VALIDUS HOLDINGS LTD
Form 10-Q
May 06, 2016

Table of Contents

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

Commission file number 001-33606

VALIDUS HOLDINGS, LTD.
(Exact name of registrant as specified in its charter)

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

29 Richmond Road, Pembroke, Bermuda HM 08
(Address of principal executive offices and zip code)
(441) 278-9000
(Registrant's telephone number, including area code)

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x
As of May 4, 2016 there were 81,541,202 outstanding Common Shares, $0.175 par value per share, of the registrant.

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Validus Holdings, Ltd.
Consolidated Balance Sheets
As at March 31, 2016 (unaudited) and December 31, 2015
(Expressed in thousands of U.S. dollars, except share and per share information)

	March 31, 2016 (unaudited)	December 31, 2015
Assets		
Fixed maturities trading, at fair value (amortized cost: 2016—$5,478,317; 2015—$5,556,950)	$5,481,304	$5,510,331
Short-term investments trading, at fair value (amortized cost: 2016—$2,107,714; 2015—$1,941,615)	2,108,199	1,941,635
Other investments, at fair value (cost: 2016—$323,196; 2015—$315,963)	344,151	336,856
Cash and cash equivalents	569,774	723,109
Restricted cash	108,395	73,270
Total investments and cash	8,611,823	8,585,201
Investments in affiliates, equity method (cost: 2016—$70,761; 2015—$70,186)	84,504	88,065
Premiums receivable	1,176,684	658,682
Deferred acquisition costs	262,675	181,002
Prepaid reinsurance premiums	181,255	77,992
Securities lending collateral	9,721	4,863
Loss reserves recoverable	370,689	350,586
Paid losses recoverable	25,001	23,071
Income taxes recoverable	7,146	16,228
Deferred tax asset	27,771	21,661
Receivable for investments sold	16,278	39,766
Intangible assets	119,842	121,258
Goodwill	196,758	196,758
Accrued investment income	22,298	23,897
Other assets	92,076	126,782
Total assets	$11,204,521	$10,515,812
Liabilities		
Reserve for losses and loss expenses	$2,980,300	$2,996,567
Unearned premiums	1,503,161	966,210
Reinsurance balances payable	96,685	75,380
Securities lending payable	10,187	5,329
Deferred tax liability	3,618	3,847
Payable for investments purchased	76,116	77,475
Accounts payable and accrued expenses	136,712	627,331
Notes payable to AlphaCat investors	323,510	75,493
Senior notes payable	245,211	245,161
Debentures payable	538,335	537,668
Total liabilities	$5,913,835	$5,610,461

Commitments and contingent liabilities		
Redeemable noncontrolling interest	1,409,037	1,111,714
Shareholders’ equity		
Common shares, 571,428,571 authorized, par value $0.175 (Issued: 2016—160,582,277; 2015—160,570,772; Outstanding: 2016—81,555,486; 2015—82,900,617)	$28,102	$28,100
Treasury shares (2016—79,026,791; 2015—77,670,155)	(13,830)	(13,592)
Additional paid-in capital	954,485	1,002,980
Accumulated other comprehensive loss	(15,438)	(12,569)
Retained earnings	2,771,107	2,634,056
Total shareholders’ equity available to Validus	3,724,426	3,638,975
Noncontrolling interest	157,223	154,662
Total shareholders’ equity	$3,881,649	$3,793,637
Total liabilities, noncontrolling interests and shareholders’ equity	$11,204,521	$10,515,812

