

# Validus Holdings, Ltd.

INVESTOR PRESENTATION – FOURTH QUARTER 2015



## Cautionary Note Regarding Forward-looking Statements

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This presentation may include forward-looking statements, both with respect to us and our industry, that reflect our current views with respect to future events and financial performance. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “anticipate,” “will,” “may” and similar statements of a future or forward-looking nature identify forward-looking statements. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements and, therefore, you should not place undue reliance on any such statements. We believe that these factors include, but are not limited to, the following: 1) unpredictability and severity of catastrophic events; 2) rating agency actions; 3) adequacy of Validus Holdings, Ltd.’s (“Validus” or the “Company”) risk management and loss limitation methods; 4) cyclicity of demand and pricing in the insurance and reinsurance markets; 5) statutory or regulatory developments including tax policy, reinsurance and other regulatory matters; 6) Validus’ ability to implement its business strategy during “soft” as well as “hard” markets; 7) adequacy of Validus’ loss reserves; 8) continued availability of capital and financing; 9) retention of key personnel; 10) competition; 11) potential loss of business from one or more major insurance or reinsurance brokers; 12) Validus’ ability to implement, successfully and on a timely basis, complex infrastructure, distribution capabilities, systems, procedures and internal controls, and to develop accurate actuarial data to support the business and regulatory and reporting requirements; 13) general economic and market conditions (including inflation, volatility in the credit and capital markets, interest rates and foreign currency exchange rates); 14) the integration of businesses Validus may acquire or new business ventures Validus may start; 15) the effect on Validus’ investment portfolios of changing financial market conditions including inflation, interest rates, liquidity and other factors; 16) acts of terrorism or outbreak of war; and 17) availability of reinsurance and retrocessional coverage, as well as management’s response to any of the aforementioned factors.

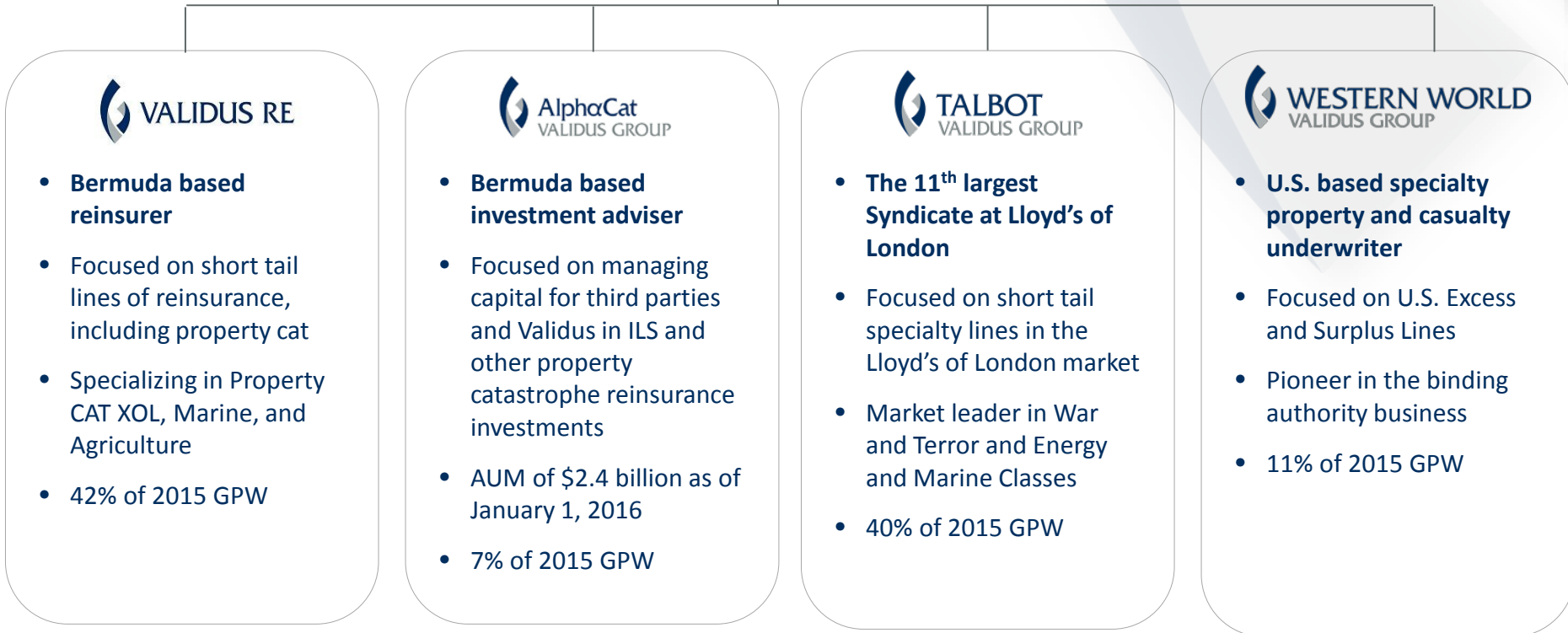
The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein and elsewhere, including the Risk Factors included in our most recent reports on Form 10-K and Form 10-Q and other documents on file with the Securities and Exchange Commission. Any forward-looking statements made in this presentation are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations. We undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

## Validus – Key Accomplishments

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- Since commencing operations in late 2005, Validus has developed a global re/insurance platform consisting of U.S. specialty insurance, Lloyd's of London, third party reinsurance asset management and Bermuda reinsurance
- The diversified portfolio as measured by gross premium written is comprised of 46% insurance and 54% reinsurance for the year ended December 31, 2015
- Business plan since formation has been to focus on short-tail lines with strategic diversification into select longer-tail classes
- Maintained a focus on underwriting profits in conjunction with a strong balance sheet
- Profitable in all ten years of operation, 2006 through 2015
- Delivered outstanding financial results since 2007 IPO as measured by growth in book value per diluted common share plus accumulated dividends
- Active capital management, returning \$3.59 billion to investors through repurchases and dividends from Validus' 2007 IPO through February 18, 2016

# Validus – Four Diversified Yet Complementary Businesses

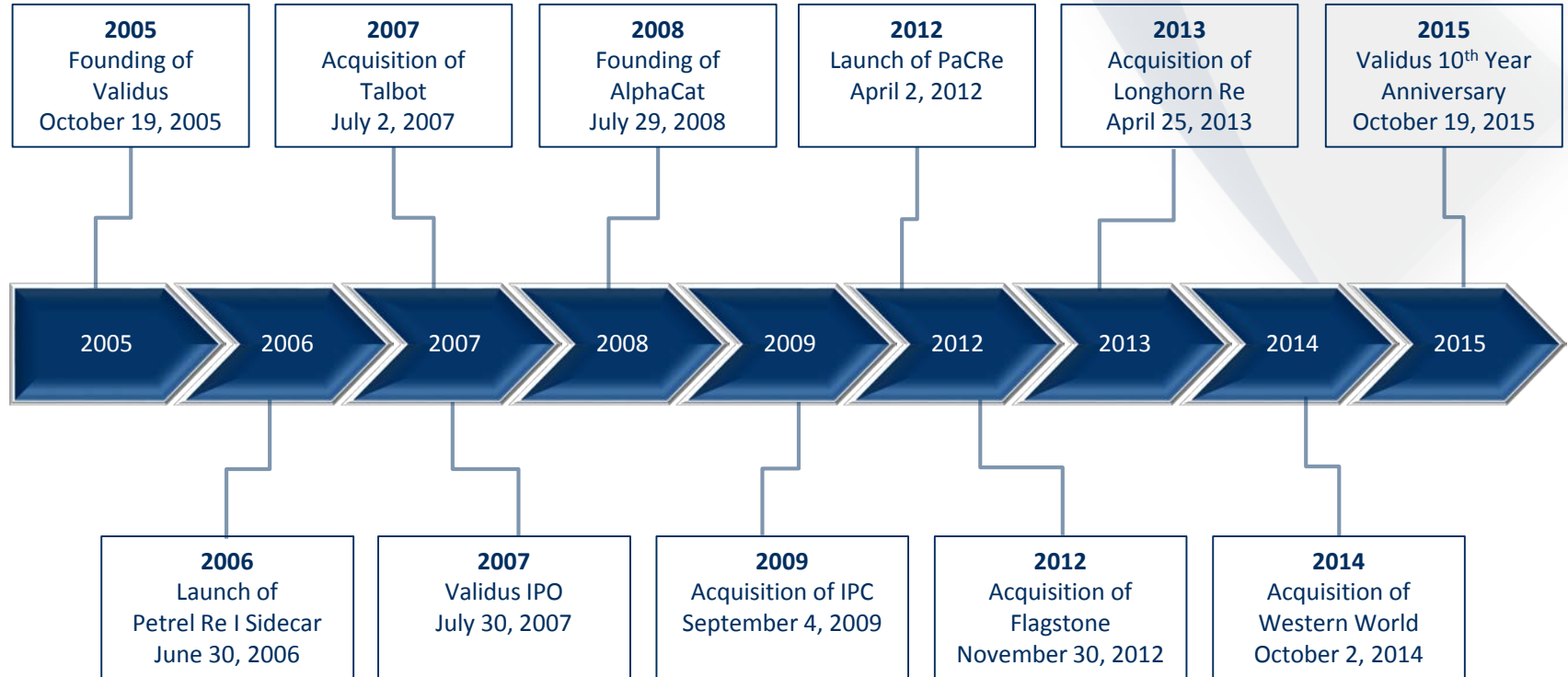


**Validus Research – Provides Analytical Support Across All Platforms**



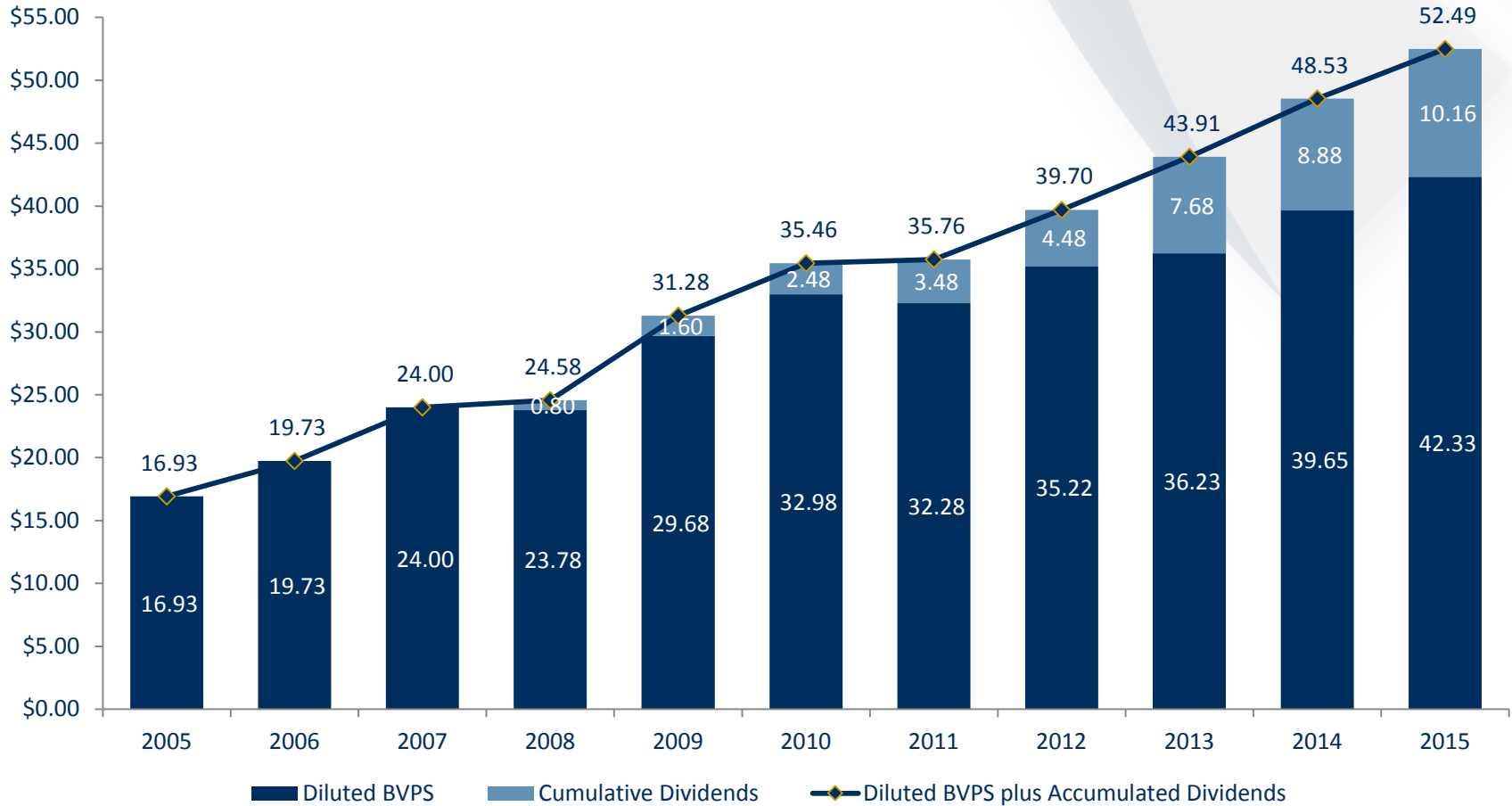
1) Lloyd's Syndicate size is measured by gross premium written ("GPW"), as taken from Lloyd's 2014 Reports and Accounts.  
2) Assets under management (AUM) of \$2.4 billion includes \$2.1 billion of third party investment and \$0.3 billion of related party investment.

