b) immediately upon the Company providing notice of termination for cause to Mr. Noonan; (c) the 12-month anniversary of Mr. Noonan's providing notice of termination to the Company, whether with or without good reason; (d) the fifth day following the Company providing notice of termination to Mr. Noonan as a result of his permanent disability; or (e) the date of Mr. Noonan's death.

The employment agreement provides that if it is terminated as a result of Mr. Noonan's resignation or leaving of his employment, other than for good reason, he shall continue to: (a) receive base salary and benefits through the Date of Termination; (b) receive any unpaid bonus with respect to the year prior to the year in which the notice of termination is provided, payable at the times such bonuses are payable to other employees of the Company; and (c) receive reimbursement for all reimbursable expenses incurred by him prior to the Date of Termination. No shares of restricted stock or stock options granted to Mr. Noonan will vest on or following the date he provides notice of termination without good reason.

The employment agreement further provides that in the event of termination of Mr. Noonan's employment by Mr. Noonan for good reason, by the Company with or without cause, as a result of Mr. Noonan's permanent disability or upon his death, Mr. Noonan (or his estate, in the case of death) shall continue to: (a) receive base salary and benefits through the Date of Termination; (b) receive any unpaid bonus with respect to the year prior to the year in which the notice of termination is provided, payable at the times such bonuses are payable to other employees of the Company; (c) vest in any shares of restricted stock of the Company and any Company stock options granted to Mr. Noonan through the Date of Termination; (d) receive reimbursement for all reimbursable expenses incurred by Mr. Noonan prior to the Date of Termination; (e) in the event the employment period is terminated other than by the Company with cause, receive a bonus for the year notice of termination is given, prorated for the number of full or partial months during which Mr. Noonan provided services to the Company, payable at the time such bonus is payable to other employees of the Company; and (f) in the event the employment period is terminated either by Mr. Noonan for good reason or by the Company without cause and the Company does not elect that Mr. Noonan perform no duties under the agreement after notice of termination, receive an amount equal to a full year bonus (calculated at the target level) for the year prior to the year of termination, payable on the Date of Termination.

If Mr. Noonan’s employment is terminated by the Company without “cause” or by Mr. Noonan for “good reason”, in each case within twenty-four (24) months following a “change in control”, Mr. Noonan will be eligible to: (a) receive a lump sum payment equal to two (2) times the sum of his base salary plus target annual bonus; (b) receive a lump sum payment equal to the value of one year’s worth of certain benefits provided for in his employment agreement; (c) continue to receive the medical benefits set forth in his employment agreement for twenty-four (24) months; (d) receive a pro-rated bonus for the year of termination based on the number of days worked during such year, paid on the normal payment date; and (e) receive payment for any reimbursable expenses incurred prior to the termination date and any unpaid bonus amounts earned for the year prior to the termination date.

Jeffrey D. Sangster. Mr. Sangster's term of employment will continue until the Date of Termination which is the first to occur of the following: (a) the 12-month anniversary of the Company providing notice of termination without cause to Mr. Sangster; (b) immediately upon the Company providing notice of termination for cause to Mr. Sangster; (c) the 12-month anniversary of Mr. Sangster providing notice of termination to the Company whether with or without good reason; (d) the fifth day following the Company providing Notice of Termination to Mr. Sangster as a result of Mr. Sangster's permanent disability; or (e) the date of Mr. Sangster's death.

The employment agreement provides that if it is terminated as a result of Mr. Sangster's resignation or leaving of his employment, other than for good reason, he shall continue to: (a) receive base salary and benefits through the Date of Termination; and (b) receive reimbursement for all reimbursable expenses incurred by him prior to the Date of Termination. No shares of restricted stock or stock options granted to Mr. Sangster will vest on or following the date he provides notice of termination without good reason.

The employment agreement further provides that in the event of termination of Mr. Sangster's employment by Mr. Sangster for good reason, by the Company with or without cause, as a result of Mr. Sangster's permanent disability or upon his death, Mr. Sangster (or his estate, in the case of death) shall continue to: (a) receive base salary and benefits (i) in the case of termination by Mr. Sangster for good reason or by the Company with or without cause, through the Date of Termination, and (ii) in the case of termination due to Mr. Sangster's permanent disability or death, through the six-month anniversary of the Date of Termination;

(b) vest in any shares of restricted stock of the Company and any Company stock options granted to Mr. Sangster through the Date of Termination; and (c) receive reimbursement for all reimbursable expenses incurred by Mr. Sangster prior to the Date of Termination.

If Mr. Sangster's employment is terminated by the Company without "cause" or by Mr. Sangster for "good reason", in each case within twenty-four (24) months following a "change in control", Mr. Sangster will be eligible to: (a) receive a lump sum payment equal to two (2) times the sum of his base salary plus target annual bonus; (b) receive a lump sum payment equal to the value of one year's worth of certain benefits provided for in his employment agreement; (c) continue to receive certain medical and other benefits provided for in his employment agreement for twenty-four (24) months; (d) receive a pro-rated bonus for the year of termination based on the number of days worked during such year, paid on the normal payment date; and (e) receive payment for any reimbursable expenses incurred prior to the termination date and any unpaid bonus amounts earned for the year prior to the termination date.

C.N. Rupert Atkin. Mr. Atkin's term of employment shall continue until (i) terminated by either party giving the other not less than 12 months written notice or (ii) the date on which Mr. Atkin reaches age 65. During any 12 month notice period, Mr. Atkin will continue to receive base salary and all contractual benefits other than bonus (except for any unpaid amount of his accrued bonus which shall be paid if he is a good leaver, as defined below).

We may, in our sole discretion, terminate Mr. Atkin's employment with immediate effect by paying a sum equal to the base salary he would have been entitled to receive during the 12 month notice period (or, if notice has already been given, during the remainder of the notice period). This payment in lieu of notice does not include any bonus or commission payments (other than accrued bonus if he is a good leaver) or benefits (other than pension benefits) which Mr. Atkin would have been entitled to receive during the notice period. In addition, we may also summarily terminate Mr. Atkin's employment without notice or payment in lieu of notice following certain events specified in the employment agreement.