The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2016 and 2015 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31,	
	2016 (unaudited)	2015 (unaudited)
Revenues		
Gross premiums written	$1,172,791	$1,119,224
Reinsurance premiums ceded	(167,835)	(191,325)
Net premiums written	1,004,956	927,899
Change in unearned premiums	(433,688)	(352,009)
Net premiums earned	571,268	575,890
Net investment income	29,461	31,029
Net realized (losses) gains on investments	(584)	4,169
Change in net unrealized gains on investments	47,444	33,227
(Loss) income from investment affiliate	(4,113)	2,776
Other insurance related income and other income	1,413	940
Foreign exchange gains (losses)	6,245	(4,265)
Total revenues	651,134	643,766
Expenses		
Losses and loss expenses	224,447	240,929
Policy acquisition costs	107,193	98,411
General and administrative expenses	86,208	84,235
Share compensation expenses	11,237	9,054
Finance expenses	15,203	20,967
Total expenses	444,288	453,596
Income before taxes, income from operating affiliates and (income) attributable to AlphaCat investors	206,846	190,170
Tax benefit (expense)	2,118	(2,565)
(Loss) income from operating affiliates	(23)	3,984
(Income) attributable to AlphaCat investors	(4,600)	—
Net income	$204,341	$191,589
Net (income) attributable to noncontrolling interest	(37,531)	(18,178)
Net income available to Validus	$166,810	$173,411
Other comprehensive loss		
Change in foreign currency translation adjustments	(2,028)	(3,019)
Change in minimum pension liability, net of tax	(83)	(265)
Change in fair value of cash flow hedge	(758)	(801)
Other comprehensive loss	$(2,869)	$(4,085)
Comprehensive income available to Validus	$163,941	$169,326

Earnings per share		
Weighted average number of common shares and common share equivalents outstanding		
Basic	82,821,261	83,251,243
Diluted	84,198,315	87,583,129
Basic earnings per share available to common shareholders	$2.01	$2.07
Earnings per diluted share available to common shareholders	$1.98	$1.98
Cash dividends declared per share	$0.35	$0.32

The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Shareholders' Equity
For the Three Months Ended March 31, 2016 and 2015 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31,	
	2016	2015
	(unaudited)	(unaudited)
Common shares		
Balance - beginning of period	$28,100	$27,222
Common shares issued, net	2	209
Balance - end of period	$28,102	$27,431
Treasury shares		
Balance - beginning of period	$(13,592)	$(12,545)
Repurchase of common shares	(238)	(250)
Balance - end of period	$(13,830)	$(12,795)
Additional paid-in capital		
Balance - beginning of period	$1,002,980	$1,207,493
Common shares issued, net	398	3,796
Repurchase of common shares	(60,130)	(57,858)
Share compensation expenses	11,237	9,054
Balance - end of period	$954,485	$1,162,485
Accumulated other comprehensive loss		
Balance - beginning of period	$(12,569)	$(8,556)
Other comprehensive loss	(2,869)	(4,085)
Balance - end of period	$(15,438)	$(12,641)
Retained earnings		
Balance - beginning of period	$2,634,056	$2,372,972
Dividends	(29,759)	(29,126)
Net income	204,341	191,589
Net (income) attributable to noncontrolling interest	(37,531)	(18,178)
Balance - end of period	$2,771,107	$2,517,257
Total shareholders' equity available to Validus	$3,724,426	$3,681,737
Noncontrolling interest	$157,223	$151,583
Total shareholders' equity	$3,881,649	$3,833,320

The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2016 and 2015 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31,	
	2016 (unaudited)	2015 (unaudited)
Cash flows provided by (used in) operating activities		
Net income	$204,341	$191,589
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Share compensation expenses	11,237	9,054
Amortization of discount on senior notes	27	27
Loss (income) from investment affiliate	4,113	(2,776)
Net realized losses (gains) on investments	584	(4,169)
Change in net unrealized gains on investments	(47,444)	(33,227)
Amortization of intangible assets	1,416	1,416
Loss (income) from operating affiliates	23	(3,984)
Foreign exchange (gains) losses included in net income	(6,457)	8,788
Amortization of premium on fixed maturity investments	4,538	6,747
Change in:		
Premiums receivable	(519,713)	(410,504)
Deferred acquisition costs	(81,673)	(79,673)
Prepaid reinsurance premiums	(103,263)	(110,219)
Loss reserves recoverable	(20,966)	(205)
Paid losses recoverable	(1,807)	10,976
Income taxes recoverable	9,115	(10,759)
Deferred tax asset	(6,262)	(7,132)
Accrued investment income	1,550	1,558
Other assets	11,794	10,979
Reserve for losses and loss expenses	(10,740)	(22,930)
Unearned premiums	536,951	462,228
Reinsurance balances payable	21,658	(25,163)
Deferred tax liability	(242)	7,585
Accounts payable and accrued expenses	(42,826)	(102,490)
Net cash used in operating activities	(34,046)	(102,284)
Cash flows provided by (used in) investing activities		
Proceeds on sales of fixed maturity investments	734,892	1,190,559
Proceeds on maturities of fixed maturity investments	79,925	93,732
Purchases of fixed maturity investments	(726,233)	(1,163,707)
(Purchases) sales of short-term investments, net	(166,362)	115,912
Purchases of other investments, net	(3,690)	(7,646)
Increase in securities lending collateral	(4,858)	(4,867)
Investment in investment affiliates	(575)	(19,700)
Increase in restricted cash	(35,125)	(13,420)