# Validus Timeline – Celebrating Our 10<sup>th</sup> Anniversary as a Company



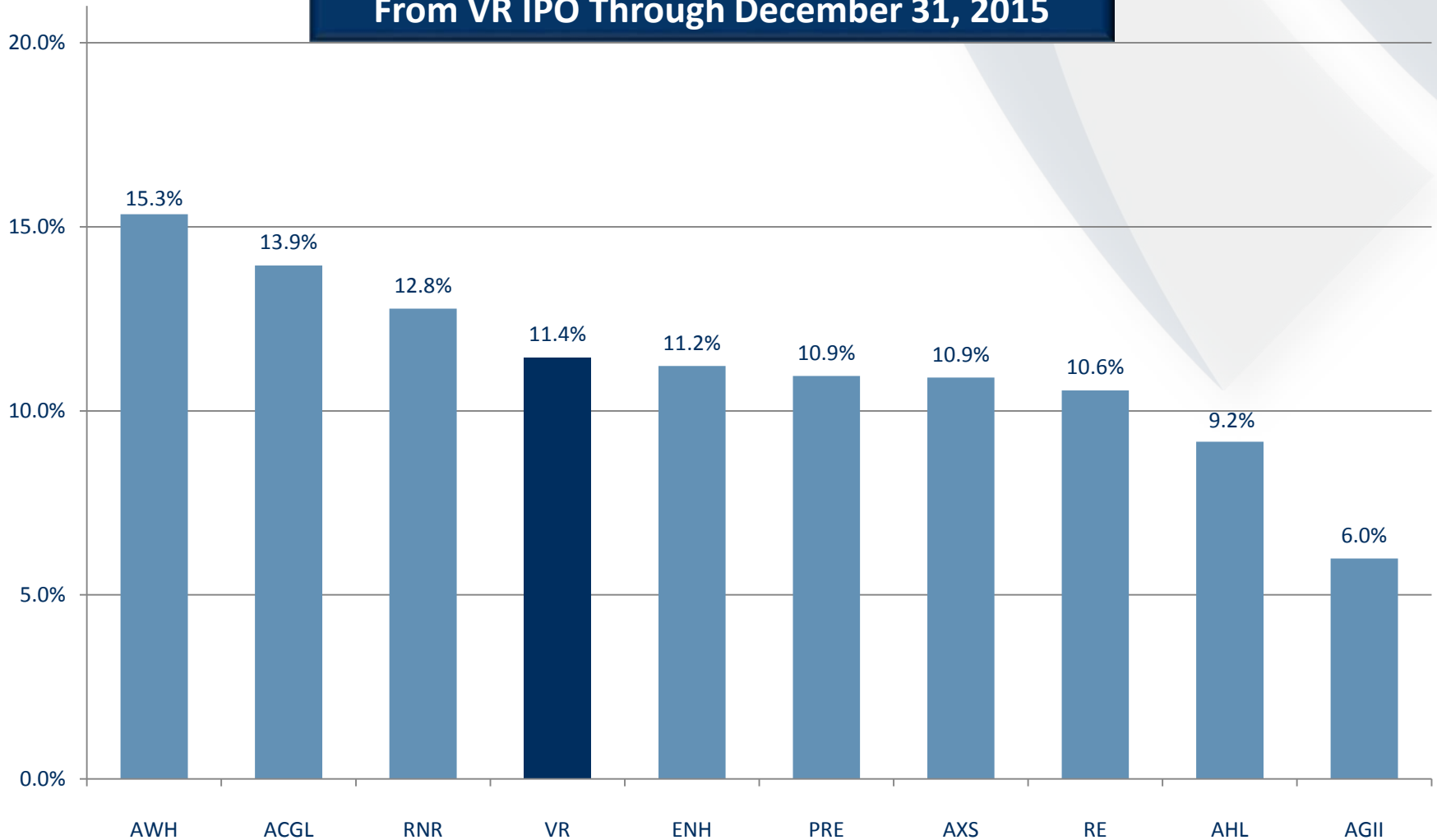
# Growth in Book Value Per Diluted Share Plus Accumulated Dividends

**12.0% Compound Annual Growth in Diluted BVPS Plus Accumulated Dividends from Company Formation Through December 31, 2015**



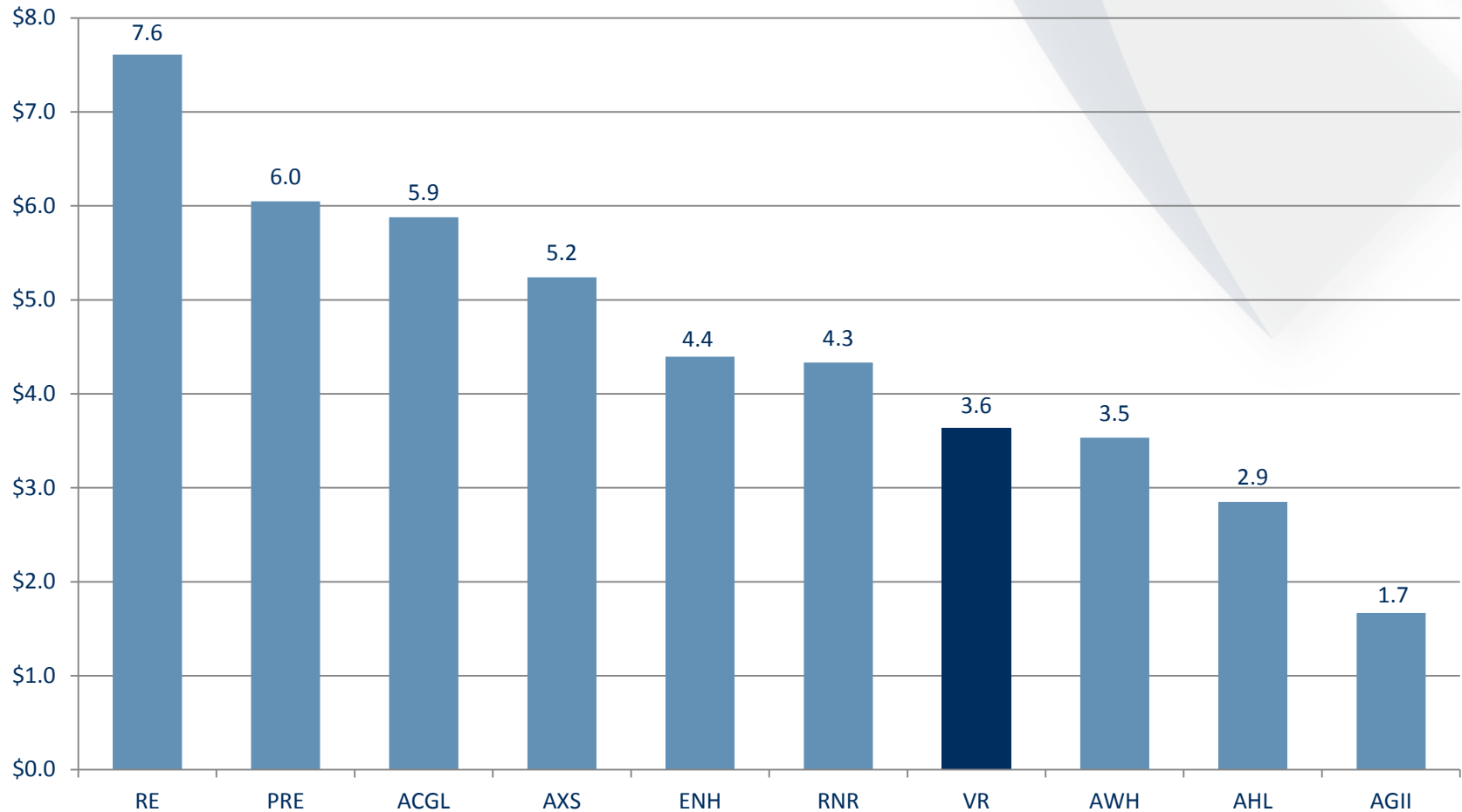
# Compound Growth in Book Value per Diluted Share Versus Peers

From VR IPO Through December 31, 2015



# Validus Common Shareholders' Equity vs. Selected Peers

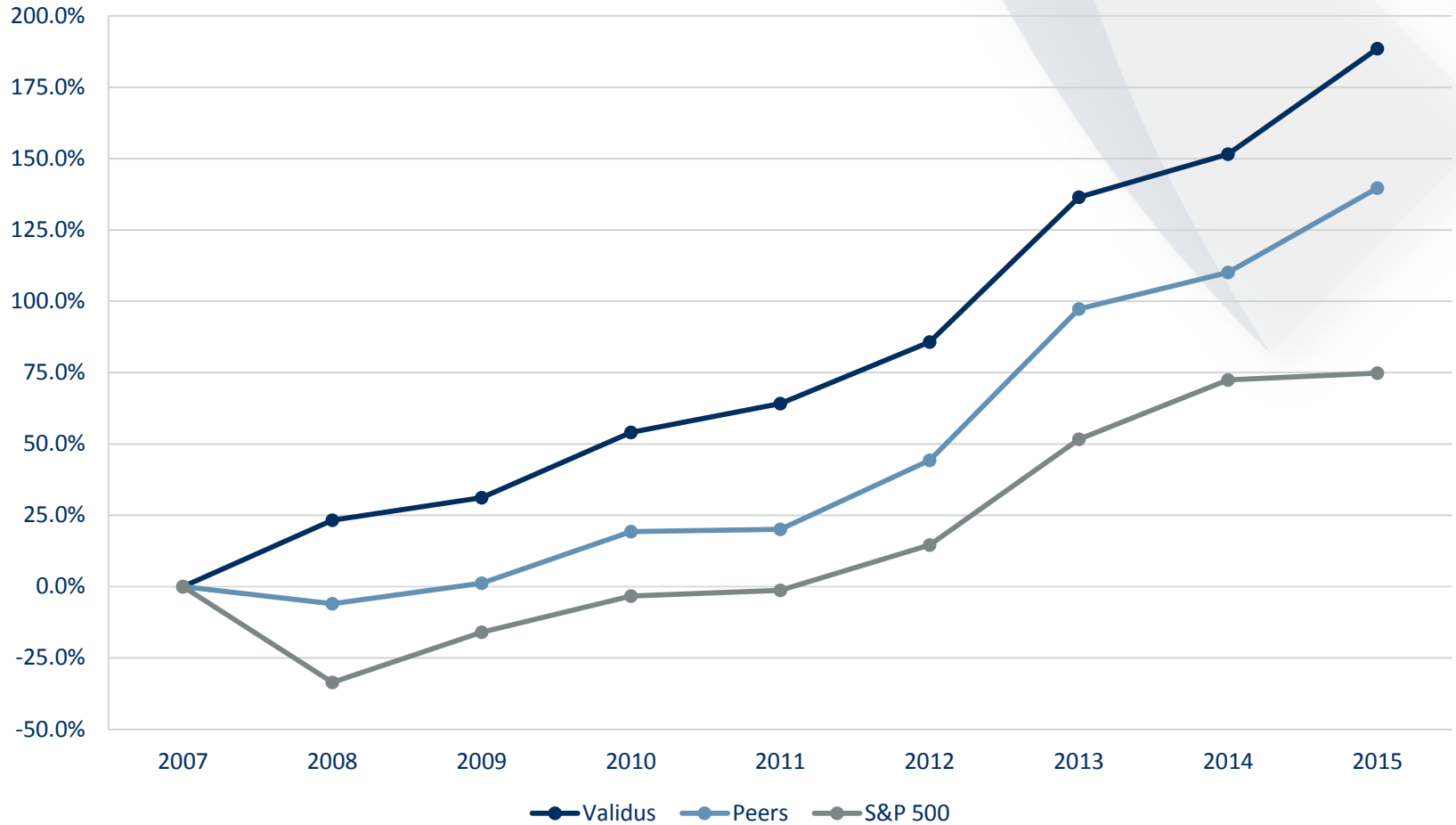
## Peer Comparison – Q4 2015 Common Shareholders' Equity in \$US Billions