If Mr. Atkin's employment is terminated (i) by reason of liquidation of Talbot Underwriting Services Ltd. for the purpose of amalgamation or reconstruction or (ii) as part of any arrangement for the amalgamation of the undertaking of Talbot Underwriting Services Ltd. not including liquidation or the transfer of the whole or part of the undertaking of Talbot Underwriting Services Ltd. to any associated company, and Mr. Atkin is offered comparable employment with the amalgamated or reconstructed company on terms no less favorable than those described in his employment agreement, he will have no claim against us under the employment agreement with respect to that termination.

For purposes of Mr. Atkin's employment agreement, Good Leaver means the executive's employment has terminated other than due to one of the following reasons: (i) he has ceased to be an employee in circumstances justifying summary dismissal without notice; (ii) he has been dismissed for material or persistent breaches of his duties as an employee or (iii) he has given notice of termination of his employment except in circumstances where he has been advised by his employer of a materially adverse change to his position in the group or the terms and conditions of his employment.

In addition, under Mr. Atkin's employment agreement, he may be summarily terminated without notice or payment in lieu of notice if the executive: (i) is convicted of any criminal offense (other than a motoring offense for which no custodial sentence is given to him) which in the reasonable opinion of the Company demonstrated unsuitability for further employment with the Company; (ii) shall be or become prohibited by law from being a director (applicable only to directors); (iii) shall be guilty of fraud, dishonesty or serious misconduct (which, for the avoidance of doubt, includes any conduct which tends to bring the Company or any associated company into disrepute) or shall commit any serious or persistent breach of any of his obligations (for which warnings have been given to the executive) to the Company or any associated company; or (iv) shall be guilty of fraud or willful default in relation to the warranties (as defined in the employment agreement).

Kean Driscoll. Mr. Driscoll's term of employment will continue until the Date of Termination which is the first to occur of the following: (a) the 12-month anniversary of the Company providing notice of termination without cause to Mr. Driscoll; (b) immediately upon the Company providing notice of termination for cause to Mr. Driscoll; (c) the 12-month anniversary of Mr. Driscoll providing notice of termination to the Company whether with or without good reason; (d) the fifth day following the Company providing Notice of Termination to Mr. Driscoll as a result of Mr. Driscoll's permanent disability; or (e) the date of Mr. Driscoll's death.

The employment agreement provides that if it is terminated as a result of Mr. Driscoll's resignation or leaving of his employment, other than for good reason, he shall continue to: (a) receive base salary and benefits through the Date of Termination; and (b) receive reimbursement for all reimbursable expenses incurred by him prior to the Date of Termination. No shares of restricted stock or stock options granted to Mr. Driscoll will vest on or following the date he provides notice of termination without good reason.

The employment agreement further provides that in the event of termination of Mr. Driscoll's employment by Mr. Driscoll for good reason, by the Company with or without cause, as a result of Mr. Driscoll's permanent disability or upon his death, Mr. Driscoll (or his estate, in the case of death) shall continue to: (a) receive base salary and benefits (i) in the case of termination by Mr. Driscoll for good reason or by the Company with or without cause, through the Date of Termination, and (ii) in the case of termination due to Mr. Driscoll's permanent disability or death, through the six-month anniversary of the Date of Termination; (b) vest in any shares of restricted stock of the Company and any Company stock options granted to Mr. Driscoll through the Date of Termination; and (c) receive reimbursement for all reimbursable expenses incurred by Mr. Driscoll prior to the Date of Termination.

If Mr. Driscoll's employment is terminated by the Company without "cause" or by Mr. Driscoll for "good reason", in each case within twenty-four (24) months following a "change in control", Mr. Driscoll will be eligible to: (a) receive a lump sum payment equal to two (2) times the sum of his base salary plus target annual bonus; (b) receive a lump sum payment equal to the value of one year's worth of certain benefits provided for in his employment agreement; (c) continue to receive certain medical and other benefits provided for in his employment agreement for twenty-four (24) months; and (d) receive payment for any reimbursable expenses incurred prior to the termination date.

John J. Hendrickson. Mr. Hendrickson's term of employment will continue until the Date of Termination, which is the first to occur of the following: (a) the six month anniversary of the Company providing notice of termination without cause to Mr. Hendrickson; (b) immediately upon the Company providing notice of termination for cause to Mr. Hendrickson; (c) the six month anniversary of Mr. Hendrickson's providing notice of termination to the Company, whether with or without good reason; (d) the fifth day following the Company providing notice of termination to Mr. Hendrickson as a result of his permanent disability; or (e) the date of Mr. Hendrickson's death.

The employment agreement provides that if it is terminated as a result of Mr. Hendrickson's resignation or leaving of his employment, other than for good reason, he shall continue to: (a) receive base salary and benefits through the Date of Termination; (b) receive any unpaid bonus with respect to the year prior to the year in which the notice of termination is provided, payable at the times such bonuses are payable to other employees of the Company; and (c) receive reimbursement for all reimbursable expenses incurred by him prior to the Date of Termination. No shares of restricted stock or stock options granted to Mr. Hendrickson will vest on or following the date he provides notice of termination without good reason.

The employment agreement further provides that in the event of termination of Mr. Hendrickson's employment by Mr. Hendrickson for good reason, by the Company with or without cause, as a result of Mr. Hendrickson's permanent disability or upon his death, Mr. Hendrickson (or his estate, in the case of death) shall continue to: (a) receive base salary and benefits through the Date of Termination (in the case of termination due to Mr. Hendrickson's permanent disability or death, through the six month anniversary of the date of termination); (b) receive any unpaid bonus with respect to the year prior to the year in which the notice of termination is provided, payable at the times such bonuses are payable to other employees of the Company; (c) vest in any shares of restricted stock of the Company and any Company stock options granted to Mr. Hendrickson through the Date of Termination; (d) receive reimbursement for all reimbursable expenses incurred by Mr. Hendrickson prior to the Date of Termination; and (e) in the event the employment period is terminated other than by the Company with cause, receive a bonus for the year notice of termination is given, prorated for the number of full or partial months during which Mr. Hendrickson provided services to the Company, payable at the time such bonus is payable to other employees of the Company.