Net cash (used in) provided by investing activities	(122,026)	190,863
Cash flows provided by (used in) financing activities		
Net proceeds on issuance of notes payable to AlphaCat investors	247,400	—
Issuance of common shares, net	400	4,005
Purchases of common shares under share repurchase program	(60,368)	(58,108)
Dividends paid	(28,637)	(28,217)
Increase in securities lending payable	4,858	4,867
Third party investment in redeemable noncontrolling interest	268,750	203,400
Third party redemption of redeemable noncontrolling interest	(10,800)	(21,038)
Third party investment in noncontrolling interest	112,325	—
Third party distributions of noncontrolling interest	(118,722)	(145,416)
Third party subscriptions deployed on AlphaCat Funds and Sidecars	(412,036)	(112,400)
Net cash provided by (used in) financing activities	3,170	(152,907)
Effect of foreign currency rate changes on cash and cash equivalents	(433)	(11,724)
Net decrease in cash	(153,335)	(76,052)
Cash and cash equivalents - beginning of period	$723,109	$550,401
Cash and cash equivalents - end of period	$569,774	$474,349
Taxes paid during the period	$2,117	$7,187
Interest paid during the period	$19,303	$19,188

The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

1. Basis of preparation and consolidation

These unaudited Consolidated Financial Statements (the "Consolidated Financial Statements") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report on Form 10-Q should be read in conjunction with the financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the U.S. Securities and Exchange Commission (the "SEC").

The Company consolidates in these Consolidated Financial Statements the results of operations and financial position of all voting interest entities ("VOE") in which the Company has a controlling financial interest and all variable interest entities ("VIE") in which the Company is considered to be the primary beneficiary. The consolidation assessment, including the determination as to whether an entity qualifies as a VIE or VOE, depends on the facts and circumstances surrounding each entity.

During the fourth quarter of 2015, the Company early adopted Accounting Standards Update 2015-02, "Consolidation (Topic 810) Amendments to the Consolidation Analysis" issued by the United States Financial Accounting Standards Board ("FASB"), which changed the method in which the Company determines whether entities are consolidated by the Company. The adoption of this amended accounting guidance was implemented utilizing a full retrospective application for all periods presented in the Company's Consolidated Financial Statements.

The amended guidance includes changes in the identification of the primary beneficiary of investment companies considered to be VIEs. These changes resulted in the Company concluding that it is considered to be the primary beneficiary of the AlphaCat sidecars, the AlphaCat ILS funds and the BetaCat ILS funds and therefore the Company is required to consolidate these entities. The adoption of the amended guidance also resulted in the Company concluding that it was no longer required to consolidate PaCRe Ltd. ("PaCRe") due to the change in the VIE definition of "kick-out" rights under the amended guidance. The cumulative effect of these changes on the Company's retained earnings through the three months ended March 31, 2015 was a loss of $1,372.