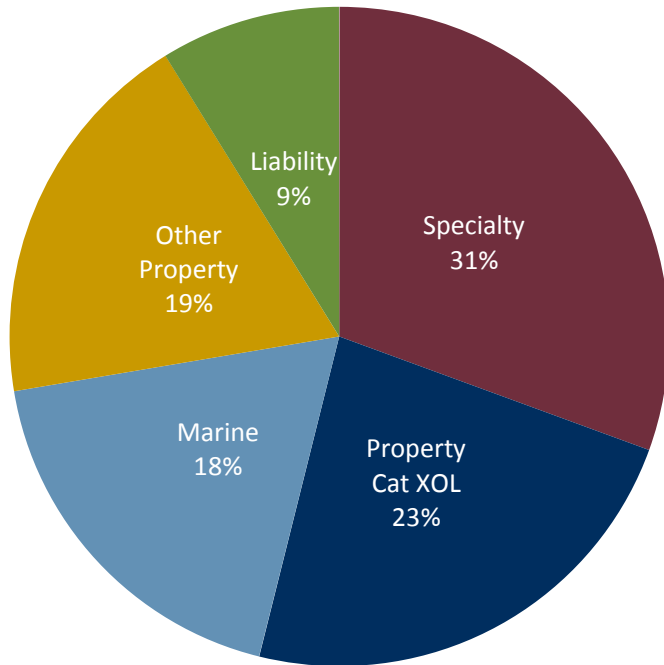
# Validus Stock Total Return Versus Peers and S&P 500

From VR IPO Through December 31, 2015

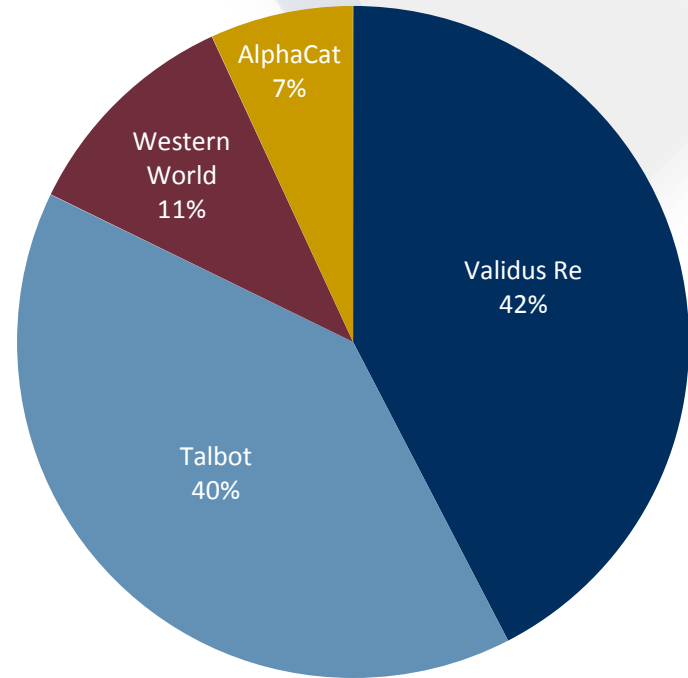


# Validus Mix of Business

**2015 Gross Premium Written of \$2.6 Billion**



**By Class of Business**

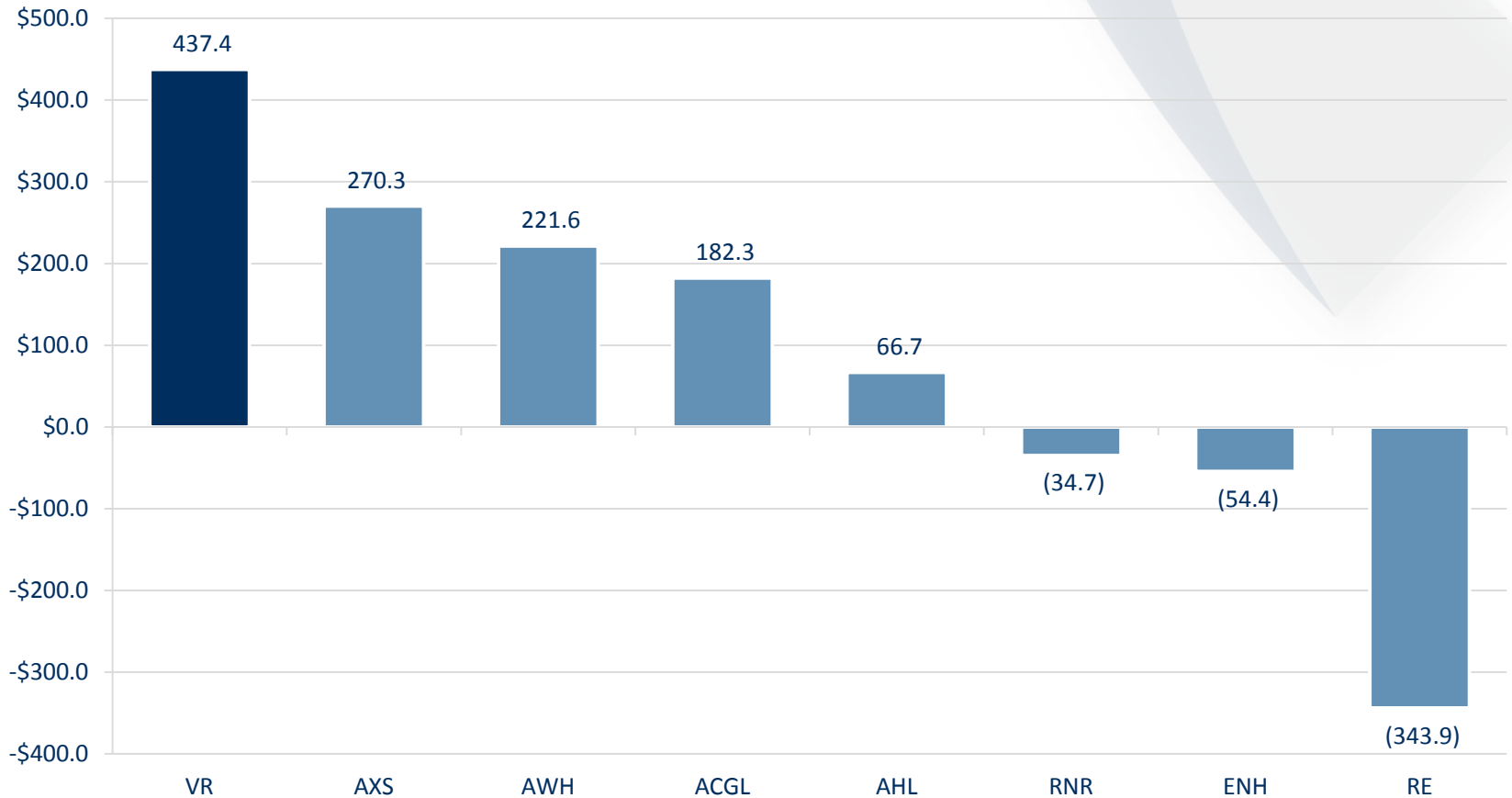


**By Operating Segment**

1) \$2.6 billion consolidated gross premiums written net of \$42.7 million of intersegment eliminations.

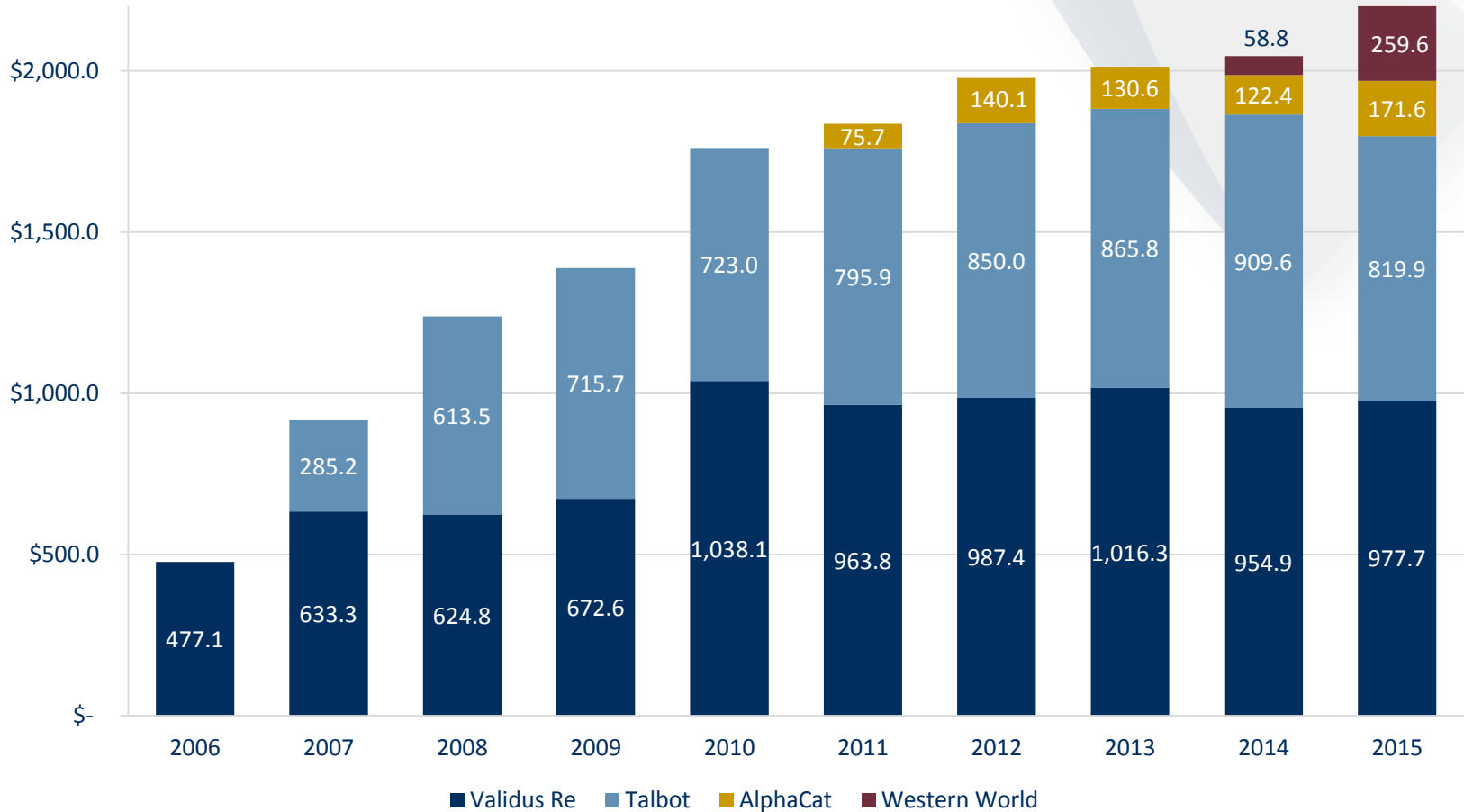
## Insurance Underwriting Income – Validus vs. Bermuda Peers

### Insurance Underwriting Income in \$US Millions: 2012 - 2015



# Validus – Growth and Diversification

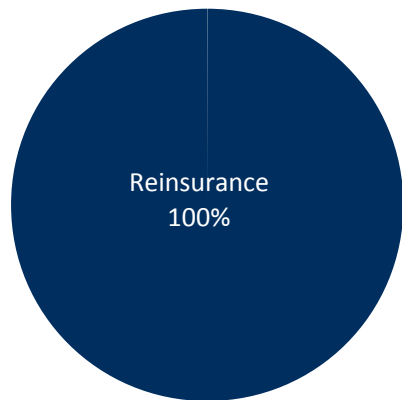
## Net Premiums Written in \$US Millions – 2006 to 2015



# Validus - Adapting to Market Demand

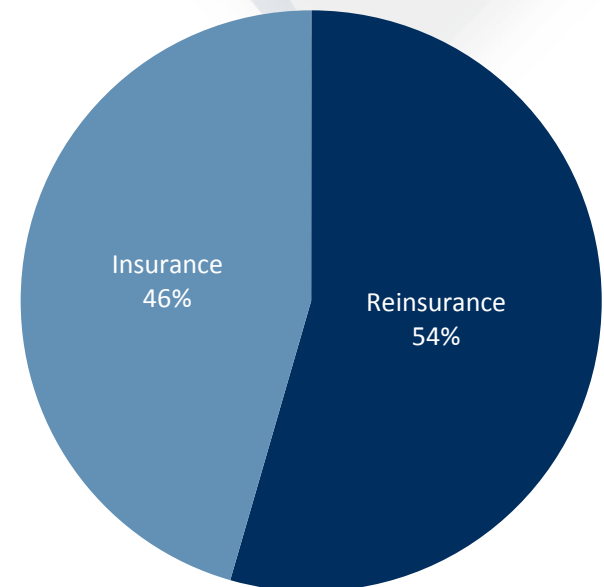
## Growth and Diversification in VR's Business Since Inception

Validus 2006  
GPW \$540.8 million



- Significant growth in GPW through acquisitions of:
  - 2007 – Talbot
  - 2009 – 2012: IPCRe, Flagstone, Longhorn Re
  - 2014 – Western World
- Improved portfolio balance in insurance through Talbot and Western World acquisitions
- AlphaCat established in 2008 to capitalize on the insurance linked securities market
- Access to multiple sources of capital to respond to business opportunities as presented

Validus 2015  
GPW \$2,557.5 million



## Q4 2015 Financial Results

Gross premiums written of  
\$309.6 million

(Increases of 9.0% at Western  
World and over 100% at  
AlphaCat)

