

# VALIDUS RE

## FOR IMMEDIATE RELEASE

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## VALIDUS ANNOUNCES SECOND QUARTER NET INCOME OF \$70.8 MILLION AND ANNUALIZED RETURN ON AVERAGE EQUITY OF 22.0%

### Earnings Report First Since Initial Public Offering; Final Quarter Prior to Consolidation of Talbot

**Hamilton, Bermuda, August 9, 2007** — Validus Holdings Limited (“Validus”) (NYSE: VR) today reported net income for the quarter ended June 30, 2007 of \$70.8 million, or \$1.17 per diluted common share, compared with \$29.7 million, or \$0.51 per diluted common share, for the quarter ended June 30, 2006. Net income for the six months ended June 30, 2007 was \$127.5 million, or \$2.11 per diluted share, compared with \$44.4 million, or \$0.76 per diluted share, for the corresponding period in 2006.

Operating income for the second quarter of 2007 was \$75.2 million, or \$1.24 per diluted share, compared with \$29.3 million, or \$0.50 per diluted common share, for the quarter ended June 30, 2006. Operating income for the six months ended June 30, 2007 was \$128.8 million, or \$2.13 per diluted share, compared with \$44.5 million, or \$0.76 per diluted common share, for the six months ended June 30, 2006.

Operating income, a non-GAAP financial measure, is defined as net income excluding net realized and unrealized gains or losses on investments and foreign exchange gains and losses. Reconciliations of this measure to net income, the most directly comparable GAAP measure, are presented at the end of this release.

The Validus data for 2006 and 2007 refer only to the company prior to its acquisition of Talbot Holdings Ltd. (“Talbot”). As part of this release, the second quarter and six months ended June 30, 2007 results of Talbot will be reported separately. Further, the Validus data do not give effect to the initial public offering of 15,244,888 common shares, which was consummated on July 30, 2007.

### Validus second quarter 2007 results

Operating highlights for the second quarter include the following:

- Gross premiums written increased by 57.6% to \$174.3 million;

- Net premiums written increased by 57.5% to \$147.5 million;
- Net premiums earned increased by 100.2% to \$133.0 million;
- Combined ratio of 55.3%;
- Investment income increased by 49.7% to \$19.7 million primarily due to a combination of higher investment balances and higher investment yields;
- Annualized return on average equity of 22.0%
- Annualized operating return on average equity of 23.4%

Operating highlights for the first half of the year included the following:

- Gross premiums written increased by 54.0% to \$552.4 million;
- Net premiums written increased by 48.3% to \$494.6 million;
- Net premiums earned increased by 124.6% to \$244.5 million;
- Combined ratio of 59.5%;
- Investment income increased by 58.7% to \$38.2 million;
- Annualized return on average equity of 20.3%; and
- Annualized operating return on average equity of 20.5%

Commenting on the second quarter 2007 results, Ed Noonan, Chairman and Chief Executive Officer of Validus, stated: "We are pleased to report an annualized operating return on average equity in the quarter of 23.4%. Our results in the quarter reflect strong and stable underwriting results, increasing investment income and the broad diversification in our Validus Re portfolio despite industry loss activity in the quarter."

### **Underwriting Results**

Gross premiums written during the second quarter of 2007 increased by 57.6%, or \$63.7 million, to \$174.3 million, compared to the second quarter of 2006. The increase in gross premiums written was primarily driven by the property lines which accounted for \$156.7 million of the gross premium written. In the three months ended June 30, 2007 the Company wrote additional premium in both U.S. and international property lines as compared to the same period in the prior year as a result of continued attractive pricing.

Net premiums earned for the second quarter of 2007 were \$133.0 million compared to \$66.5 million for the second quarter of 2006, an increase of \$66.5 million or 100.2%. The increase in net premiums earned reflects the increased premiums written in the period and the benefit of earning premiums written in 2006. As the Company did not write premium prior to January 1, 2006, the second quarter of 2006 benefited minimally from the earning of premiums written in prior periods.

The combined ratio decreased to 55.3% from 74.2% in the second quarter of 2006. This decrease was primarily due to a decrease in the Company's loss ratios for the period. The loss ratios declined as a result of the low level of catastrophic events in the six months ended June 30, 2007, partially offset by losses from the Australian windstorms and flooding in parts of northern England. In addition, the combined ratio was affected by a decrease in the general and

administrative expense ratio. This decrease reflects the absence in 2007 of certain start up costs incurred in 2006 and the higher level of earned premiums in the second quarter of 2007.