If Mr. Hendrickson's employment is terminated by the Company without "cause" or by Mr. Hendrickson for "good reason", in each case within twenty-four (24) months following a "change in control", Mr. Hendrickson will be eligible to: (a) receive a lump sum payment equal to two (2) times the sum of his base salary plus target annual bonus; (b) continue to receive certain medical and other benefits provided for in his employment agreement for twenty-four (24) months; (c) receive a pro-rated bonus for the year of termination based on the number of days worked during such year, paid on the normal payment date; and (d) receive payment for any reimbursable expenses incurred prior to the termination date and any unpaid bonus amounts earned for the year prior to the termination date.

For each of the employment agreements for Messrs. Noonan, Sangster, Driscoll and Hendrickson, "Cause" means (a) theft or embezzlement by the executive with respect to the Company or its Subsidiaries; (b) malfeasance or gross negligence in the performance of the executive's duties; (c) the commission by the executive of any felony or any crime involving moral turpitude; (d) willful or prolonged absence from work by the executive (other than by reason of disability due to physical or mental illness or at the direction of the Company or its Subsidiaries) or failure, neglect or refusal by the executive to perform his duties and responsibilities without the same being corrected within ten (10) days after being given written notice thereof; (e) for Messrs. Noonan and Hendrickson, failure by the executive to substantially perform his duties and responsibilities thereunder without the same being corrected within thirty (30) days after being given written notice thereof, as determined by the Company in good faith, and for Mr. Driscoll, failure by the executive to adequately perform his duties and responsibilities hereunder without the same being corrected within thirty (30) days after being given written notice thereof, as determined by the Company in good faith; (f) continued and habitual use of alcohol by the executive to an extent which materially impairs the executive's performance of his duties without the same being corrected within ten (10) days after being given written notice thereof; (g) the executive's use of illegal drugs without the same being corrected within ten (10) days after being given written notice thereof;

(h) the executive's failure to use his best efforts to obtain, maintain or renew the required work permit in a timely manner, without the same being corrected within ten (10) days after being given written notice thereof; or (i) the material breach by the executive of any of the covenants contained in the employment agreement without, in the case of any breach capable of being corrected, the same being corrected within ten (10) days after being given written notice thereof.

Additionally, for each of the employment agreements for Messrs. Noonan, Sangster, Driscoll and Hendrickson, "Good Reason" means, without the executive's written consent, (a) a material breach of this Agreement by the Company; (b) a material reduction in the executive's base salary; or (c) a material and adverse change by the Company in the executive's duties and responsibilities, other than due to the executive's failure to adequately perform such duties and responsibilities as determined by the Board in good faith; provided, however, that, it is a condition precedent to the executive's right to terminate employment for Good Reason that (i) the executive shall first have given the Company written notice that an event or condition constituting Good Reason has occurred within ninety days after such occurrence, and any failure to give such written notice within such period will result in a waiver by the executive of his right to terminate for Good Reason as a result of such event or condition, and (ii) a period of thirty days from and after the giving of such written notice shall have elapsed without the Company having effectively cured or remedied such occurrence during such 30-day period; provided further, however, that the executive's termination of employment due to "Good Reason" must occur not later than one hundred fifty days following the initial existence of the condition giving rise to 'Good Reason.'

Assuming each executive's employment terminated under each of the circumstances described above on December 31, 2015, the payments and benefits due would have an estimated value of:

Event and Executive	Salary	Vesting in stock awards and options (1)	Non-Equity Incentive Plan compensation	All other compensation
Edward J. Noonan				
Resignation by the executive with good reason, termination by the Company without cause	$985,625	$6,705,615	$ 1,995,891	$ 600,800
Resignation by the executive without good reason	985,625	—	—	600,800
Termination as a result of permanent disability or upon his death	—	—	1,995,891	—
Termination by the Company with cause	—	—	—	—
Jeffrey D. Sangster				
Resignation by the executive with good reason, termination by the Company without cause	625,000	4,303,165	1,265,625	259,471
Resignation by the executive without good reason	625,000	—	—	259,471
Termination as a result of permanent disability or upon his death	312,500	—	1,265,625	129,736
Termination by the Company with cause				
C. N. Rupert Atkin				
Resignation by the executive for good reason, including death; termination by the Company without cause	807,288	5,178,277	768,368	14,196
Resignation other than for good reason	807,288	—	—	—
Termination as a result of permanent disability	—	—	768,368	—
Termination by the Company with cause	—	—	—	—
Kean D. Driscoll				
Resignation by the executive with good reason, termination by the Company without cause	625,000	5,944,423	1,220,000	392,139
Resignation by the executive without good reason	625,000	—	—	392,139
Termination as a result of permanent disability or upon his death	312,500	—	1,220,000	196,070
Termination by the Company with cause	—	—	—	—
John J. Hendrickson				
Resignation by the executive with good reason, termination by the Company without cause	650,000	4,235,952	1,316,250	88,844
Resignation by the executive without good reason	650,000	—	—	88,844
Termination as a result of permanent disability or upon his death	325,000	—	1,316,250	44,422
Termination by the Company with cause	—	—	—	—

(1) Based on the closing price of the Company's common stock on December 31, 2015 of $46.29.

Each employment agreement includes an agreement by the executive to certain confidentiality and non-solicitation provisions.