Net operating income  
available to Validus of  
**\$105.4 million** and  
diluted operating EPS  
of **\$1.24**

**7.6%** ROAE and  
**11.6%** net operating ROAE

**78.3%** combined ratio

(69.3% at Validus Re, 82.5% at  
Talbot and 94.3% at Western  
World)

Net income available to  
Validus of  
**\$69.0 million** and  
diluted EPS of **\$0.81**

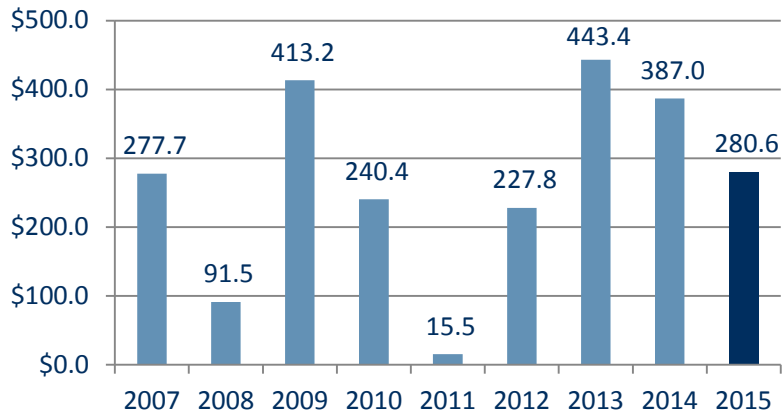
Book value  
per diluted share of **\$42.33**  
**1.8%** growth (including  
dividends) in Q4 2015

# Validus Reinsurance Highlights

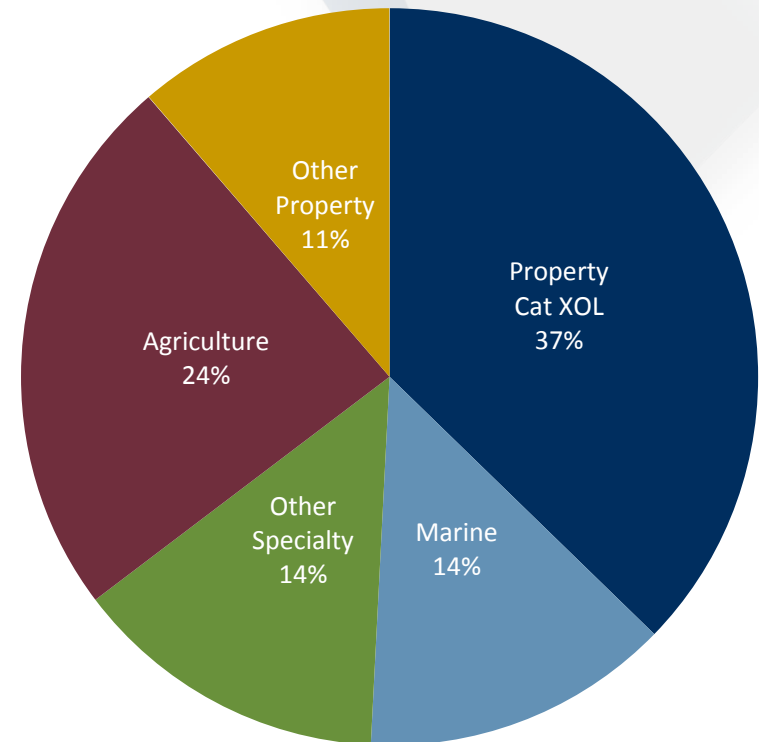
## Validus Re Overview

- Validus Re formed in October 2005 as the first operating subsidiary of Validus Holdings, Ltd.
- Headquartered in Bermuda with overseas offices in Asia, Continental Europe and Latin America
- Global provider focused on treaty reinsurance including
  - Property catastrophe
  - Marine and energy
  - Other specialty lines
- A.M Best rating of A (Stable); S&P Rating of A (Stable)

## Net Underwriting Income



## Gross Premium Written - \$1.1 Billion for the year ended Dec 31, 2015



# AlphaCat Highlights

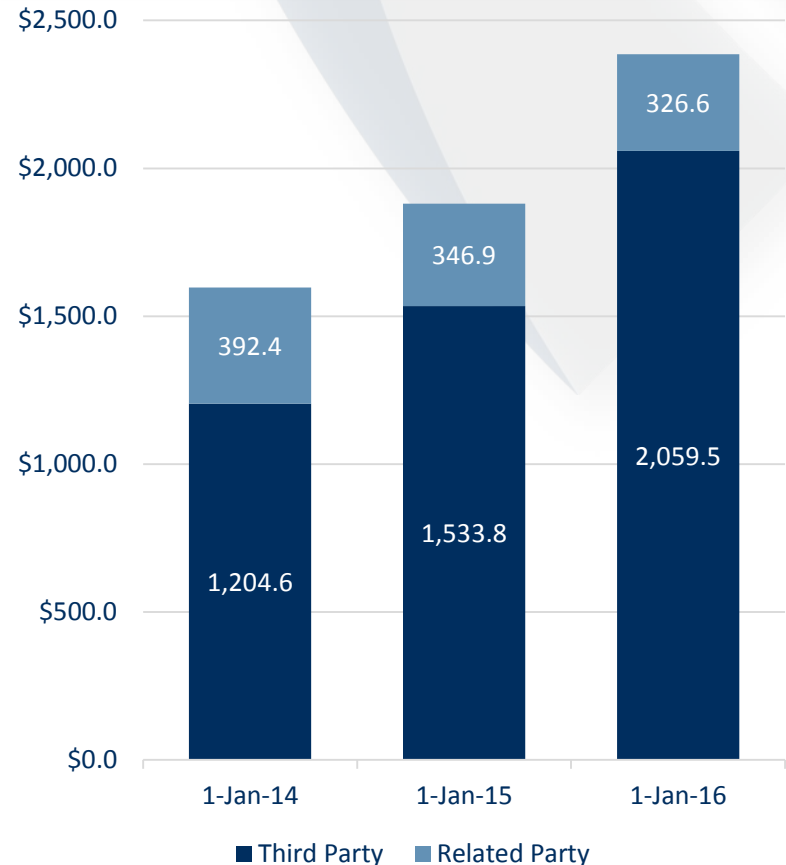
## AlphaCat Overview

- Wholly-owned asset management subsidiary which provides ILS investment services
- AlphaCat brand was established in 2008
- In 2011, AlphaCat opened access to external investors
- As of January 1<sup>st</sup>, 2016, AlphaCat had \$2.4 billion in assets under management

## 2015 Performance

- Secured \$662.7 million of newly raised capital for deployment during Q4 2015
- Generated management fee revenue of \$25.0 million
- Validus' share of AlphaCat income of \$22.2 million

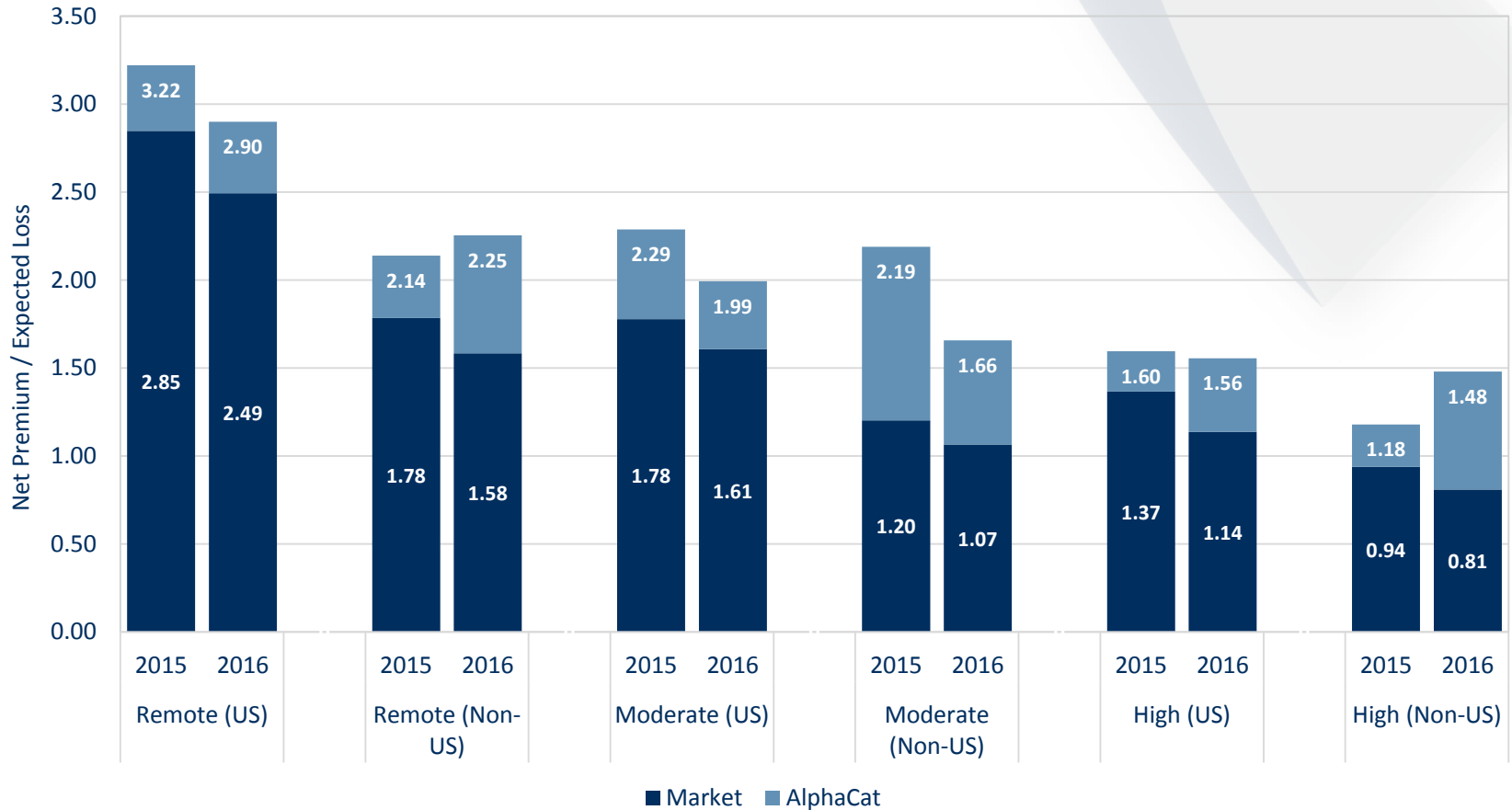
## AlphaCat Assets Under Management





# AlphaCat – Alpha Embedded in the Company’s Portfolios

AlphaCat has reaped the benefits of Validus’ investment in research and business origination. As a result, the AlphaCat portfolios offer higher premium to risk multiples and have overall experienced less risk-adjusted premium decrease than the reinsurance market



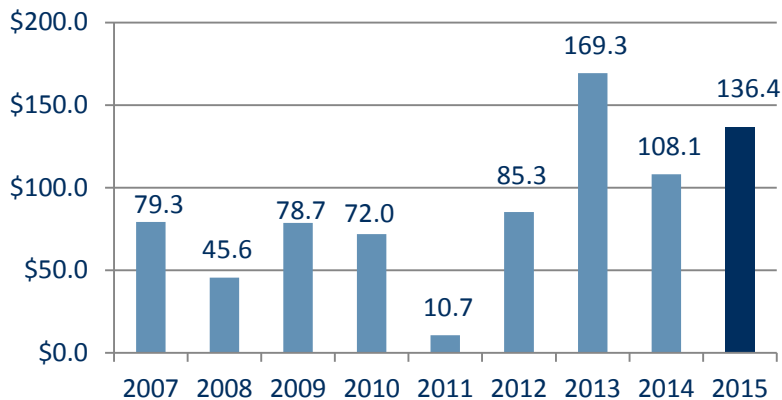
- 1) Remote, moderate, and high risk portfolios are represented by AlphaCat contracts In-force as of Jan 1st, 2015 and 2016.
- 2) Compiled based on the reinsurance market deal flow modeled by Validus as of Jan 1st, 2015 and 2016.