Gross premiums for the six months ended June 30, 2007 increased 54.0% from the same period of 2006. The increase in gross premiums written was primarily driven by the property and marine lines which accounted for \$146.5 million and \$40.8 million of the increase, respectively. In the six months ended June 30, 2007 the Company wrote additional U.S. regional and European property premium as compared to the same period in the prior year as a result of being operational for the entire 2006 fiscal year.

The combined ratio decreased to 59.5% in the six months ended June 30, 2007 from 79.7% in the same period of 2006. This decrease was primarily due to a decrease in the Company's loss ratios for the period. The loss ratios declined as a result of the low level of catastrophic events in the six months ended June 30, 2007, partially offset by losses from windstorm Kyrill, the Australian windstorms and flooding in parts of northern England. In addition, the combined ratio was affected by a decrease in the general and administrative expense ratio. This decrease reflects the absence in 2007 of certain start up costs incurred in 2006 and the higher level of earned premiums in the six months ended June 30, 2007.

### **Investments**

Investment income was \$19.7 million, an increase of 49.7%, or \$6.6 million, from the second quarter of 2006. We also experienced \$0.2 million of net realized losses, compared to \$0.4 million of net realized losses in the second quarter of 2006. Net unrealized losses were \$6.2 million, compared to \$2.9 million of net unrealized losses in the second quarter of 2006.

Investment income for the six months ended June 30, 2007 was \$38.2 million, an increase of 58.7%, or \$14.1 million, from the six months ended June 30, 2006. We experienced \$0.2 million of net realized losses, compared to \$0.7 million of net realized losses for the six months ended June 30, 2006. Net unrealized losses were \$4.5 million, compared to \$6.4 million of net unrealized losses for the six months ended June 30, 2006.

This increased investment income generated in the second quarter and first six months of 2007 principally reflects the positive impact of higher investment balances, and higher investment yields.

Prior to January 1, 2007, the Company's investments in fixed maturities were classified as available-for-sale and carried at fair value, with related net unrealized gains or losses excluded from earnings and included in shareholders' equity as a component of accumulated other comprehensive income. Beginning on January 1, 2007, the Company's investments in fixed maturities were classified as trading and carried at fair value, with related net unrealized gains or losses included in earnings as a result of the adoption of new accounting guidance. The Company believes that accounting for its investment portfolio as trading more closely reflects its investment guidelines. The fair value of investments is based upon quoted market values. The Company recorded \$6.2 million and \$4.5 million of unrealized losses in the three months and six months ended June 30, 2007 respectively, which was included in earnings. The Company recorded \$2.9 million and \$6.4 million of unrealized losses in the three months and six months ended June 30, 2006 respectively, which was included in shareholders' equity as a component of accumulated other comprehensive income.

### **Finance Expense**

Finance expense for the quarter and six months ended June 30, 2007 was \$4.0 million and \$8.4 million respectively, increasing from \$1.0 million and \$1.7 million respectively. Interest expense

consists of interest due on outstanding debt, the amortization of debt offering expenses and offering discounts and fees relating to the Company's credit facility. The increase relates primarily to the issuance of junior subordinated debt in the second quarter of 2006.

On June 21, 2007, the Company participated in a private placement of \$200 million of junior subordinated deferrable interest debentures due 2037 (the "8.480% Junior Subordinated Deferrable Debentures"). The 8.480% Junior Subordinated Deferrable Debentures mature on June 21, 2037, are redeemable at the Company's option at par beginning June 21, 2017, and require quarterly interest payments by the Company. The proceeds of \$200 million from the sale of the 8.480% Junior Subordinated Deferrable Debentures, after the deduction of commissions paid to the placement agents in the transaction and other expenses, were used by the Company for funding in the acquisition of Talbot.

### **Capitalization and Shareholders' Equity**

Total capitalization at June 30, 2007 was \$1.7 billion, including \$350 million of junior subordinated deferrable debentures. Total capitalization at December 31, 2006 was \$1.3 billion. The increase was primarily due to net income through the first six months of 2007 and the issuance in the second quarter of the 8.480% junior subordinated deferrable debentures.