Restricted Share and Option Agreements

Messrs. Noonan, Sangster and Driscoll were granted restricted shares in connection with our IPO and periodically thereafter. Mr. Hendrickson was granted restricted shares on June 1, 2013 and 2014 and on June 23, 2015. Each Restricted Share Agreement evidencing such grants provides that in the event the executive's employment is terminated by the Company not for cause or by the executive for good reason, 45% of the grant shall vest upon the delivery of a notice of termination (or at the end of the applicable correction period following delivery of a notice of termination) and the remaining 55% of the grant will vest on the last vesting date of the award, but only if the executive does not breach the remaining applicable terms of his employment agreement, including the duties owed during any "garden leave" period and the confidentiality, non-competition, non-solicitation and assignment of inventions covenants to the extent contained therein. With respect to performance share awards, each award shall vest in the aforementioned percentages at target. In the event of the executive's breach of any of such terms, duties or covenants, any unvested portion of the grant shall be immediately forfeited by the executive. In addition, if the executive's employment is terminated by the Company not for cause or by the executive for good reason within two years following a change in control, the grant shall become immediately vested in full upon such termination of employment. With respect to performance share awards, each award shall immediately vest in full at target.

Mr. Atkin has been granted restricted shares pursuant to the terms of his employment agreement and periodically thereafter. The Restricted Share Agreement evidencing such grant provides that these restricted shares will vest 100% upon termination of service if the executive is a good leaver. If the executive is not a good leaver, any portion of the award not vested at termination of service will be forfeited. In addition, if the executive's employment is terminated by the Company not for cause within two years following a change in control, these restricted shares will vest 100% upon such termination of employment.

Under the terms of Mr. Atkin's employment agreement, an executive is a good leaver if his employment is terminated due to one of the following reasons: (i) agreed termination of employment; (ii) injury, ill-health, disability or redundancy; (iii) death; (iv) wrongful or unfair dismissal by the relevant Validus group company or any of its subsidiaries; (v) the company by which he is employed ceases to be a Validus group company; (vi) the entire or substantially the whole of the business carried on by the executive's employer is transferred to a person other than a Validus group company; or (vii) retirement at normal retirement age or early retirement on the grounds of ill-health or with the consent of the Board of Directors and in accordance with the terms of any pension plan the executive participates in.

For each of the agreements described above, change in control has the meaning set forth in the 2005 Amended and Restated Long-Term Incentive Plan.

Assuming that at March 11, 2016, each executive's employment terminated not for cause or by the executive for good reason and there has been a change in control, the payments and benefits due would have been:

Name	Salary	Target Bonus	Value of Vested Accelerated Stock Awards (1)	Options Exercisable	Value of Options Exercisable
Edward J. Noonan	$1,971,250	$2,956,876	$6,705,615	—	$—
Jeffrey D. Sangster	1,250,000	1,875,000	4,303,165	—	—
C. N. Rupert Atkin	—	—	5,178,277	—	—
Kean D. Driscoll	1,250,000	1,875,000	5,944,423	—	—
John J. Hendrickson	1,300,000	1,950,000	4,235,952	—	—

(1) Based on the closing price of the Company's common stock on December 31, 2015 of $46.29.

AUDIT COMMITTEE REPORT

The primary purpose of the Audit Committee is to assist in the Board's oversight of the integrity of the Company's financial statements, including its system of internal controls, the Independent Auditor's qualifications, independence and performance, the performance of the Company's internal audit function and the Company's compliance with legal and regulatory requirements. The Audit Committee is directly responsible for the selection (subject to the approval of shareholders), compensation, retention and oversight of the work of the Independent Auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Company. During 2015, Messrs. Carpenter (Chairman), Grayson, Nessi, and Dr. Vaughan served on the Audit Committee. The Audit Committee is currently comprised of four Directors and operates under a written charter, which is posted on the Company's website at www.validusholdings.com. It is not the responsibility of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with Generally Accepted Accounting Principles and applicable rules and regulations. The financial statements are the responsibility of the Company's management. The Independent Auditor is responsible for expressing an opinion on these financial statements based on their audit. It is also not the responsibility of the Audit Committee to assure compliance with laws and regulations, the Company's Code of Business Conduct and Ethics for Directors, Officers and Employees and Code of Ethics for Senior Officers or to set or determine the adequacy of the Company's reserves.

Based on the Audit Committee's review of the audited financial statements, its discussions with management regarding the audited financial statements, its receipt of written disclosures and the letter from the Independent Auditor required by applicable requirements of the Public Company Accounting Oversight Board regarding communications with the Audit Committee concerning independence, its discussions with the Independent Auditor regarding such auditor's independence, the audited financial statements, the matters required to be discussed by the Statement on Auditing Standards 16, and other matters the Audit Committee deemed relevant and appropriate, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements for the fiscal year ended December 31, 2015 be included in the Company's Annual Report on Form 10-K for such fiscal year.

Audit Committee
Michael E.A. Carpenter (Chairman)
Matthew J. Grayson
Jean-Marie Nessi
Dr. Therese M. Vaughan

Principal Auditor Fees and Services

The following table summarizes professional services rendered by PricewaterhouseCoopers Ltd. ("PwC") for the fiscal years ended December 31, 2015 and 2014.

	2015	2014
Audit fees (1)	$6,612,590	$6,120,834
Audit related fees (2)	401,036	318,498
Tax fees (3)	615,127	131,533
All other fees (4)	14,000	8,700
Total	7,642,753	6,579,565

(1) Such audit fees were for professional services rendered primarily in connection with the audit and quarterly review of the consolidated financial statements and other attestation services that comprised the audits for insurance statutory and regulatory purposes in the various jurisdictions in which the Company operates and the provision of certain opinions relating to the Company's filings with the SEC.

(2) During the year ended December 31, 2015, these fees comprised audit fees in connection with regulatory initiatives, technical accounting considerations and other related fees which were $169,693, $145,000 and $86,343, respectively. During the year ended December 31, 2014, these fees comprised audit fees in connection with regulatory initiatives, technical accounting considerations and other related fees which were $23,396, $235,752,

and $59,350, respectively.

(3) These fees were related to professional services rendered for various corporate and other taxation issues.