# Talbot Highlights

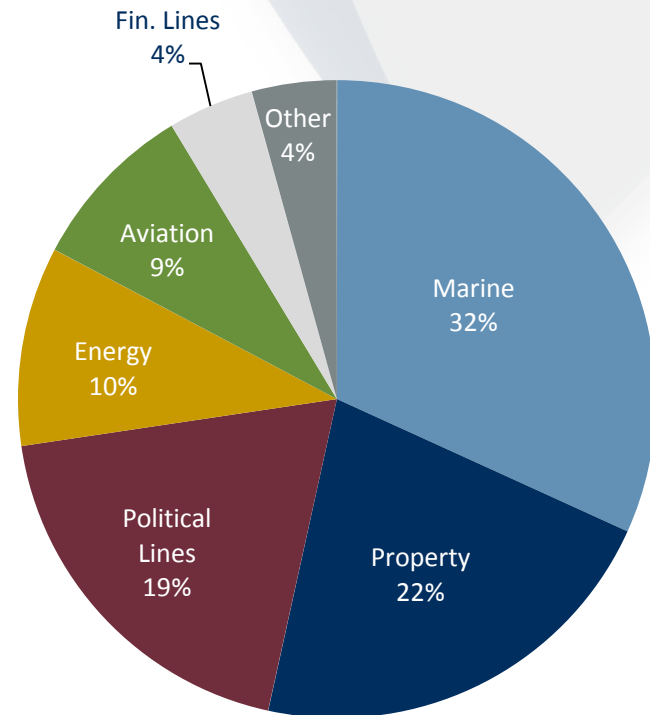
## Talbot Overview

- Founded in 2001 and acquired by Validus in 2007
- Significant competitive position
- Focus is on short tail business with meaningful market position in targeted classes
- By design, Talbot is underweight in Casualty, Casualty Treaty and Property Treaty classes
- Strategically placed offices in international hubs – New York, Miami, Santiago, Dubai, Labuan, Australia and Singapore

## Net Underwriting Income

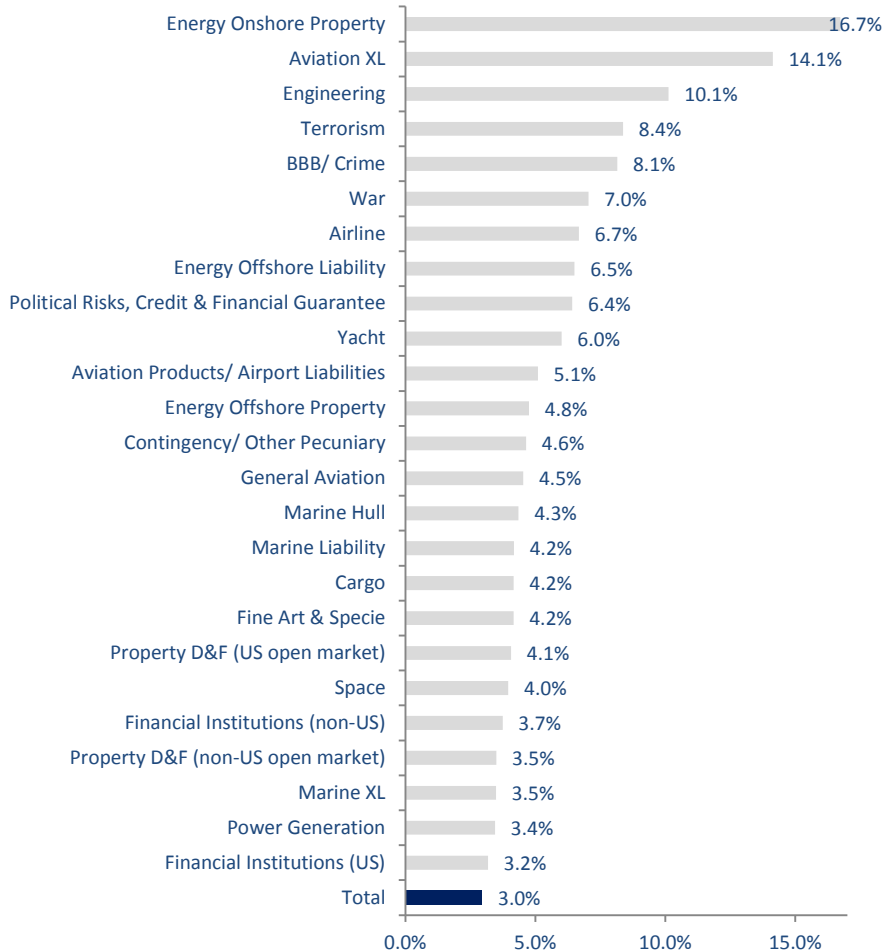


## Gross Premium Written - \$1.0 Billion for the year ended Dec 31, 2015

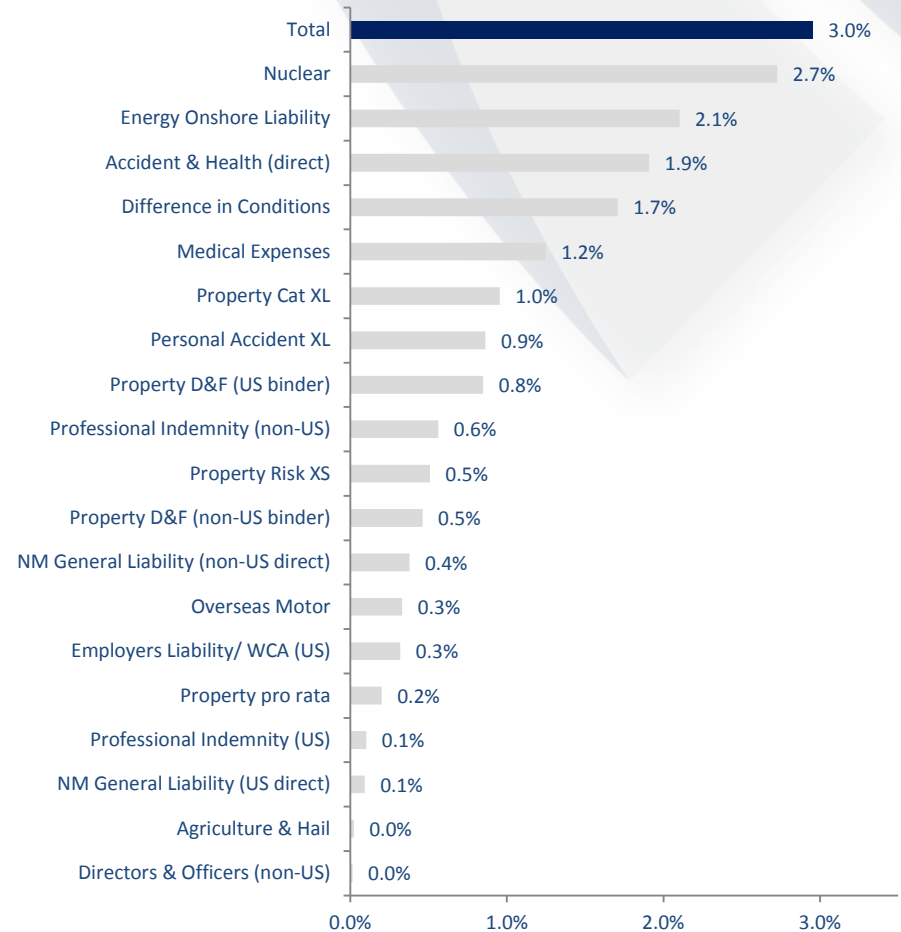


# Talbot - Lloyd's Market Share By Class of Business

## Key Class of Business



## Underweight Classes of Business

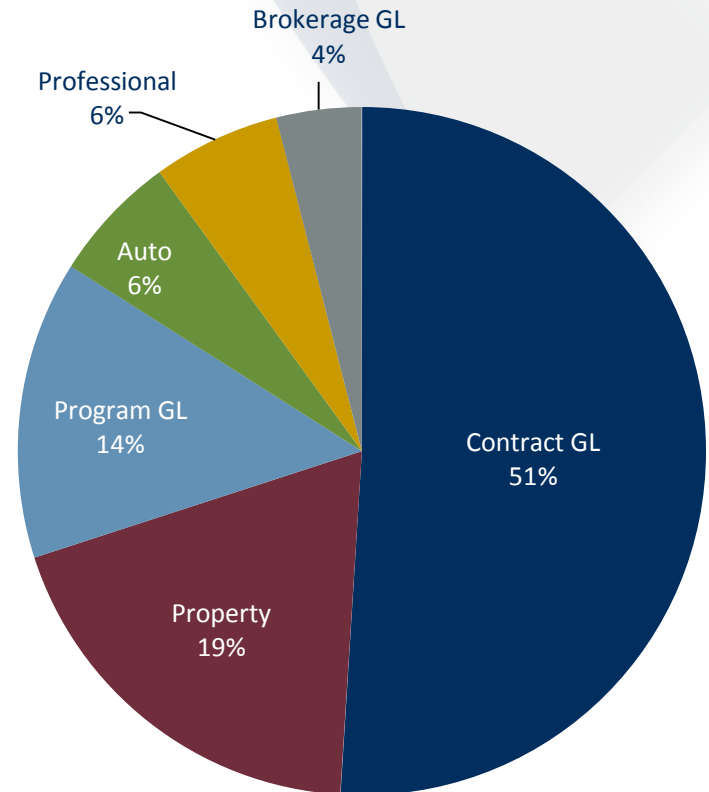


# Western World Highlights

## Western World Highlights for the year ended December 31, 2015

- Founded in 1964 and acquired by Validus in 2014
- Focused on US small and mid sized enterprise business (“SME”)
- Commercial General Liability has been the historical focus
- Writing on both E&S and admitted paper
- Western World Integrated Platform (“WWIP”) is a technological competitive advantage
- Validus ownership provides the resources for expansion into short tail classes of business
- Meaningful strategic changes have already been made to date:
  - New Brokerage Property
  - New Professional Liability
  - Discontinued lines, Commercial Auto and select Programs

## Gross Premium Written - \$278.5 Million for the year ended Dec 31, 2015



# Western World Divisional Organization

	Contract Division	Program Division	Brokerage Casualty / Professional	Brokerage Property
<b>2015 GPW</b>	\$167	\$71	\$29	\$12
<b>% of Total</b>	60%	25%	11%	4%
<b>Description</b>	<ul style="list-style-type: none"> <li>General &amp; Professional Liability and Property Coverage on small-to-medium size commercial risks offered in 50 states</li> <li>Distributed through exclusive general agents with binding authority</li> </ul>	<ul style="list-style-type: none"> <li>General, Professional, Liability, Property and Commercial Auto plans</li> <li>Distributed through affinity group program administrators</li> <li>Single-class relationships, generally with 50-state binding authority</li> </ul>	<ul style="list-style-type: none"> <li>General Liability and Professional Liability coverage</li> <li>Underwrites larger, more complex accounts</li> <li>Distributed through select wholesale brokers</li> <li>Business accepted from 50 states</li> </ul>	<ul style="list-style-type: none"> <li>Commercial E&amp;S Property Insurance</li> <li>“Middle Market,” Catastrophe exposed business</li> <li>Distributed through select wholesale brokers</li> <li>Business accepted from 50 states</li> </ul>
<b>Coverages</b>	<ul style="list-style-type: none"> <li>General &amp; Professional Liability</li> <li>Property (package)</li> </ul>	<ul style="list-style-type: none"> <li>General Liability &amp; Professional</li> <li>Commercial Auto and APD</li> <li>Property</li> </ul>	<ul style="list-style-type: none"> <li>General Liability</li> <li>Professional Liability (Claims Made)</li> </ul>	<ul style="list-style-type: none"> <li>ISO special, broad and basic causes of loss</li> <li>Single Peril (Earthquake, Flood, Wind)</li> <li>Difference in Conditions (DIC) for Earthquake and Flood</li> </ul>
<b>Business Classes</b>	<ul style="list-style-type: none"> <li>Manufacturers and Contractors</li> <li>Owners, Landlords and Tenants</li> <li>Professional Services / Misc. Malpractice</li> <li>Spectator Events</li> </ul>	<ul style="list-style-type: none"> <li>Hospitality &amp; Habitational</li> <li>Contracted Services</li> <li>Outdoor / Recreation &amp; Amusement</li> <li>Professional Services</li> </ul>	<ul style="list-style-type: none"> <li>Habitational</li> <li>Contracting</li> <li>Manufacturing</li> <li>Errors &amp; Omissions</li> <li>Management Liability</li> </ul>	<ul style="list-style-type: none"> <li>Hotel / Motel</li> <li>Habitational</li> <li>Retail</li> <li>Restaurants</li> <li>Offices</li> </ul>

# Transparent Risk Disclosure – January 1, 2016 Portfolio

## Estimated Exposures to Peak Zone Property Catastrophe Losses

(Expressed in thousands of U.S. Dollars)