At June 30, 2007, diluted book value per common share was \$21.59 and book value per common share was \$22.64, compared to \$19.73 and \$20.39 respectively, from December 31, 2006. Diluted book value per share is a non-GAAP financial measure. A reconciliation of this measure to shareholders' equity is presented at the end of this release.

### **Talbot second quarter 2007 results**

On July 2, 2007, Validus announced it completed its acquisition of Talbot Holdings ("Talbot"). The Validus data for 2006 and 2007 therefore refers only to the Company prior to its acquisition of Talbot. As part of this release, the quarter and six months ended June 30, 2007 results of Talbot are presented solely for informational purposes. We have included these results as we believe that security analysts, rating agencies and investors will be able to make use of this historical information for Talbot.

Operating income for Talbot in the second quarter of 2007 was \$21.0 million, and net income for the period was \$22.5 million. Highlights for the second quarter included the following:

- Gross premiums written of \$202.4 million;
- Net premiums written of \$196.5 million;
- Net premiums earned of \$145.6 million;
- Combined ratio of 93.2%.

Operating income for the six months ended June 30, 2007 was \$41.5 million, and net income for the period was \$41.4 million. Highlights for the first half of the year included the following:

- Gross premiums written of \$401.2 million;
- Net premiums written of \$304.3 million;
- Net premiums earned of \$276.4 million;
- Combined ratio of 92.5%.

### **Pro Forma Book Value per Share**

As previously referenced, the Validus data at June 30, 2007 refer only to the company prior to its July 2, 2007 acquisition of Talbot and do not give effect to the initial public offering of 15,244,888 common shares, which was consummated on July 30, 2007. Assuming the Talbot acquisition and the initial public offering had occurred on June 30, 2007, pro forma diluted book value per share would have been \$20.89.

### **Conference Call**

We will host a conference call on Friday August 10, 2007 at 9:00 AM (Eastern) to discuss the second quarter financial results and related matters. The conference call can be accessed via telephone by dialing (877) 407-8031 (toll-free) or (201) 689-8031 (international). Those who intend to participate in the conference call should register at least ten minutes in advance to ensure access to the call. A telephone replay of the conference call will be available through September 9, 2007 by dialing (877) 660-6853 (toll-free) or (201) 612-7415 (international) and entering account number 286 and pass code 250641.

The public may access a live broadcast of the conference call at the "Investors" section of Validus' website.

This presentation will be available through an audio webcast accessible through the Investor Information section of our website at [www.validusre.bm](http://www.validusre.bm). In addition, a financial supplement relating to our financial results for the quarter ended June 30, 2007 is available in the Investor Information section of our website.

### **About Validus**

Validus Holdings, Ltd. is a provider of reinsurance and insurance, with shareholders' equity at June 30, 2007 of \$1.3 billion. Validus conduct its operations worldwide through two wholly-owned subsidiaries, Validus Reinsurance, Ltd. and Talbot Holdings Ltd. Validus Re is a Bermuda based reinsurer focused on short-tail lines of reinsurance. Talbot is the Bermuda parent of the specialty insurance group primarily operating within the Lloyd's insurance market through Syndicate 1183. Validus Re has been assigned a rating of "A-" ("Excellent") by A.M. Best. For more information about Validus, visit our website at [www.validusre.bm](http://www.validusre.bm).

# Validus Holdings, Ltd.

## Interim Consolidated Balance Sheets

### As at June 30, 2007 (unaudited) and December 31, 2006

(expressed in thousands of U.S. dollars, except share amounts)