(4) During the year ended December 31, 2015, other fees for services were provided in connection with human resource related services. During the year ended December 31, 2014, other fees for services were provided in connection with international regulatory services.

General

The Audit Committee has adopted procedures for pre-approving all audit and permissible non-audit services provided by the Independent Auditor. The Audit Committee will annually review and pre-approve the audit, review and attestation services to be provided during the next audit cycle by the Independent Auditor and may annually review and pre-approve any permitted non-audit services to be provided during the next audit cycle by the Independent Auditor. To the extent practicable, the Audit Committee will also review and approve a budget for such services. Services proposed to be provided by the Independent Auditor that have not been pre-approved during the annual review and the fees for such proposed services must be pre-approved by the Audit Committee or its designated subcommittee. Additionally, fees for previously approved services that are expected to exceed the previously approved budget must also be pre-approved by the Audit Committee or its designated subcommittee. All requests or applications for the Independent Auditor to provide services to the Company are submitted to the Audit Committee or its designated subcommittee. When such a pre-submission is not practicable, the Company receives pre-approval in writing from the Chairman of the Audit Committee and such approval is then ratified by the full Audit Committee at the next regularly scheduled meeting of such committee.

The Audit Committee considered whether the provision of non-audit services performed by the Independent Auditor was compatible with maintaining PwC's independence during 2015. The Audit Committee concluded in 2015 that the provision of these services was compatible with the maintenance of PwC's independence in the performance of its auditing functions during 2015.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

We have established written procedures for the review of transactions between us and any company affiliated with funds managed by Aquiline or any other company in which our officers or directors have a material interest. We refer to a company in which Aquiline has a material interest as a "portfolio company." Any such transaction must be reviewed and approved by our management or the management of the operating subsidiary entering into the transaction, and the terms of such transaction should be arm's-length or on terms that are otherwise fair to the Company. Any such transaction will also require prior approval of the audit committee, except reinsurance assumed transactions with a portfolio company that senior management has determined are in the ordinary course. Furthermore, the effect, if any, of such a transaction on the independence of any director will be considered.

Pursuant to reinsurance agreements with Syndicate 4020 at Lloyd's, a syndicate managed by Ark Syndicate Management Limited, a subsidiary of Group Ark Insurance Holdings Ltd. ("Group Ark"), the Company has recognized reinsurance premiums ceded of $24,000 for the year ended December 31, 2015, and had reinsurance balances payable of $4,000 at December 31, 2015. In addition, pursuant to reinsurance agreements with a subsidiary of Group Ark, the Company recognized gross premiums written during the year ended December 31, 2015 of $2,718,000, with $82,000 included in premiums receivable at December 31, 2015. The Company also recorded $790,000 of loss reserves recoverable as at December 31, 2015 and earned premium adjustments of $2,833,000 were incurred during the year ended December 31, 2015. The contract terms were negotiated on an arms-length basis. Aquiline and its affiliates own a majority of the ordinary shares of, and Mr. Watson serves as a director of, Group Ark.

On December 20, 2011, Validus Re, a wholly owned subsidiary of the Company, entered into an Assignment and Assumption Agreement (the "Agreement") with Aquiline Capital Partners LLC, a Delaware limited liability company (the "Assignor") and Aquiline Capital Partners II GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "General Partner") pursuant to which Validus Re assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. ("Aquiline Fund II") representing a total capital commitment of $50,000,000 (the "Commitment"), as a limited partner in Aquiline Fund II (the "Transferred Interest"). On October 2, 2014, the Company assumed an additional investment in Aquiline Fund II as part of the Western World acquisition representing a total capital commitment of $10,000,000. The Transferred Interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of July 2, 2010 (the "Limited Partnership Agreement"). The Company's remaining commitment at December 31, 2015 was $4,096,000. For the year ended December 31, 2015, the Company paid $1,519,000 in fees to Aquiline Fund II and made capital contributions of $6,093,000.

On November 7, 2014, Validus Re entered into a Subscription Agreement with Aquiline Capital Partners III GP (Offshore) Ltd., a Cayman Islands company limited by shares, pursuant to which Validus Re committed and agreed to purchase limited partnership or other comparable limited liability equity interests in Aquiline Financial Services Fund III L.P., a Cayman Islands exempted limited partnership ("Aquiline Fund III"), and/or one or more alternative investment vehicles and intermediate entities with a capital commitment in an amount equal to $100,000,000, as a limited partner in Aquiline Fund III. Validus Re's remaining commitment at December 31, 2015 was $86,110,000.

On November 24, 2015, Western World, a subsidiary of Validus Re, entered into a Stock Purchase Agreement (the "Agreement") with WRM America Indemnity Holding Company, LLC (the "Seller"), a company owned in part by Aquiline Financial Services Fund LP and Aquiline Financial Services Fund (Offshore) LP (collectively, "Aquiline"), pursuant to which Western World will purchase all of the issued and outstanding shares of capital stock of WRM America Indemnity Company, Inc. ("WRMAI"), a New York stock property and casualty insurance company. Under the terms of the Agreement, Western World has agreed to pay an amount equal to the sum of: (i) the amount of policyholder surplus of WRMAI as of the Closing Date, as shown on the Closing Balance Sheet, and (ii) $3,750,000. The Agreement includes customary indemnities and conditions to closing including the approval by The New York Department of Financial Services of the acquisition of control of WRMAI by Western World.

The employers of or entities associated with certain directors or their affiliates have purchased or may in the future purchase in the ordinary course of business insurance and/or reinsurance from the Company on terms the Company believes were and will be no more favorable to these insureds than those made available to other customers.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's Directors and executive officers and persons who own more than 10% of a registered class of the Company's equity securities to file with the SEC and the NYSE reports on Forms 3, 4 and 5 concerning their ownership of the Shares and other equity securities of the Company.