### Probable Maximum Losses by Zone and Peril

**Peak Zone PML**

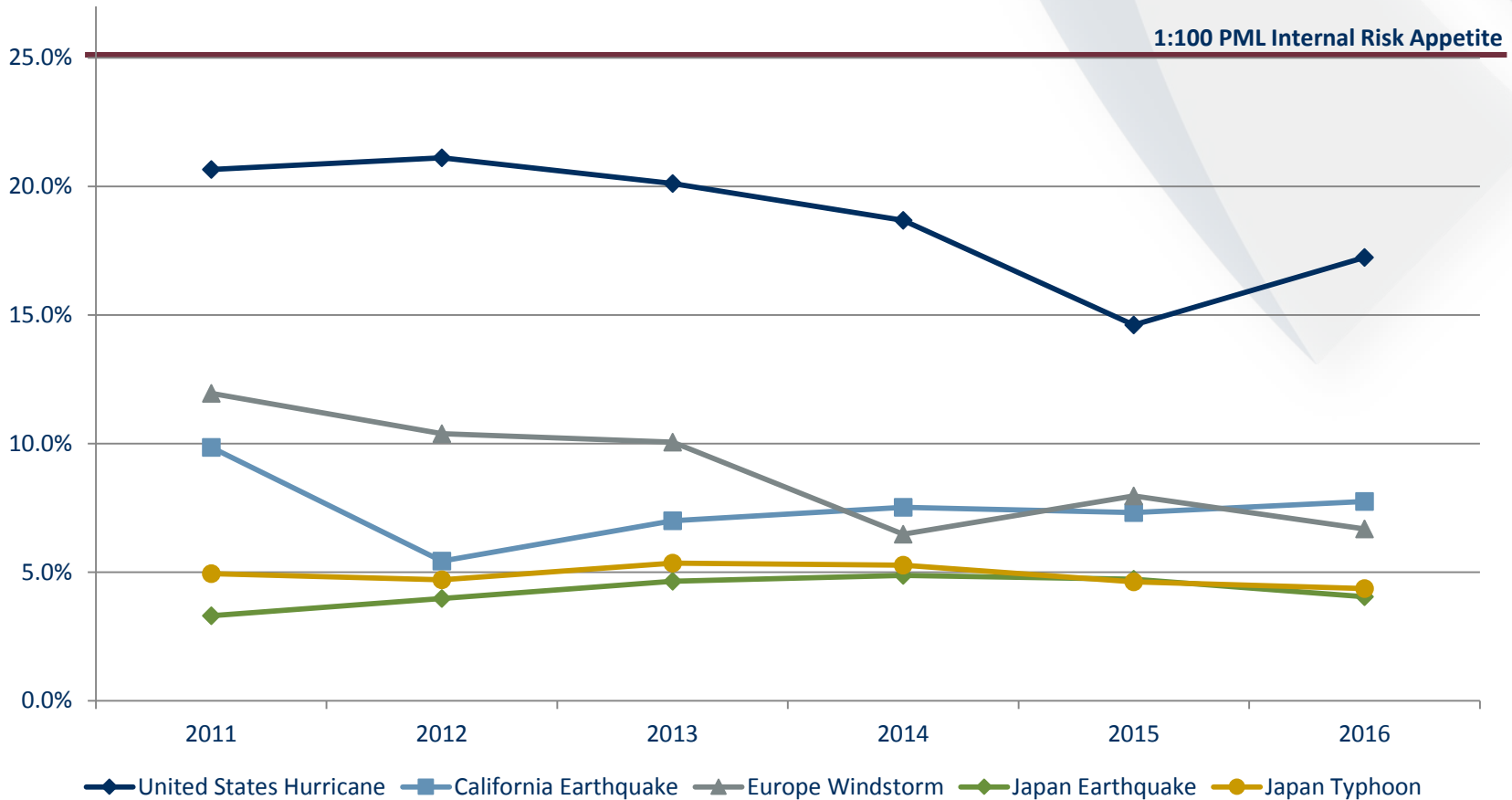
#### Consolidated (Validus Re and Talbot) Estimated Net Loss

<u>Zones</u>	<u>Perils</u>	<u>20 year return period</u>	<u>50 year return period</u>	<u>100 year return period</u>	<u>250 year return period</u>	<u>Validus Re Net Maximum Zonal Aggregate</u>
United States	Hurricane	295,996	516,169	762,562	1,079,070	2,072,174
California	Earthquake	81,708	243,593	342,993	434,323	1,878,187
Europe	Windstorm	78,528	201,651	295,883	525,984	1,223,648
Japan	Earthquake	60,472	112,746	179,241	271,406	708,656
Japan	Typhoon	46,503	104,215	192,989	274,843	634,167

**1:100 year PML equal to 17.2% of quarter end capital, 21.0% of shareholders' equity**

# Substantial Capital Margin Above Risk Appetites

## Net Probable Maximum Loss (1:100) by Zone and Peril Compared to Total Capitalization



- 1) A full explanation and disclaimer is contained in the notes on non-GAAP and other financial and exposure measures found in the Appendix hereto.
- 2) Total capitalization equals total shareholder's equity less noncontrolling interests plus Senior Notes and Junior Subordinated Deferrable Debentures.
- 3) Consolidated (Validus Re and Talbot) estimated net loss 1:100 year PML as a % of capital as and shareholder's equity.
- 4) All data points are as at January 1.

# Realistic Disaster Scenarios

Estimated Exposures to Specified Loss Scenarios - As of July 1, 2015

(Expressed in millions of U.S. Dollars)

Consolidated (Validus Re and Talbot)

Type	Catastrophe Scenarios	Description	Estimated Consolidated (Validus Re and Talbot) Net Loss	% of latest 12 Months Consolidated Net Premiums Earned
Terrorism	Rockefeller Center	Midtown Manhattan suffers a 2-tonne conventional bomb blast	\$ 95.6	4.3%
Terrorism	Exchange Place	Lower Manhattan suffers a 2-tonne conventional bomb blast	38.6	1.7%
Marine	Marine collision in Prince William Sound	Fully laden tanker collides with a cruise vessel in Prince William Sound	92.2	4.1%
Marine	Major cruise vessel incident	US-owned cruise vessel sunk or severely damaged	101.9	4.5%
Marine	Loss of major complex	Total loss to all platforms and bridge links of a major oil complex	186.0	8.3%
Aviation	Aviation collision	Collision of two aircraft over a major city	107.4	4.8%
Satellite	Solar flare	Large single or sequence of proton flares results in loss to all satellites in synchronous orbit	40.6	1.8%
Satellite	Generic defect	Undetected defect in a number of operational satellites causing major loss	16.0	0.7%
Liability	Professional lines	Failure or collapse of a major corporation	22.5	1.0%
Liability	Professional lines	UK pensions mis-selling	16.0	0.7%
Political Risks	South East Asia	Chinese economy has a "hard landing" with sharp fall in growth rates; regional contagion	109.7	4.9%
Political Risks	Middle East	US and Iran escalate into military confrontation; regional contagion	26.8	1.2%
Political Risks	Russia	The Russian corporate sector struggles to deal with the effects of crashing commodity and stock prices	48.8	2.2%
Political Risks	Turkey	Severe economic crisis in Turkey due to political upheaval	45.9	2.0%
Political Risks	Nigeria	Severe economic, political and social crisis in Nigeria leads to widespread civil unrest	39.7	1.8%



# Validus – Active Capital Management

## Capital Management Inception to Date of \$3.59 Billion

- Share Repurchase
- Common Share Dividends
- Special Dividend



Expressed in millions of U.S. Dollars

## 2015 Capital Management

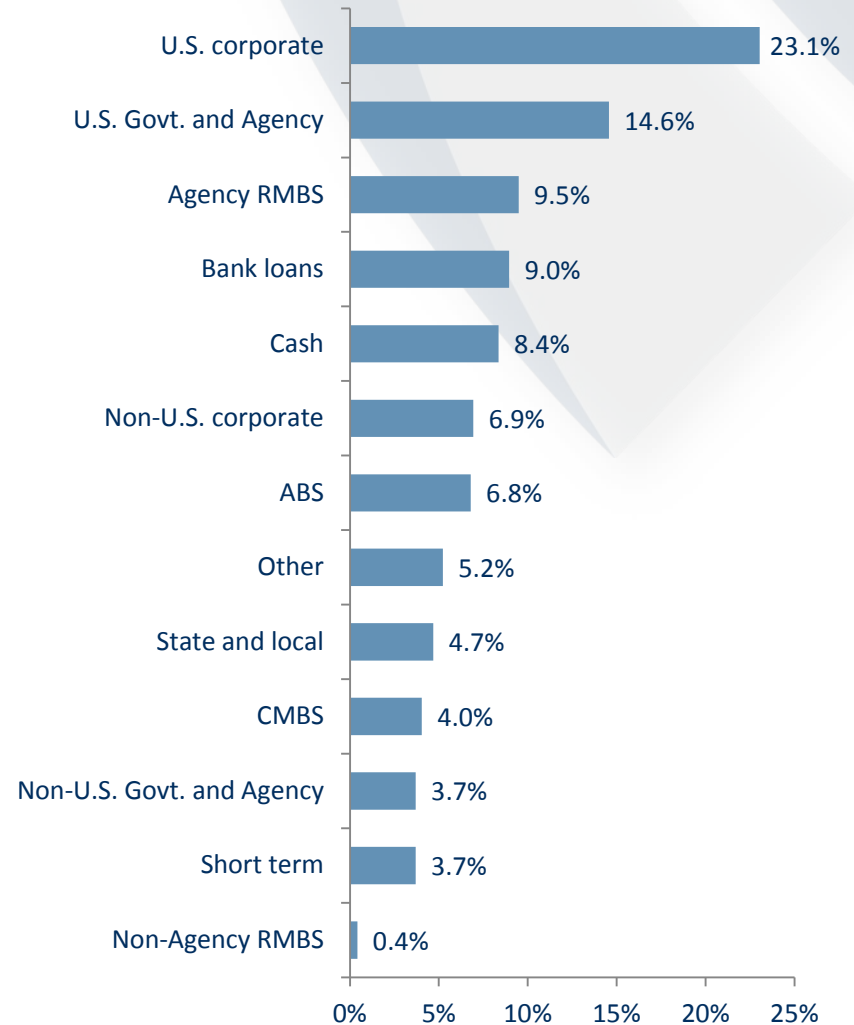
- On Feb 3, 2015 Validus reset the common share repurchase authorization to \$750.0 million
- Common share repurchases of \$260.4 million
- Increased quarterly dividend to \$0.32 per share

## 2016 Capital Management

- Common share repurchases of \$39.4 million
- Remaining authorization of \$493.2 million
- Increased quarterly dividend to \$0.35 per share

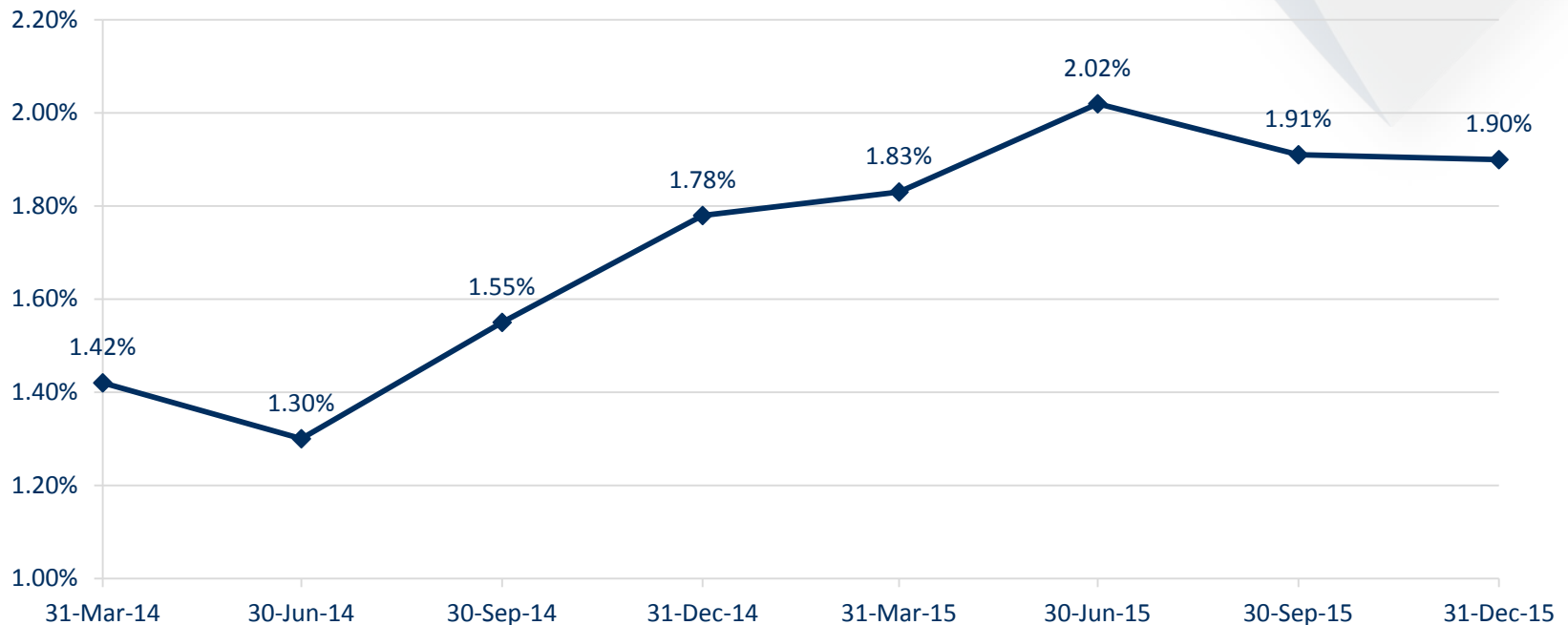
# Managed Investment Portfolio at December 31, 2015