|  | June 30,<br>2007    | December 31,<br>2006 |
|--|---------------------|----------------------|
|  | (unaudited)         |                      |
| <b>Assets</b>                                    |                     |                      |
| Fixed maturities, at fair value                  | \$ 1,127,591        | \$ 844,857           |
| Short-term investments, at fair value            | 371,767             | 531,530              |
| Cash and cash equivalents                        | 314,955             | 63,643               |
| Total cash and investments                       | <u>1,814,313</u>    | <u>1,440,030</u>     |
| Premiums receivables                             | 376,814             | 142,408              |
| Deferred acquisition costs                       | 72,518              | 28,203               |
| Prepaid reinsurance premiums                     | 40,747              | 8,245                |
| Securities lending collateral                    | 35,194              | 12,327               |
| Loss reserves recoverable                        | 158                 | -                    |
| Net receivable for investments sold              | 1,862               | -                    |
| Accrued investment income                        | 9,355               | 6,456                |
| Other assets                                     | <u>13,950</u>       | <u>8,754</u>         |
| <b>Total assets</b>                              | <u>\$ 2,364,911</u> | <u>\$ 1,646,423</u>  |
| <b>Liabilities</b>                               |                     |                      |
| Unearned premiums                                | \$ 461,437          | \$ 178,824           |
| Reserve for losses and loss expenses             | 138,132             | 77,363               |
| Reinsurance balances payables                    | 45,927              | 7,438                |
| Securities lending payable                       | 35,194              | 12,327               |
| Net payable for investments purchased            | -                   | 12,850               |
| Accounts payable and accrued expenses            | 10,274              | 15,098               |
| Debentures payable                               | <u>350,000</u>      | <u>150,000</u>       |
| <b>Total liabilities</b>                         | 1,040,964           | 453,900              |
| Commitments and contingent liabilities           |                     |                      |
| <b>Shareholders' equity</b>                      |                     |                      |
| Ordinary shares                                  | 10,234              | 10,234               |
| Additional paid-in capital                       | 1,051,947           | 1,048,025            |
| Accumulated other comprehensive income           | -                   | 875                  |
| Retained earnings                                | <u>261,766</u>      | <u>133,389</u>       |
| <b>Total shareholders' equity</b>                | <u>1,323,947</u>    | <u>1,192,523</u>     |
| <b>Total liabilities and shareholder' equity</b> | <u>\$ 2,364,911</u> | <u>\$ 1,646,423</u>  |

# Validus Holdings, Ltd.

## Interim Consolidated Balance Sheets

### For the three months and six months ended June 30, 2007 and 2006

(expressed in thousands of U.S. dollars, except share amounts)

|   | Three months ended |                  | Six months ended  |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 30,<br>2007   | June<br>30,2006  | June 30,<br>2007  | June 30,<br>2006 |
|   | (Unaudited)        | (Unaudited)      | (Unaudited)       | (Unaudited)      |
| <b>Revenues</b>   |                    |                  |                   |                  |
| Gross premiums written  | \$ 174,300         | \$ 110,574       | \$ 552,370        | \$ 358,779       |
| Reinsurance premiums ceded  | (26,780)           | (16,921)         | (57,738)          | (25,159)         |
| Net premiums written  | 147,520            | 93,653           | 494,632           | 333,620          |
| Change in unearned premiums   | (14,490)           | (27,198)         | (250,110)         | (224,757)        |
| Net premiums earned   | 133,030            | 66,455           | 244,522           | 108,863          |
| Net investment income   | 19,742             | 13,185           | 38,239            | 24,097           |
| Net realized losses on investments  | (232)              | (354)            | (186)             | (740)            |
| Net unrealized losses on investments  | (6,189)            | -                | (4,546)           | -                |
| Foreign exchange gains  | 2,003              | 696              | 3,392             | 692              |
| <b>Total revenues</b>   | <b>148,354</b>     | <b>79,982</b>    | <b>281,421</b>    | <b>132,912</b>   |
| <b>Expenses</b>   |                    |                  |                   |                  |
| Losses and loss expense   | 42,675             | 31,144           | 89,162            | 55,481           |
| Policy acquisition costs  | 17,837             | 8,436            | 30,056            | 13,936           |
| General and administrative expenses   | 13,085             | 9,733            | 26,257            | 17,366           |
| Finance expenses  | 4,003              | 978              | 8,444             | 1,683            |
| Fair value of warrants issued   | -                  | -                | -                 | 77               |
| <b>Total expenses</b>   | <b>77,600</b>      | <b>50,291</b>    | <b>153,919</b>    | <b>88,543</b>    |
| <b>Net income</b>   | <b>\$ 70,754</b>   | <b>\$ 29,691</b> | <b>\$ 127,502</b> | <b>\$ 44,369</b> |
| <b>Comprehensive income</b>   |                    |                  |                   |                  |
| Unrealized losses arising during the period                                       | -                  | (3,283)          | -                 | (7,163)          |
| Adjustment for reclassification of losses realized in income                      | -                  | 354              | -                 | 740              |
| <b>Comprehensive income</b>   | <b>\$ 70,754</b>   | <b>\$ 26,762</b> | <b>\$ 127,502</b> | <b>\$ 37,946</b> |
| <b>Earnings per share</b>   |                    |                  |                   |                  |
| Weighted average number of common shares and common share equivalents outstanding |                    |                  |                   |                  |
| Basic   | 58,482,600         | 58,482,601       | 58,482,601        | 58,471,659       |
| Diluted   | 60,647,354         | 58,591,802       | 60,431,373        | 58,550,661       |
| <b>Basic earnings per share</b>   | <b>\$ 1.21</b>     | <b>\$ 0.51</b>   | <b>\$ 2.18</b>    | <b>\$ 0.76</b>   |
| <b>Diluted earnings per share</b>   | <b>\$ 1.17</b>     | <b>\$ 0.51</b>   | <b>\$ 2.11</b>    | <b>\$ 0.76</b>   |