The Company believes that all of its officers, Directors and beneficial owners of more than 10% of its Shares filed all of such reports on a timely basis during the year ended December 31, 2015 except that, due to an administrative error, Andrew Kudera made one late filing on Form 4 relating to 10,000 shares sold on May 12, 2015.

DETAILED BELOW IN ITEMS I THROUGH IV ARE THE MATTERS SCHEDULED TO BE VOTED ON AT THE ANNUAL GENERAL MEETING TO BE HELD ON MAY 5, 2016

I. Election of Directors

For purposes of this proposal I, the term "Company" shall mean Validus Holdings, Ltd.

At the Annual General Meeting, four Class III Directors are to be elected to hold office until the 2019 Annual General Meeting of Shareholders and one Class II Director is to be elected to hold office until the 2018 Annual General Meeting of Shareholders. All of the nominees (other than Ms. Ross) are currently serving as Directors and were appointed or elected in accordance with the Company's Bye-laws. Unless authority is withheld by the Shareholders, it is the intention of the persons named in the enclosed proxy to vote for the nominees listed below. All of the nominees have consented to serve if elected, but if any becomes unavailable to serve, the persons named as proxies may exercise their discretion to vote for a substitute nominee. The name, principal occupation and other information concerning each Director are set forth below.

Nominees for Whom Proxies Will Be Voted

Class III Directors whose terms expire in 2016:

Edward J. Noonan, age 57, has been Chairman of our Board and the Chief Executive Officer of the Company since its formation. Mr. Noonan has over 30 years of experience in the insurance and reinsurance industry, serving most recently as the acting chief executive officer of Global Indemnity Ltd. (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. Prior to joining American Re, Mr. Noonan worked at Swiss Reinsurance from 1979 to 1983. Mr. Noonan currently serves as a director of Central Mutual Insurance Company. The specific experience, qualifications, attributes and skills that led to the conclusion that Mr. Noonan should serve as a director, as of the date hereof, are as follows: Mr. Noonan has extensive experience in the global (re)insurance industry. Mr. Noonan has also served as a director of insurance and reinsurance companies, including serving as audit committee chair and board chairperson.

Mahmoud Abdallah, age 67, has served as a Director since May 2012. Mr. Abdallah currently serves as Managing Partner of MMA Global Investments LLC, an investment and advisory firm, a position he had held since July 2012. Mr. Abdallah also served as the Chairman and Chief Executive Officer of MISR Insurance Holding Company (MIHC), Cairo Egypt, from 2006 to 2012. Mr. Abdallah has over 30 years of experience in the insurance industry. His experience includes International Reinsurance, Direct Insurance Broking, Mergers and Acquisitions Consulting, Private-Public Globalization Initiatives, and Privatization of Government owned Insurance Operations. He has also twice served as Chairman of the International Insurance Council and currently is a member of the National Council for Arts and Sciences at George Washington University. Mr. Abdallah is also a Board member of Egypt Air, HSBC Egypt and the Metropolitan Opera in New York. The specific experience, qualifications, attributes and skills that led to the conclusion that Mr. Abdallah should serve as a director, as of the date hereof, are as follows: Mr. Abdallah has extensive experience in the global insurance and reinsurance industry and international finance as well as serving as a director of other financial services companies.

Jeffrey W. Greenberg, age 64, has been a Director of the Company since its formation. He also serves as the managing principal of Aquiline Capital Partners LLC ("Aquiline"), which he founded in 2005. Mr. Greenberg served as chairman and chief executive officer of Marsh & McLennan Companies, Inc. from 2000 to 2004. From 1996 to 2004, Mr. Greenberg was the chairman of MMC Capital, the manager of the Trident Funds. He previously served as a director of Ace, Inc. and as Chairman of Conning Holdings, Inc. Mr. Greenberg has also previously served as a senior executive of AIG, where he was employed from 1978 to 1995. Mr. Greenberg is also Chairman of Conning Holdings Inc. The specific experience, qualifications, attributes and skills that led to the conclusion that Mr. Greenberg should serve as a director, as of the date hereof, are as follows: Mr. Greenberg has extensive executive experience in the global (re)insurance and insurance brokerage businesses. Additionally, Mr. Greenberg has very extensive experience as an investor and director of Bermuda based (re)insurance companies.

John J. Hendrickson, age 55, has been a Director of the Company since its formation. In February 2013 Mr. Hendrickson joined Validus as Director of Strategy, Risk Management and Corporate Development. Prior to this, Mr. Hendrickson was the Founder and Managing Partner of SFRi LLC, an independent investment and advisory firm specializing in the insurance industry. From 1995 to 2004, Mr. Hendrickson held various positions with Swiss Re, including as a Member of the Executive Board, Head of Capital Partners (Swiss Re's Merchant Banking Division), and Managing Partner of Securitas Capital. From 1985 to 1995, Mr. Hendrickson was with Smith Barney, the U.S. investment banking firm. The specific experience, qualifications, attributes and skills that led to the conclusion that Mr. Hendrickson should serve as a director, as of the date hereof, are as follows: Mr. Hendrickson has extensive experience as an investment banker, investor and executive in the global (re)insurance industry. Mr. Hendrickson has also served as a director of insurance and reinsurance companies, including serving as audit committee chair.

Class II Director for whom Proxies Will Be Voted

Gail Ross, age 63, is standing for election as a Director of the Company on May 5, 2016. Ms. Ross is a seasoned (re)insurance professional with nearly forty years in the industry. She has had extensive experience as a consultant focusing on mergers and acquisitions, operational best-practices and valuations of property/casualty (re)insurance companies around the world. From 2003 through 2015, Ms. Ross served as a Principal and Consulting Actuary of Milliman, Inc., a global insurance consulting firm. Prior to joining Milliman, Ms. Ross served from 1995 through 2002 as Vice President and Consulting Actuary with Am-Re Consultants, Inc. and from 1985 to 1994 as a Principal and Consulting Actuary with Tillinghast. Ms. Ross began her career in 1976 as an underwriter and actuarial assistant with Travelers Insurance Company. Ms. Ross is a Fellow of the Casualty Actuarial Society (CAS) and a Member of the American Academy of Actuaries (MAAA). She is a past President of the CAS and served as the Chair of the CAS Board of Directors. Ms. Ross was recommended as a director by Mr. Noonan. The specific experience, qualifications, attributes, and skills that led to the conclusion that Ms. Ross should serve as a director, as of the date hereof, are as follows: Ms. Ross has a broad perspective on global (re)insurance industry financial and operational processes and best practices. She also has extensive experience in assessing policy, strategy and execution within the property/casualty (re)insurance industry.