- Total managed investments and cash and cash equivalents of \$6.44 billion
  - \$8.59 billion total investments, cash and cash equivalents and restricted cash inclusive of investments supporting AlphaCat collateralized business
  - Emphasis on the preservation of invested assets
  - Provision of sufficient liquidity for prompt payment of claims
  - Comprehensive portfolio disclosure
- Average portfolio rating of A+
- Duration of 2.15 years
- 2015 average investment yield: 1.91% (2014: 1.51%)



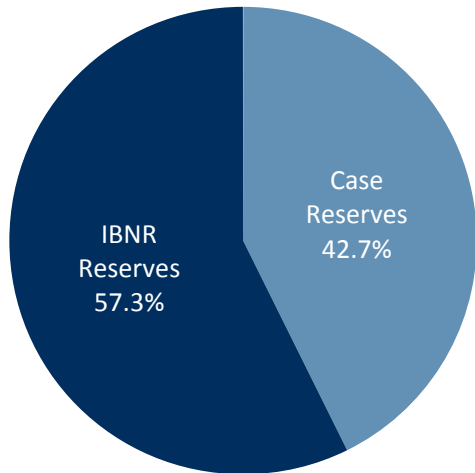
## Validus Invested Asset Strategy and Performance

- In 2014, Validus set out to increase portfolio yield without increasing tail risk. Validus' Chief Investment Officer worked with our risk and financial modeling teams to establish a new portfolio allocation
- Noteworthy benefit in terms of higher yields on the portfolio during the past five quarters. The second half of 2015 confirmed our conservative risk profile as the portfolio, absent PaCRe, generated minimal losses in very challenging investment markets



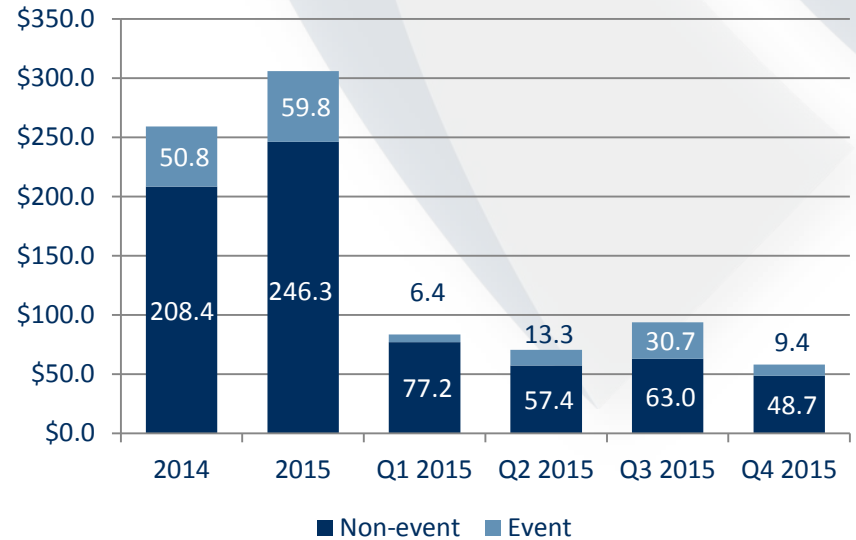
# Gross Loss Reserves at December 31, 2015

## Validus Gross Reserve Mix



- Gross reserves for losses and loss expenses of \$3.00 billion
- \$2.65 billion net of reinsurance
- No notable or non-notable losses in Q4 2015

## Favorable Reserve Development



- Favorable reserve development during Q4 2015:
  - Validus Re: \$22.6 million
  - AlphaCat: \$5.1 million
  - Talbot: \$23.1 million
  - Western World: \$7.3 million

## Conclusion – Continue to be Well Positioned for 2016 and Beyond

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- International insurance and reinsurance business
- Size and scale to compete effectively in targeted markets
- Four distinct yet complementary operating segments
- Focused on short-tail classes of reinsurance and insurance
- Profitable in all ten years of operation
- Short duration, highly liquid, conservative balance sheet
- Transparent risk disclosure



# Investor Presentation

APPENDIX

## Full Year 2015 Financial Results

**8.4%** year over year increase in gross premiums written  
(Increases of 0.7% at Validus Re, 38.9% at AlphaCat and a decrease of 7.5% at Talbot)

Net operating income available to Validus of **\$409.7 million** and diluted operating EPS of **\$4.74**

**10.3%** ROAE and **11.3%** net operating ROAE

**79.7%** combined ratio  
(72.0% at Validus Re, 83.8% at Talbot and 98.2% at Western World)

Net income available to Validus of **\$374.9 million** and diluted EPS of **\$4.34**

Book value per diluted share of **\$42.33**  
**10.0%** growth (including dividends) in 2015

## Selected Market Information at December 31, 2015

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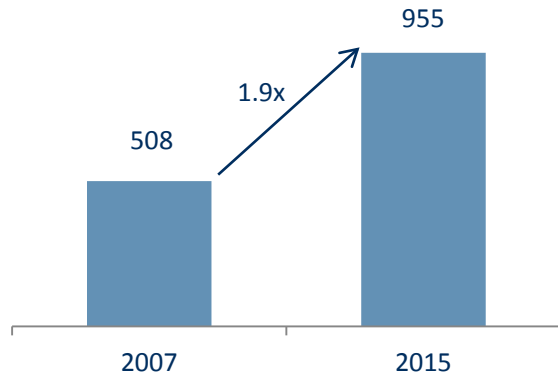
Exchange / Ticker:	NYSE / “VR”
Share Price:	\$46.29
Primary Shares Outstanding:	82,900,617
Primary Market Capitalization:	\$3.84 billion
Annual Dividend/Yield:	\$1.28 per share (2.77%)



# Talbot Growth Since Acquisition

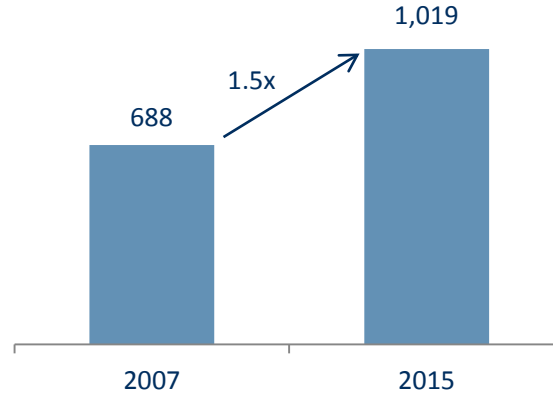
## Syndicate Capacity <sup>(1)</sup>

\$ in millions



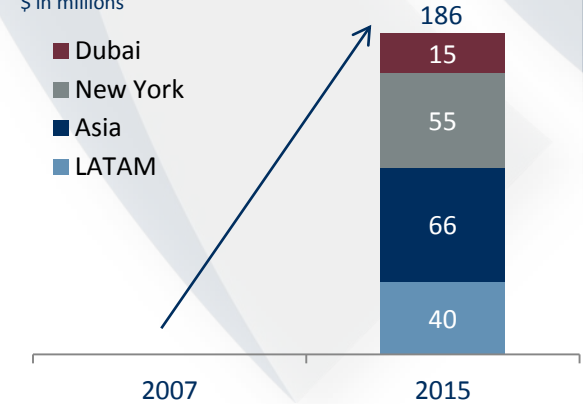
## Gross Premium Written <sup>(2)</sup>

\$ in millions



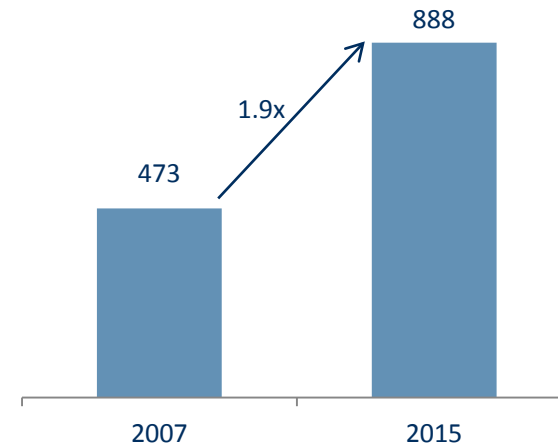
## GPW in Overseas Offices

\$ in millions



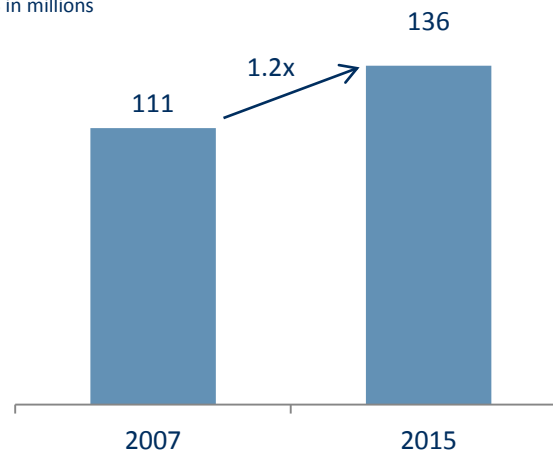
## Shareholders' Equity <sup>(3)</sup>

\$ in millions

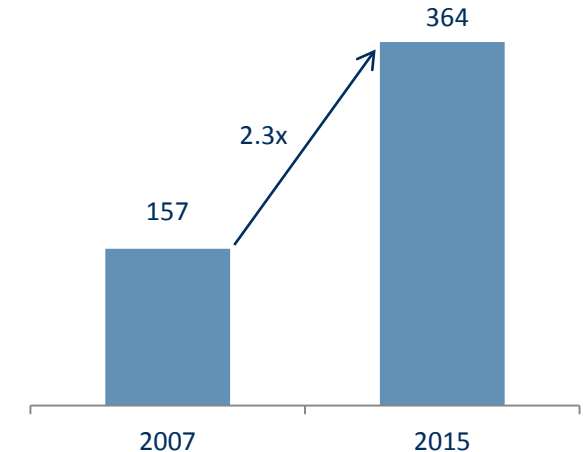


## Net Underwriting Income <sup>(2)</sup>

\$ in millions

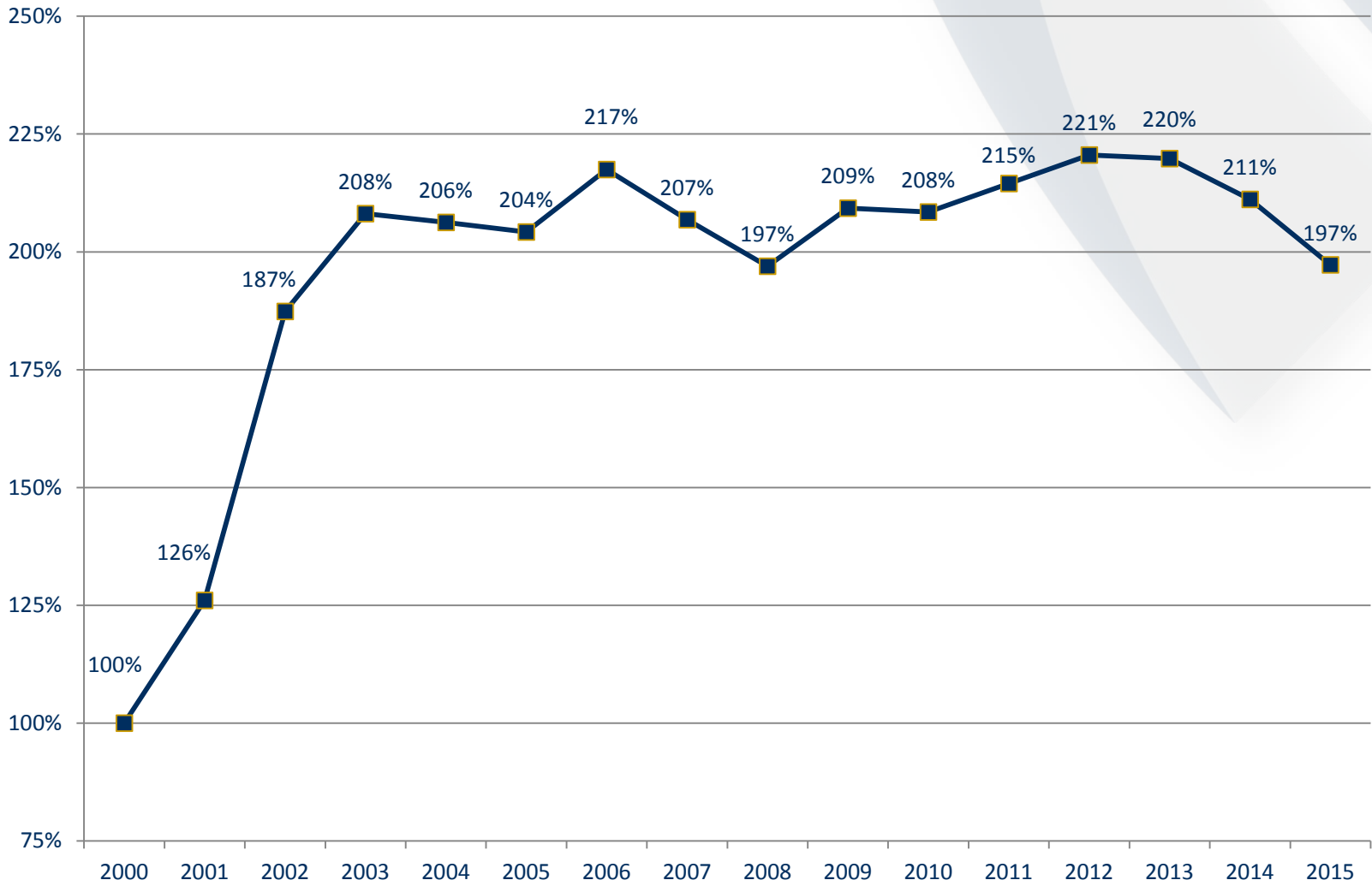


## Employees



- 1) Converted at rate of exchange £1.00 = \$1.53, the average rate for 2015.
- 2) 2007 GPW & Net Underwriting Income are full year amounts, including pre-acquisition results.
- 3) 2015 Shareholders' Equity includes capital supporting Funds at Lloyd's.