The following tables present the impact of the application of the amended accounting guidance on the Company's results for the three months ended March 31, 2015:

	Three Months Ended March 31, 2015		
	As previously reported	Adjustment for adoption of new consolidation guidance	Revised
Total revenues	$689,205	$ (45,439)	$643,766
Total expenses	453,499	97	453,596
Net income	212,388	(20,799)	191,589
Net (income) attributable to noncontrolling interest	(38,977)	20,799	(18,178)
Net income available to Validus	173,411	—	173,411
Comprehensive income available to Validus	169,326	—	169,326
Basic earnings per share available to common shareholders	$2.07	$ —	$2.07
Earnings per diluted share available to common shareholders	$1.98	$ —	$1.98

6

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31, 2015		
	As previously reported	Adjustment for adoption of new consolidation guidance	Revised
Net cash used in operating activities	$(228,541)	$ 126,257	$(102,284)
Net cash (used in) provided by investing activities	(56,718)	247,581	190,863
Net cash provided by (used in) financing activities	194,228	(347,135)	(152,907)
Effect of foreign currency rate changes on cash and cash equivalents	(15,080)	3,356	(11,724)
Net decrease in cash	(106,111)	30,059	(76,052)
Cash and cash equivalents - beginning of period	577,240	(26,839)	550,401
Cash and cash equivalents - end of period	471,129	3,220	474,349

In the opinion of management, these Consolidated Financial Statements reflect all adjustments (including normal recurring adjustments) considered necessary for a fair statement of the Company's financial position and results of operations as at the end of and for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for any interim period are not necessarily indicative of the results for a full year.

The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the Consolidated Financial Statements reflect its best estimates and assumptions, actual results could differ materially from those estimates. The Company’s principal estimates include:

- reserve for losses and loss expenses;
- premium estimates for business written on a line slip or proportional basis;
- the valuation of goodwill and intangible assets;
- reinsurance recoverable balances including the provision for uncollectible amounts; and
- investment valuation of financial assets.

The term “ASC” used in these notes refers to Accounting Standard Codification issued by the FASB.

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

2. Recent accounting pronouncements
(a) Adoption of New Accounting Standards
Compensation - Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period
In June 2014, the FASB issued Accounting Standard Update No. 2014-12, "Compensation - Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period" (ASU 2014-12). The amendments in this Update apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target (for example, an initial public offering or a profitability target) could be achieved and still be eligible to vest in the award if and when the performance target is achieved. The amendments in this Update became effective for the Company on January 1, 2016. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.
Consolidation (Topic 810) - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity
In August 2014, the FASB issued Accounting Standard Update 2014-13, "Consolidation (Topic 810) - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity" (ASU 2014-13). The fair value of the financial assets of a collateralized financing entity, as determined under GAAP, may differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. The amendments in this Update provide an alternative to Topic 820 for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity to eliminate that difference. The amendments in this Update became effective for the Company on January 1, 2016. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.
Presentation of Financial Statements - Going Concern - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern
In August 2014, the FASB issued Accounting Standard Update 2014-15, "Presentation of Financial Statements - Going Concern - Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" (ASU 2014-15). The amendments in this Update require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments in this Update became effective for the Company on January 1, 2016. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.
Financial Services - Insurance (Topic 944) - Disclosures about Short-Duration Contracts
In May 2015, the FASB issued Accounting Standard Update 2015-09, "Financial Services - Insurance (Topic 944) - Disclosures about Short-Duration Contracts" (ASU 2015-09). The amendments in this Update enhance annual disclosures relating to reserves for losses and loss expenses by requiring the following: (1) net incurred and paid claims development information by accident year; (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the reserve for losses and loss expenses; (3) for each accident year presented, total IBNR plus expected development on case reserves included in the reserve for losses and loss expenses, accompanied by a description of reserving methodologies and any changes thereto; (4) for each accident year presented, quantitative information about claim frequency (unless impracticable) accompanied by a qualitative description of methodologies used for determining claim frequency information and any changes thereto; and (5) the average annual percentage payout of incurred claims by age for the same number of accident years presented. The amendments in this Update became effective for the Company on January 1, 2016, and as such, the disclosures will

first be presented in the Company's Annual Report on Form 10-K for the year ending December 31, 2016.

Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued Accounting Standard Update 2015-16, “Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments” (ASU 2015-16). The amendments in this Update simplify the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. The amendments in this Update became effective for the Company on January 1, 2016. Adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

Table of Contents

(b) Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standard Update 2014-09, "Revenue from Contracts with Customers (Topic 606)" (ASU 2014-09). The guidance in this Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March and April 2016, the FASB issued Accounting Standard Update 2016-08, "Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" (ASU 2016-08) and Accounting Standard Update 2016-10, "Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing" (ASU 2016-10). The amendments in these Updates clarify the implementation guidance within ASU 2014-09 on principal versus agent considerations and the aspects of identifying performance obligations, respectively, while retaining the related principals in those areas. The original effective date for the amendments in ASU 2014-09 was for annual reporting periods beginning after December 15, 2016; however, in August 2015, the FASB delayed the effective date by one year through the issuance of Accounting Standards Update 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" (ASU 2015-14). As such, the new effective date is for interim and annual reporting periods beginning after December 15, 2017. Entities may adopt the standard as of the original effective date, however, earlier adoption is not permitted. The Company is currently evaluating the impact of this guidance on the Company's Consolidated Financial Statements.

In February 2016, the FASB issued Accounting Standard Update 2016-02, "Leases (Topic 842)" (ASU 2016-02). The amendments in this Update increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requiring the disclosure of key information about leasing arrangements. The amendments in this Update are effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standard Update 2016-05, "Derivatives and Hedging (Topic 815) - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships" (ASU 2016-05). The amendments in this Update clarify that a change in the counterparty to a derivative contract, in and of itself, does not require the dedesignation of a hedging relationship. However, an entity will still need to evaluate whether it is probable that the counterparty will perform under the contract as part of its ongoing effectiveness assessment for hedge accounting. Therefore, a novation of a derivative to a counterparty with a sufficiently high credit risk could still result in the dedesignation of the hedging relationship. The amendments in this Update are effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company has evaluated the impact of this guidance and it will not have a material impact on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standard Update 2016-07, "Investments-Equity Method and Joint Ventures (Topic 323) - Simplifying the Transition to the Equity Method of Accounting" (ASU 2016-07). The amendments in this Update eliminate the requirement to retroactively adopt the equity method of accounting when an investment becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments in this Update are effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company's Consolidated Financial Statements.

In March 2016, the FASB issued Accounting Standard Update 2016-09, "Compensation-Stock Compensation (Topic 718) - Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). The amendments in this Update simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The amendments in this Update are effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company's Consolidated Financial Statements.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

3. Investments

During the fourth quarter of 2015, the Company enhanced disclosures around the allocation of invested assets and the related returns between managed and non-managed investments. Managed investments represent assets governed by the Company's investment policy statement ("IPS"), whereas non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company's IPS. Refer to Note 5, "Variable interest entities," for further details. As such, prior period disclosures have been revised to conform to current period presentation.

The Company classifies its fixed maturity and short-term investments as trading and accounts for its other investments in accordance with U.S. GAAP guidance for "Financial Instruments." As such, all investments are carried at fair value with interest and dividend income and realized and unrealized gains and losses included in net income for the period.

The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments as at March 31, 2016 were as follows:

	Amortized Cost (or Cost)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Managed investments				
U.S. government and government agency	$ 906,310	$ 4,440	$ (431)	$ 910,319
Non-U.S. government and government agency	222,269	1,501	(1,685)	222,085
U.S. states, municipalities and political subdivisions	288,407	5,728	(513)	293,622
Agency residential mortgage-backed securities	652,955	11,484	(500)	663,939
Non-agency residential mortgage-backed securities	25,613	256	(519)	25,350
U.S. corporate	1,501,939	12,311	(7,631)	1,506,619
Non-U.S. corporate	397,593	2,031	(4,568)	395,056
Bank loans	620,570	560	(17,703)	603,427
Asset-backed securities	410,075	1,029	(4,277)	406,827
Commercial mortgage-backed securities	274,971	2,805	(835)	276,941
Total fixed maturities	5,300,702	42,145	(38,662)	5,304,185
Short-term investments	194,801	485	—	195,286
Other investments				
Fund of hedge funds	1,457	—	(498)	959
Hedge funds	12,463	6,494	—	18,957
Private equity investments	54,154	13,420	(2,553)	65,021
Investment funds	190,125	678	—	190,803
Overseas deposits	60,601	—	—	60,601
Mutual funds	4,396	3,414	—	7,810
Total other investments	323,196	24,006	(3,051)	344,151
Total managed investments	$ 5,818,699	$ 66,636	$ (41,713)	$ 5,843,622
Non-managed investments				
Catastrophe bonds	$ 177,615	$ 1,175	$ (1,671)	$ 177,119
Short-term investments	1,912,913	—	—	1,912,913
Total non-managed investments	2,090,528	1,175	(1,671)	2,090,032
Total investments	$ 7,909,227	$ 67,811	$ (43,384)	$ 7,933,654