Your Board of Directors recommends that Shareholders vote FOR the nominees.

Directors Whose Terms of Office Do Not Expire at This Meeting

Class I Directors whose terms expire in 2017:

Matthew J. Grayson, age 54, has been a Director of the Company since its formation. Mr. Grayson also currently serves as a director on certain of the Company's affiliated AlphaCat Funds. Since 2011, Mr. Grayson has served as a principal of the Welder Reserve Fund I, GP, an oil and gas asset management firm, and is also a director of Kapuna Pharmacy Group, Inc., Salient CRGT Holdings, Inc., and is a principal of Telaraña Land & Cattle Company, LLC. From 2005 through 2010, Mr. Grayson served as a senior principal of Aquiline. Mr. Grayson has 33 years' experience in the financial services industry. In 1998, following a career in investment banking, corporate finance and capital markets, Mr. Grayson co-founded Venturion Capital, a private equity firm that specialized in global financial services companies. In 2005, Venturion Capital's professionals joined with Jeffrey W. Greenberg, along with others, to form Aquiline. The specific experience, qualifications, attributes and skills that led to the conclusion that Mr. Grayson should serve as a director, as of the date hereof, are as follows: Mr. Grayson has extensive experience as a banker and investor in the global (re)insurance industry. Mr. Grayson is also experienced in investment portfolio oversight and corporate finance.

Jean-Marie Nessi, age 66, has been a Director of the Company since its formation and has 39 years of experience in the reinsurance industry. He has been a non-executive director of AIG Europe Limited since 2012 and also served as a director of Matmut Enterprises from 2007 to 2013. Mr. Nessi has also served as the head of Aon Global Risk Consulting at Aon France from October 2008 to January 2009. Mr. Nessi served as Chairman and CEO of NessPa Holding from January 2006 to September 2008 and as the head of the property and casualty business unit for PartnerRe Global, a subsidiary of PartnerRe SA, from February 2003 to February 2006. He was appointed Chairman of PartnerRe SA in June of 2003. Prior to PartnerRe, Mr. Nessi led AXA Corporate Solutions, the successor company to AXA Ré and AXA Global Risk. The specific experience, qualifications, attributes and skills that led to the conclusion that Mr. Nessi should serve as a director, as of the date hereof, are as follows: Mr. Nessi has extensive experience in leadership positions in the global (re)insurance industry. Mr. Nessi also has significant expertise in (re)insurance company reserving and financial accounting.

Mandakini Puri, age 56, has been a Director of the Company since its formation. From May of 2011 until May of 2013, Ms. Puri served as a Managing Director of BlackRock Global Private Equity. She also served as a consultant to Bank of America/Merrill Lynch Global Private Equity ("MLGPE") from April 2009 until April 2011. From 1994 through 2009, Ms. Puri served as a senior vice president with MLGPE, where she was the Chief Investment Officer. Ms. Puri had been part of Merrill Lynch's private equity business since 1994, prior to which she was a Director in the High Yield Finance & Restructuring Group at Merrill. Ms. Puri joined Merrill Lynch in 1986. The specific experience, qualifications, attributes and skills that led to the conclusion that Ms. Puri should serve as a director, as of the date hereof, are as follows: Ms. Puri has extensive experience as an investor and Director of Bermuda based (re)insurance companies that specialize in catastrophe risk. Ms. Puri also has broad expertise in fixed income investments and corporate finance.

Class II Directors whose terms expire in 2018:

Michael E.A. Carpenter, age 66, was appointed as a Director of the Company in August 2011. Mr. Carpenter joined Talbot in June 2001 as its Chief Executive Officer. Following the sale of Talbot to the Company in the summer of 2007, Mr. Carpenter was appointed as non-executive Chairman of Talbot. 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). The specific experience, qualifications, attributes and skills that led to the conclusion that Mr. Carpenter should serve as a director, as of the date hereof, are as follows: Mr. Carpenter has extensive experience in the global financial services industry, a professional background as a chartered accountant and significant expertise in Lloyd's of London.

Therese M. (Terri) Vaughan, age 59, has been a Director of the Company since May 2013. Ms. Vaughan is currently the Dean of the College of Business and Public Administration at Drake University. Ms. Vaughan served as Chief Executive Officer of the National Association of Insurance Commissioners (NAIC) from 2009 to 2012 where she oversaw operations and navigated the company through a significant period of financial regulatory reform. Previously, Ms. Vaughan served as the Iowa Insurance Commissioner and is a past NAIC President. She has also held academic positions, including the Robb B. Kelley Distinguished Professor of Insurance and Actuarial Science at Drake University, and co-authored two college textbooks on insurance. Ms. Vaughan earned a Ph.D. in risk and insurance at the University of Pennsylvania and a B.B.A. in insurance and economics at the University of Iowa. She is a CPCU, an Associate of the Society of Actuaries, an Associate of the Casualty Actuarial Society, and a member of the American Academy of Actuaries. She also serves on the Board of Verisk Analytics (NASDAQ: VRSK), a provider of risk-assessment services and decision analytics. The specific experience, qualifications, attributes and skills that led to the conclusion that Ms. Vaughan should serve as a director, as of the date hereof, are as follows: Ms. Vaughan has significant experience in the field of insurance regulation. Ms. Vaughan also has extensive risk and insurance related academic credentials including in the field of actuarial science.