## **Cautionary Note Regarding 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. This report 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. 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 our risk management and loss limitation methods; 4) cyclicity of demand and pricing in the reinsurance market; 5) our limited operating history; 6) adequacy of our loss reserves; 7) continued availability of capital and financing; 8) retention of key personnel; 9) competition; 10) potential loss of business from one or more major reinsurance brokers; 11) our 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; 12) general economic and market conditions (including inflation, interest rates and foreign currency exchange rates); 13) the integration of Talbot Holdings, Ltd., or other businesses we may acquire; 14) acts of terrorism or outbreak of war; and 15) availability of retrocessional coverage.

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 or elsewhere, including the Risk Factors beginning on page 16 of our Registration Statement on Form S-1 (SEC File No. 333-139989) (the “Registration Statement”). Any forward-looking statements made in this report 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.

## **Non-GAAP Financial Measures**

In presenting the Company’s results, management has included and discussed certain schedules containing operating income (loss), annualized operating return on average equity and diluted book value per 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. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. A reconciliation of operating income to net income, the most comparable U.S. GAAP financial measure, is presented in the section below entitled “Operating Income and Annualized Operating Return on Average Equity”. Annualized operating return on average equity is presented in the section below entitled “Operating Income and Annualized Operating Return on Average Equity”. A reconciliation of diluted book value per share to book value per share, the most comparable U.S. GAAP financial measure, is presented in the section below entitled “Diluted Book Value Per Share”.

# Validus Holdings, Ltd.

## Non-GAAP Financial Measure Reconciliation

### Operating Income and Annualized Operating Return on Average Equity

#### For the three months and six months ended June 30, 2007 and 2006

(expressed in thousands of U.S. dollars, except share amounts)

|   | Three months ended |                  | Six months ended  |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 30,<br>2007   | June<br>30,2006  | June 30,<br>2007  | June 30,<br>2006 |
|   | (Unaudited)        | (Unaudited)      | (Unaudited)       | (Unaudited)      |
| <b>Net income</b>   | \$ 70,754          | \$ 29,691        | \$ 127,502        | \$ 44,369        |
| Adjustment for net realized losses<br>on investments                                  | 232                | 354              | 186               | 740              |
| Adjustment for net unrealized losses<br>on investments                                | 6,189              | -                | 4,546             | -                |
| Fair value of warrants issued   | -                  | -                | -                 | 77               |
| Adjustment for foreign exchange gains   | (2,003)            | (696)            | (3,392)           | (692)            |
| <b>Operating income</b>   | <u>\$ 75,172</u>   | <u>\$ 29,349</u> | <u>\$ 128,842</u> | <u>\$ 44,494</u> |
| <b>Net income per share - diluted</b>   | \$ 1.17            | \$ 0.51          | \$ 2.11           | \$ 0.76          |
| Adjustment for net realized losses<br>on investments                                  | -                  | -                | -                 | 0.01             |
| Adjustment for net unrealized losses<br>on investments                                | 0.10               | -                | 0.08              | -                |
| Fair value of warrants issued   | -                  | -                | -                 | -                |
| Adjustment for foreign exchange gains   | (0.03)             | (0.01)           | (0.06)            | (0.01)           |
| <b>Operating income per share - diluted</b>   | <u>\$ 1.24</u>     | <u>\$ 0.50</u>   | <u>\$ 2.13</u>    | <u>\$ 0.76</u>   |
| Weighted average number of common<br>shares and common share<br>equivalents - diluted | 60,647,354         | 58,591,802       | 60,431,373        | 58,550,661       |
| <b>Operating income</b>   | \$ 75,172          | \$ 29,349        | \$ 128,842        | \$ 44,494        |
| Average shareholders' equity  | 1,287,582          | 1,028,267        | 1,255,895         | 1,004,508        |
| <b>Annualized operating return on<br/>average equity</b>                              | <u>23.4%</u>       | <u>11.4%</u>     | <u>20.5%</u>      | <u>8.9%</u>      |