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments as at December 31, 2015 were as follows:

	Amortized Cost (or Cost)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Managed investments				
U.S. government and government agency	$ 940,428	$ 333	$ (3,559)	$ 937,202
Non-U.S. government and government agency	241,549	257	(3,838)	237,968
U.S. states, municipalities and political subdivisions	299,929	2,322	(962)	301,289
Agency residential mortgage-backed securities	606,676	6,361	(2,455)	610,582
Non-agency residential mortgage-backed securities	27,025	310	(415)	26,920
U.S. corporate	1,503,614	1,594	(15,257)	1,489,951
Non-U.S. corporate	453,178	797	(7,405)	446,570
Bank loans	592,981	275	(17,045)	576,211
Asset-backed securities	440,363	344	(3,583)	437,124
Commercial mortgage-backed securities	263,310	131	(3,306)	260,135
Total fixed maturities	5,369,053	12,724	(57,825)	5,323,952
Short-term investments	237,349	20	—	237,369
Other investments				
Fund of hedge funds	1,457	—	(40)	1,417
Hedge funds	14,018	6,962	—	20,980
Private equity investments	53,489	12,751	(2,469)	63,771
Investment funds	188,121	600	—	188,721
Overseas deposits	54,484	—	—	54,484
Mutual funds	4,394	3,089	—	7,483
Total other investments	315,963	23,402	(2,509)	336,856
Total managed investments	$ 5,922,365	$ 36,146	$ (60,334)	$ 5,898,177
Non-managed investments				
Catastrophe bonds	$ 187,847	$ 635	$ (2,103)	$ 186,379
Short-term investments	1,704,266	—	—	1,704,266
Total non-managed investments	1,892,113	635	(2,103)	1,890,645
Total investments	$ 7,814,478	$ 36,781	$ (62,437)	$ 7,788,822

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

(a) Fixed maturity investments

The following table sets forth certain information regarding the investment ratings of the Company's fixed maturities portfolio as at March 31, 2016 and December 31, 2015.

	March 31, 2016			December 31, 2015		
	Estimated Fair Value	% of Total		Estimated Fair Value	% of Total	
Managed fixed maturities						
AAA	$2,395,715	43.7	%	$2,367,642	43.0	%
AA	487,808	8.9	%	569,386	10.3	%
A	1,057,329	19.3	%	1,031,326	18.7	%
BBB	689,739	12.6	%	691,538	12.6	%
Total investment grade managed fixed maturities	4,630,591	84.5	%	4,659,892	84.6	%
BB	226,370	4.1	%	235,724	4.3	%
B	185,033	3.4	%	179,069	3.2	%
CCC	8,628	0.2	%	5,706	0.1	%
CC	1,004	0.0	%	1,015	0.0	%
NR	252,559	4.6	%	242,546	4.4	%
Total non-investment grade managed fixed maturities	673,594	12.3	%	664,060	12.0	%
Total managed fixed maturities	$5,304,185	96.8	%	$5,323,952	96.6	%
Non-managed catastrophe bonds						
BBB	$2,045	0.0	%	$1,911	0.0	%
Total investment grade non-managed catastrophe bonds	2,045	0.0	%	1,911	0.0	%
BB	62,990	1.1	%	70,962	1.3	%
B	6,133	0.1	%	30,698	0.6	%
NR	105,951	2.0	%	82,808	1.5	%
Total non-investment grade non-managed catastrophe bonds	175,074	3.2	%	184,468	3.4	%
Total non-managed fixed maturities	177,119	3.2	%	186,379	3.4	%
Total fixed maturities	$5,481,304	100.0	%	$5,510,331	100.0	%