# Talbot Composite Rate Index – The Benefits of Cycle Management



# Abbreviated Balance Sheets

(Expressed in thousands of U.S. Dollars)

	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2013</u>
<b>Assets</b>			
Fixed maturities	\$ 5,510,331	\$ 5,545,231	\$ 5,542,258
Short-term investments	1,941,635	1,501,212	1,002,396
Other investments	336,856	334,685	160,307
Cash and cash equivalents	723,109	550,401	729,333
Restricted cash	73,270	173,003	200,492
<b>Total investments and cash</b>	<b>8,585,201</b>	<b>8,104,532</b>	<b>7,634,786</b>
Goodwill and Intangible assets	318,016	322,821	126,800
Other assets	1,612,595	1,685,211	1,695,460
<b>Total assets</b>	<b>\$ 10,515,812</b>	<b>\$ 10,112,564</b>	<b>\$ 9,457,046</b>
<b>Liabilities</b>			
Reserve for losses and loss expenses	\$ 2,996,567	\$ 3,243,147	\$ 3,047,933
Unearned premiums	966,210	989,229	822,280
Other liabilities	789,362	599,300	420,603
Notes payable to AlphaCat investors	75,493	-	-
Senior notes payable	245,161	244,960	244,758
Debentures payable	537,668	539,277	541,416
<b>Total liabilities</b>	<b>\$ 5,610,461</b>	<b>\$ 5,615,913</b>	<b>\$ 5,076,990</b>
<b>Redeemable noncontrolling interest</b>	<b>1,111,714</b>	<b>617,791</b>	<b>300,936</b>
<b>Shareholders' equity</b>			
Capital	\$ 1,004,919	\$ 1,213,614	\$ 1,694,085
Retained earnings	2,634,056	2,372,972	2,010,009
<b>Total shareholders' equity available to Validus</b>	<b>3,638,975</b>	<b>3,586,586</b>	<b>3,704,094</b>
<b>Noncontrolling interest</b>	<b>154,662</b>	<b>292,274</b>	<b>375,026</b>
<b>Total shareholders' equity</b>	<b>3,793,637</b>	<b>3,878,860</b>	<b>4,079,120</b>
<b>Total liabilities, noncontrolling interests and shareholders' equity</b>	<b>\$ 10,515,812</b>	<b>\$ 10,112,564</b>	<b>\$ 9,457,046</b>
<i>Debt to capital ratio</i>	4.3%	4.6%	4.7%
<i>Debt and hybrid to capital ratio</i>	13.8%	14.9%	15.2%
<i>Investments and cash to equity</i>	226.3%	208.9%	187.2%

# Net Operating Income Reconciliation

Validus Holdings, Ltd.

Non-GAAP Financial Measure Reconciliation

Net Operating Income available to Validus, Net Operating Income per share available to Validus and Annualized Net Operating Return on Average Equity

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

	Three Months Ended		Year Ended	
	Dec 31, 2015	Dec 31, 2014	Dec 31, 2015	Dec 31, 2014
Net income available to Validus	\$ 69,042	\$ 125,908	\$ 374,893	\$ 479,963
Adjustments for:				
Net realized losses (gains) on investments	2,928	(6,902)	(2,298)	(14,917)
Change in net unrealized losses on investments	34,862	2,040	32,395	2,842
Loss (income) from investment affiliate	1,261	(530)	(4,281)	(8,411)
Foreign exchange (gains) losses	(797)	(3,674)	8,731	12,181
Other (income) loss	(1,576)	770	1,002	2,243
Transaction expenses (a)	-	4,695	-	8,096
Net (loss) attributable to noncontrolling interest	(325)	(433)	(693)	(1,235)
Net operating income available to Validus	105,395	121,874	409,749	480,762
Less: Dividends and distributions declared on outstanding warrants	-	(1,552)	(3,566)	(6,208)
Net operating income available to Validus, adjusted	\$ 105,395	\$ 120,322	\$ 406,183	\$ 474,554
Net income per share available to Validus - diluted	\$ 0.81	\$ 1.38	\$ 4.34	\$ 5.07
Adjustments for:				
Net realized losses (gains) on investments	0.03	(0.08)	(0.03)	(0.16)
Change in net unrealized losses on investments	0.42	0.02	0.38	0.03
Loss (income) from investment affiliate	0.01	-	(0.05)	(0.09)
Foreign exchange (gains) losses	(0.01)	(0.04)	0.10	0.13
Other (income) loss	(0.02)	0.01	0.01	0.02
Transaction expenses (a)	-	0.05	-	0.09
Net (loss) attributable to noncontrolling interest	-	-	(0.01)	(0.01)
Net operating income per share available to Validus - diluted	\$ 1.24	\$ 1.34	\$ 4.74	\$ 5.08
<b>Weighted average number of common shares and common share equivalents</b>	85,181,258	90,948,156	86,426,760	94,690,271
<b>Average shareholders' equity available to Validus</b>	3,641,970	3,643,812	3,641,920	3,683,029
<b>Annualized net operating return on average equity</b>	11.6%	13.4%	11.3%	13.1%

# Diluted Book Value Per Share Reconciliation

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

	<u>December 31, 2015</u>			
	<u>Equity amount</u>	<u>Shares</u>	<u>Exercise Price (1)</u>	<u>Book value per share</u>
<b><u>Total shareholders' equity available to Validus</u></b>				
<b>Book value per common share</b>				
Total shareholders' equity available to Validus	\$ 3,638,975	82,900,617		<u>\$ 43.90</u>
<b>Tangible book value per common share</b>				<u>\$ 40.06</u>
<b>Book value per diluted common share</b>				
Total shareholders' equity available to Validus	\$ 3,638,975	82,900,617		
Assumed exercise of outstanding warrants (2)	-	-	\$ -	
Assumed exercise of outstanding stock options (2)	1,319	65,401	\$ 20.17	
Unvested restricted shares	-	<u>3,026,376</u>		
<b>Book value per diluted common share</b>				<u>\$ 42.33</u>
Adjustment for accumulated dividends				<u>10.16</u>
<b>Diluted book value per common share plus accumulated dividends</b>				<u>\$ 52.49</u>
<b>Tangible book value per diluted common share</b>				<u>\$ 38.63</u>

# Notes on Non-GAAP and Other Financial and Exposure Measures

In presenting the Company's results herein, management has included and discussed certain schedules containing underwriting income (loss), net operating income (loss) available (attributable) to Validus, annualized return on average equity and diluted book value per common share that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies. We believe that these measures are important to investors and other interested parties. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP.

The AlphaCat segment information is presented as an asset manager view and therefore is considered non-GAAP.

Underwriting income indicates the performance of the Company's core underwriting segments, excluding revenues and expenses such as net investment income (loss), finance expenses, net realized and change in unrealized gains (losses) on investments, foreign exchange gains (losses), other income (loss) and transaction expenses. The Company believes the reporting of underwriting income enhances the understanding of our results by highlighting the underlying profitability of the Company's core insurance and reinsurance business. Underwriting profitability is influenced significantly by earned premium growth, adequacy of the Company's pricing and loss frequency and severity.

Net operating income (loss) available (attributable) to Validus is calculated based on net income (loss) available (attributable) to Validus excluding net realized gains (losses), change in net unrealized gains (losses) on investments, income (loss) from investment affiliates, gains (losses) arising from translation of non-US\$ denominated balances, other income (loss) and non-recurring items. Net income is the most directly comparable GAAP measure. Net operating income focuses on the underlying fundamentals of our operations without the influence of realized gains (losses) from the sale of investments, net unrealized gains (losses) on investments, translation of non-US\$ currencies and non-recurring items. Realized gains (losses) from the sale of investments are driven by the timing of the disposition of investments, not by our operating performance. Gains (losses) arising from translation of non-US\$ denominated balances are unrelated to our underlying business.

Diluted book value per share is calculated based on total shareholders' equity plus the assumed proceeds from the exercise of outstanding stock options and warrants, divided by the sum of unvested restricted shares, stock options, warrants and share equivalents outstanding (assuming their exercise).

Reconciliations to the most comparable GAAP measure for net operating income and diluted book value per share can be found on pages 36 and 37, respectively.

Net loss estimates and zonal aggregates are before income tax, net of reinstatement premiums, and net of reinsurance and retrocessional recoveries. The estimates set forth herein are based on an Occurrence basis on assumptions that are inherently subject to significant uncertainties and contingencies. These uncertainties and contingencies can affect actual losses and could cause actual losses to differ materially from those expressed above. In particular, modeled loss estimates do not necessarily accurately predict actual losses, and may significantly mis-estimate actual losses. Such estimates, therefore, should not be considered as a representation of actual losses.

# Notes on Non-GAAP and Other Financial and Exposure Measures – Continued

The Company has developed the estimates of losses expected from certain catastrophes for its portfolio of property, marine, workers' compensation, and personal accident contracts using commercially available catastrophe models such as RMS, AIR and EQECAT, which are applied and adjusted by the Company. These estimates include assumptions regarding the location, size and magnitude of an event, the frequency of events, the construction type and damageability of property in a zone, policy terms and conditions and the cost of rebuilding property in a zone, among other assumptions. These assumptions will evolve following any actual event. Accordingly, if the estimates and assumptions that are entered into the risk model are incorrect, or if the risk model proves to be an inaccurate forecasting tool, the losses the Company might incur from an actual catastrophe could be materially higher than its expectation of losses generated from modeled catastrophe scenarios. In addition, many risks such as second-event covers, aggregate excess of loss, or attritional loss components cannot be fully evaluated using the vendor models. Further, there can be no assurance that such third party models are free of defects in the modeling logic or in the software code. Commencing in January 2012, the Company incorporated RMS version 11 as part of its vendor models.

The Company has presented the Company Realistic Disaster Scenarios for non-natural catastrophe events. Twice yearly, Lloyds' syndicates, including the Company's Talbot Syndicate 1183, are required to provide details of their potential exposures to specific disaster scenarios. Lloyds' makes its updated Realistic Disaster Scenarios (RDS) guidance available to the market annually. The RDS scenario specification document for 2012 can be accessed at the RDS part of the Lloyd's public website:

<http://www.lloyds.com/The-Market/Tools-and-Resources/Research/Exposure-Management/Realistic-Disaster-Scenarios>

The Consolidated Net Premiums Earned used in the calculation represent the latest 12 months of net premiums earned up to December 31, 2015.

Modeling catastrophe threat scenarios is a complex exercise involving numerous variables and is inherently subject to significant uncertainties and contingencies. These uncertainties and contingencies can affect actual losses and could cause actual losses incurred by the Company to differ materially from those expressed above. Should an event occur, the modeled outcomes may prove inadequate, possibly materially so. This may occur for a number of reasons including, legal requirements, model deficiency, non-modeled risks or data inaccuracies.

A modeled outcome of net loss from a single event also relies in significant part on the reinsurance and retrocession arrangements in place, or expected to be in place at the time of the analysis, and may change during the year. Modeled outcomes assume that the reinsurance and retrocession in place responds as expected with minimal reinsurance failure or dispute. Reinsurance is purchased to match the original exposure as far as possible, but it is possible for there to be a mismatch or gap in cover which could result in higher than modeled losses to the Company. In addition, many parts of the reinsurance program are purchased with limited reinstatements and, therefore, the number of claims or events which may be recovered from second or subsequent events is limited. It should also be noted that renewal dates of the reinsurance program do not necessarily coincide with those of the inwards business written. Where original business is not protected by risks attaching reinsurance or retrocession programs, the programs could expire resulting in an increase in the possible net loss retained by the Company.

Investors should not rely on the information set forth in this presentation when considering an investment in the Company. The information contained in this presentation has not been audited nor has it been subject to independent verification. The estimates set forth herein speak only as of the date of this presentation and the Company undertakes no obligation to update or revise such information to reflect the occurrence of future events. The events presented reflect a specific set of prescribed calculations and do not necessarily reflect all events that may impact the Company.



**For more information on our company, products and management team please visit our website at:  
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