Christopher E. Watson, age 65, has been a Director of the Company since its formation. He also serves as a senior principal of Aquiline, which he joined in 2006. Mr. Watson has more than 35 years of experience in the financial services industry. From 1987 to 2004, Mr. Watson served in a variety of executive roles within the property & casualty insurance businesses of Citigroup and its predecessor entities. From 1990 to 2004, Mr. Watson was president and chief executive officer of Gulf Insurance Group, one of the largest surplus lines insurance companies in the world. Mr. Watson served as a senior executive of AIG from 1974 to 1987. Mr. Watson is also a director of Group Ark Insurance Holdings Ltd., a Bermuda-based underwriter of insurance and reinsurance risks in the Lloyd's market, and Beach UK Holding Co., a reinsurance broker in the UK, US, and Canada. In addition, Mr. Watson serves on the Board of Worley Claim Service, LLC., a claim adjusting firm focused on catastrophe events. The specific experience, qualifications, attributes and skills that led to the conclusion that Mr. Watson should serve as a director, as of the date hereof, are as follows: Mr. Watson has extensive experience as an executive in the global (re)insurance industry. Mr. Watson also has applicable experience as an investor in and Director of a Lloyd's of London syndicate.

II. Non-binding advisory vote on the executive compensation payable to the Company's Named Executive Officers

Introduction

The core of Validus' executive compensation policies and practices continues to be to pay for performance. The Company's executive officers are compensated in a manner consistent with its strategy, competitive practice, sound corporate governance principles, and shareholder interests and concerns. The Company believes that its compensation program is strongly aligned with the long-term interests of its shareholders. You are encouraged to read the Compensation Discussion and Analysis section of this proxy statement for additional details on the Company's executive compensation, including its compensation philosophy and objectives and the 2015 compensation of the named executive officers.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, provides that the Company's Shareholders have the opportunity to vote to approve, on an advisory (non-binding) basis, the compensation of the Company's named executive officers as disclosed in this proxy statement in accordance with SEC rules. As required by these rules, the Company is asking you to vote on the adoption of the following non-binding resolution:

BE IT RESOLVED by the Shareholders of Validus Holdings, Ltd., that the Shareholders approve the compensation of the Company's named executive officers as disclosed in the proxy statement dated March 18, 2016 pursuant to the compensation disclosure rules of the SEC.

As an advisory vote, this Proposal is non-binding. Although the vote is non-binding, the Board of Directors and the Compensation Committee value the opinions of the Company's Shareholders, and will consider the outcome of the vote when making future compensation decisions for our named executive officers.

If you own Shares through a bank, broker, or other holder of record, you must instruct your bank, broker, or other holder of record how to vote in order for them to vote your Shares so that your vote can be counted on this proposal.

Your Board of Directors recommends that Shareholders vote to APPROVE the compensation payable to the Company's Named Executive Officers.

III. Approval of Independent Auditor

The Audit Committee of the Board of Directors is required by law and applicable NYSE rules to be directly responsible for the selection (subject to the approval of shareholders), compensation and retention of the Company's Independent Auditor. The Audit Committee has selected PricewaterhouseCoopers Ltd. as the Independent Auditor for the year ending December 31, 2016, for approval by the Shareholders. Even if the selection is approved, the Audit Committee in its discretion may direct the selection of a different independent auditor at any time during the fiscal year if it determines that such a change would be in the best interest of the Company and its Shareholders.

The Board of Directors recommends a vote FOR the proposal to approve the selection of PricewaterhouseCoopers Ltd. as the Company's Independent Auditor to audit the Company's consolidated financial statements for the year ending December 31, 2016. The persons designated as proxies will vote FOR the approval of the selection of PricewaterhouseCoopers Ltd. as the Company's Independent Auditor, unless otherwise directed. Representatives of PricewaterhouseCoopers Ltd. are expected to be present at the Annual General Meeting, with the opportunity to make a statement should they choose to do so, and are expected to be available to respond to questions, as appropriate.

Your Board of Directors recommends a vote FOR the proposal to approve the selection of PricewaterhouseCoopers Ltd., Hamilton, Bermuda.

Shareholder Proposals for 2017 Annual General Meeting

Shareholder proposals intended for inclusion in the Proxy Statement for the 2017 Annual General Meeting should be submitted in accordance with the procedures prescribed by Rule 14a-8 promulgated under the Exchange Act and sent to the General Counsel at Validus Holdings, Ltd., 29 Richmond Road, Pembroke, HM 08 Bermuda. Such proposals must be received by November 18, 2016.

In addition, a Shareholder may present a proposal at the 2017 Annual General Meeting other than pursuant to Rule 14a-8 promulgated under the Exchange Act. Any such proposal will not be included in the Proxy Statement for the 2017 Annual General Meeting and must be received by the General Counsel at Validus Holdings, Ltd., 29 Richmond Road, Pembroke, HM 08, Bermuda by February 1, 2017. If any such proposal is not so received, such proposal will be deemed untimely and, therefore, the persons appointed by the Board of Directors as its proxies will have the right to exercise discretionary voting authority with respect to such proposal.

Other Matters

While management knows of no other matters to be brought before the Annual General Meeting, if any other matters properly come before the meeting, it is the intention of the persons named in the accompanying proxy form to vote the proxy in accordance with their judgment on such matters.

Proxy Solicitation

The Company will bear the cost of this solicitation of proxies. Proxies may be solicited by Directors, officers and employees of the Company and its subsidiaries, who will not receive additional compensation for such services. Upon request, the Company will also reimburse brokers and others holding Shares in their names, or in the names of nominees, for forwarding proxy materials to their customers.

The Company will furnish, without charge, to any Shareholder a copy of its Annual Report on Form 10-K that it files with the SEC. A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 may be obtained upon written request to the Company's Secretary at Validus Holdings, Ltd., 29 Richmond Road, Pembroke HM 08, Bermuda.

As ordered,

Edward J. Noonan
Chairman of the Board of Directors and Chief Executive Officer