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

The amortized cost and estimated fair value amounts for fixed maturities held at March 31, 2016 and December 31, 2015 are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	March 31, 2016		December 31, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Managed investments				
Due in one year or less	$320,078	$ 319,683	$367,132	$ 366,019
Due after one year through five years	2,952,228	2,950,820	2,965,920	2,936,053
Due after five years through ten years	528,963	528,871	548,183	539,083
Due after ten years	135,819	131,754	150,444	148,036
	3,937,088	3,931,128	4,031,679	3,989,191
Asset-backed and mortgage-backed securities	1,363,614	1,373,057	1,337,374	1,334,761
Total managed fixed maturities	$5,300,702	$ 5,304,185	$5,369,053	$ 5,323,952
Non-managed catastrophe bonds				
Due in one year or less	$30,772	$ 31,239	$7,504	$ 7,544
Due after one year through five years	145,803	144,838	165,093	163,575
Due after five years through ten years	1,040	1,042	15,250	15,260
Total non-managed fixed maturities	177,615	177,119	187,847	186,379
Total fixed maturities	$5,478,317	$ 5,481,304	$5,556,900	$ 5,510,331

(b) Other investments

The following tables set forth certain information regarding the Company's other investment portfolio as at March 31, 2016 and December 31, 2015:

Other investments	Estimated Fair Value as at March 31, 2016	Investments with redemption restrictions	Investments without redemption restrictions	Redemption frequency (a)	Redemption notice period (a)
Fund of hedge funds	$959	$ 959	$ —		
Hedge funds	18,957	18,957	—		
Private equity investments	65,021	65,021	—		
Investment funds	190,803	168,593	22,210	Daily	2 days
Overseas deposits	60,601	60,601	—		
Mutual funds	7,810	—	7,810	Daily	Daily
Total other investments	$344,151	$ 314,131	$ 30,020		

(a) The redemption frequency and notice periods only apply to investments without redemption restrictions.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

Other investments	Estimated Fair value as at December 31, 2015	Investments with redemption restrictions	Investments without redemption restrictions	Redemption frequency (a)	Redemption notice period (a)
Fund of hedge funds	$ 1,417	$ 1,417	$ —		
Hedge funds	20,980	20,980	—		
Private equity investments	63,771	63,771	—		
Investment funds	188,721	167,910	20,811	Daily	2 days
Overseas deposits	54,484	54,484	—		
Mutual funds	7,483	—	7,483	Daily	Daily
Total other investments	$ 336,856	$ 308,562	$ 28,294		

(a) The redemption frequency and notice periods only apply to investments without redemption restrictions.

Other investments include alternative investments in various funds and pooled investment schemes. These alternative investments employ various investment strategies primarily involving, but not limited to, investments in collateralized obligations, fixed income securities, private equities, distressed debt and equity securities.

Certain securities included in other investments are subject to redemption restrictions and are unable to be redeemed from the funds. Distributions from these funds will be received as the underlying investments of the funds are liquidated. Currently, it is not known to the Company when these underlying assets will be sold by their investment managers; however, it is estimated that the majority of the underlying assets of the investments would liquidate over 5 to 10 years from inception of the funds. In addition, one of the investment funds with a fair value of $165,602 (December 31, 2015: $167,910), has a lock-up period of 3 years as at March 31, 2016 and may also impose a redemption gate. A lock-up period refers to the initial amount of time an investor is contractually required to remain invested before having the ability to redeem. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash shortly after the redemption date. Furthermore, the underlying investments held in the overseas deposit funds are liquid and will generally trade freely in an open market. However, the Company's ability to withdraw from the overseas deposit funds is restricted by an annual and quarterly funding and release process for Lloyd's market participants.

The Company's maximum exposure to any of these alternative investments is limited to the amount invested and any remaining capital commitments. Refer to Note 15, "Commitments and contingencies," for further details. As at March 31, 2016, the Company does not have any plans to sell any of the other investments listed above.