# Validus Holdings, Ltd.

## Non-GAAP Financial Measure Reconciliation

### Diluted Book Value Per Share

#### As at June 30, 2007 and December 31, 2006

(expressed in thousands of U.S. dollars, except share amounts)

|  | At June 30, 2007    |                   |                | Book value per share |
|--|---------------------|-------------------|----------------|----------------------|
|  | Equity amount       | Shares            | Exercise Price |                      |
| <b>Book value per common share</b>         |                     |                   |                |                      |
| Total shareholders' equity                 | \$ 1,323,948        | 58,482,600        |                | \$ 22.64             |
| <b>Diluted book value per common share</b> |                     |                   |                |                      |
| Total shareholders' equity                 | \$ 1,323,948        | 58,482,600        |                |                      |
| Assumed exercise of outstanding warrants   | 147,968             | 8,455,320         | \$ 17.50       |                      |
| Assumed exercise of outstanding options    | 46,453              | 2,637,344         | \$ 17.61       |                      |
| Unvested restricted shares                 | -                   | 753,496           |                |                      |
| <b>Diluted book value per common share</b> | <b>\$ 1,518,369</b> | <b>70,328,760</b> |                | <b>\$ 21.59</b>      |

|  | At December 31, 2006 |                   |                | Book value per share |
|--|----------------------|-------------------|----------------|----------------------|
|  | Equity amount        | Shares            | Exercise Price |                      |
| <b>Book value per common share</b>         |                      |                   |                |                      |
| Total shareholders' equity                 | \$ 1,192,523         | 58,482,601        |                | \$ 20.39             |
| <b>Diluted book value per common share</b> |                      |                   |                |                      |
| Total shareholders' equity                 | \$ 1,192,523         | 58,482,601        |                |                      |
| Assumed exercise of outstanding warrants   | 147,968              | 8,455,320         | \$ 17.50       |                      |
| Assumed exercise of outstanding options    | 45,046               | 2,568,894         | \$ 17.54       |                      |
| Unvested restricted shares                 | -                    | 733,964           |                |                      |
| <b>Diluted book value per common share</b> | <b>\$ 1,385,537</b>  | <b>70,240,779</b> |                | <b>\$ 19.73</b>      |

# Talbot Holdings, Ltd.

## Consolidated Balance Sheets

### As at June 30, 2007 (unaudited) and December 31, 2006

(expressed in thousands of U.S. dollars, except share amounts)

|   | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|--------------------------|------------------------------|
|   | (unaudited)              |                              |
| <b>Assets</b>                                     |                          |                              |
| Fixed maturities, at fair value                   | \$ 188,067               | \$ 524,483                   |
| Short-term investments, at fair value             | 366,523                  | 28,446                       |
| Cash and cash equivalents                         | 353,705                  | 278,231                      |
| Total cash and investments                        | <u>908,295</u>           | <u>831,160</u>               |
| Receivables                                       | 84,005                   | 46,065                       |
| Accrued premium income                            | 168,346                  | 140,440                      |
| Deferred acquisition costs                        | 70,029                   | 55,841                       |
| Prepaid reinsurance premiums                      | 51,525                   | 9,178                        |
| Reinsurance recoverable on paid and unpaid losses | 191,704                  | 228,124                      |
| Accrued investment income                         | 7,692                    | 7,717                        |
| Current taxes recoverable                         | 741                      | 275                          |
| Other assets                                      | <u>27,884</u>            | <u>13,509</u>                |
| <b>Total assets</b>                               | <u>\$ 1,510,221</u>      | <u>\$ 1,332,309</u>          |
| <b>Liabilities</b>                                |                          |                              |
| Unearned premiums                                 | \$ 355,131               | \$ 281,928                   |
| Reserve for losses and loss expenses              | 755,117                  | 711,014                      |
| Reinsurance balances payables                     | 80,108                   | 59,127                       |
| Current taxation                                  | (4,996)                  | 1,735                        |
| Deferred taxation                                 | 17,846                   | 14,704                       |
| Accounts payable and accrued expenses             | <u>68,072</u>            | <u>76,552</u>                |
| <b>Total liabilities</b>                          | 1,271,278                | 1,145,060                    |
| Preference shares                                 | 80,767                   | 79,128                       |
| <b>Shareholders' equity</b>                       |                          |                              |
| Ordinary shares                                   | 115                      | 100                          |
| Additional paid-in capital                        | 17,219                   | 5,065                        |
| Treasury shares                                   | -                        | (613)                        |
| Accumulated other comprehensive loss              | (349)                    | (681)                        |
| Retained earnings                                 | <u>141,191</u>           | <u>104,250</u>               |
| <b>Total shareholders' equity</b>                 | <u>158,176</u>           | <u>108,121</u>               |
| <b>Total liabilities and shareholder' equity</b>  | <u>\$ 1,510,221</u>      | <u>\$ 1,332,309</u>          |

# Talbot Holdings, Ltd.

## Consolidated Statements of Operations and Comprehensive Income

### For the three months and six months ended June 30, 2007

(expressed in thousands of U.S. dollars, except share amounts)

|   | <b>Three months ended</b><br><b><u>June 30, 2007</u></b><br>(Unaudited) | <b>Six months ended</b><br><b><u>June 30, 2007</u></b><br>(Unaudited) |
|---|---|---|
| <b>Revenues</b>   |   |   |
| Gross premiums written                                      | \$ 202,381  | \$ 401,186  |
| Reinsurance premiums ceded                                  | <u>(5,860)</u>  | <u>(96,927)</u>   |
| Net premiums written  | 196,521   | 304,259   |
| Change in unearned premiums                                 | <u>(50,890)</u>   | <u>(27,853)</u>   |
| Net premiums earned   | 145,631   | 276,406   |
| Net investment income                                       | 10,178  | 19,881  |
| Net realized gains (losses) on investments                  | 92  | (1,230)   |
| Other income  | 1,222   | 2,165   |
| Foreign exchange gains                                      | <u>1,351</u>  | <u>1,183</u>  |
| <b>Total revenues</b>                                       | 158,474   | 298,405   |
| <b>Expenses</b>   |   |   |
| Losses and loss expense                                     | 76,257  | 144,842   |
| Policy acquisition costs                                    | 31,418  | 61,465  |
| General and administrative expenses                         | 28,102  | 49,293  |
| Finance expenses  | <u>19</u>   | <u>184</u>  |
| <b>Total expenses</b>                                       | <u>135,796</u>  | <u>255,784</u>  |
| <b>Net income before taxes</b>                              | 22,678  | 42,621  |
| Income tax charge   | <u>(189)</u>  | <u>(1,194)</u>  |
| <b>Net income after tax</b>                                 | <u>\$ 22,489</u>  | <u>\$ 41,427</u>  |
| <b>Comprehensive income</b>                                 |   |   |
| Foreign currency translation adjustment                     | (86)  | 29  |
| Unrealized losses arising during the period                 | (276)   | (322)   |
| Adjustment for reclassification of gains realized in income | <u>29</u>   | <u>625</u>  |
| <b>Comprehensive income</b>                                 | <u>\$ 22,156</u>  | <u>\$ 41,759</u>  |

# Talbot Holdings, Ltd.

## Non-GAAP Financial Measure Reconciliation

### Operating Income

#### For the three months and six months ended June 30, 2007

(expressed in thousands of U.S. dollars, except share amounts)

|  | <u>Three months ended<br/>June 30, 2007</u> | <u>Six months ended<br/>June 30, 2007</u> |
|--|---|---|
|  | (Unaudited)                                 | (Unaudited)                               |
| <b>Net income</b>  | \$ 22,489                                   | \$ 41,427                                 |
| Adjustment for net realized (gains) losses<br>on investments | (92)  | 1,230                                     |
| Adjustment for foreign exchange gains                        | <u>(1,351)</u>                              | <u>(1,183)</u>                            |
| <b>Operating income</b>                                      | <u>\$ 21,046</u>                            | <u>\$ 41,474</u>                          |