(c) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended March 31,	
	2016	2015
Managed investments		
Fixed maturities and short-term investments	$28,017	$27,673
Other investments	872	3,188
Cash and cash equivalents	865	416
Securities lending income	5	3
Total gross investment income	29,759	31,280
Investment expenses	(1,836)	(1,844)

Total managed net investment income	$27,923	$29,436
Non managed investments		
Fixed maturities and short-term investments	$1,295	$1,574
Restricted cash, cash and cash equivalents	243	19
Total non-managed net investment income	1,538	1,593
Total net investment income	$29,461	$31,029

Managed net investment income from other investments includes distributed and undistributed net income from certain investment funds.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

(d) Net realized (losses) gains and change in net unrealized gains on investments

The following represents an analysis of net realized (losses) gains and the change in net unrealized gains on investments:

	Three Months Ended March 31,	
	2016	2015
Managed fixed maturities, short-term and other investments		
Gross realized gains	$3,217	$6,309
Gross realized (losses)	(4,303)	(2,129)
Net realized (losses) gains on investments	(1,086)	4,180
Change in net unrealized gains on investments	47,078	34,669
Total net realized and change in net unrealized gains on managed investments	$45,992	$38,849
Non-managed fixed maturities, short-term and other investments		
Gross realized gains	$511	$—
Gross realized (losses)	(9)	(11)
Net realized gains (losses) on investments	502	(11)
Change in net unrealized gains (losses) on investments	366	(1,442)
Total net realized and change in net unrealized gains (losses) on non-managed investments	868	(1,453)
Total net realized and change in net unrealized gains on total investments	$46,860	$37,396

(e) Pledged investments

The following tables outline investments and cash pledged as collateral under the Company's credit facilities. For further details on the credit facilities, please refer to Note 13,"Debt and financing arrangements."

	March 31, 2016		
Description	Commitment	Issued and Outstanding	Investments and cash pledged as collateral
$85,000 syndicated unsecured letter of credit facility	$85,000	$ —	$ —
$300,000 syndicated secured letter of credit facility	300,000	105,756	149,634
$24,000 secured bi-lateral letter of credit facility	24,000	11,564	48,016
AlphaCat Re secured letter of credit facility	30,000	30,000	30,172
IPC bi-lateral facility	25,000	5,483	—
$236,000 Flagstone bi-lateral facility	236,000	197,419	324,384
Total	$700,000	$ 350,222	$ 552,206

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	December 31, 2015		
Description	Commitment	Issued and Outstanding	Investments and cash pledged as collateral
$85,000 syndicated unsecured letter of credit facility	$85,000	$ —	$ —
$300,000 syndicated secured letter of credit facility	300,000	235,540	370,909
$24,000 secured bi-lateral letter of credit facility	24,000	10,543	47,607
AlphaCat Re secured letter of credit facility	30,000	30,000	30,153
IPC bi-lateral facility	25,000	9,241	—
$236,000 Flagstone bi-lateral facility	236,000	193,764	377,866
Total	$700,000	$ 479,088	$ 826,535

In addition, $4,636,802 of cash and cash equivalents, restricted cash, short-term investments and fixed maturities were pledged during the normal course of business as at March 31, 2016 (December 31, 2015: $4,056,788). Of those, $4,531,282 were held in trust (December 31, 2015: $4,007,215). Pledged assets are generally for the benefit of the Company's cedants and policyholders, to support AlphaCat's fully collateralized reinsurance transactions and to facilitate the accreditation of Validus Reinsurance, Ltd., Validus Reinsurance (Switzerland) Ltd. ("Validus Re Swiss") and Talbot as an alien insurer/reinsurer by certain regulators.

During December 2014, Validus Reinsurance, Ltd. established a Multi-Beneficiary Reinsurance Trust ("MBRT") to collateralize its (re)insurance liabilities associated with and for the benefit of U.S. domiciled cedants, and was approved as a trusteed reinsurer in the State of New Jersey. As a result, cedants domiciled in that state will receive automatic credit in their regulatory filings for the reinsurance provided prospectively by the Company. As of March 31, 2016, Validus Reinsurance, Ltd. was approved as a trusteed reinsurer in 48 states as well as Puerto Rico and the District of Columbia. In addition, Validus Re Swiss established a MBRT in December 2015 and was approved as a trusteed reinsurer in the State of New Jersey as at March 31, 2016.

4. Fair value measurements

(a) Classification within the fair value hierarchy

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants. Under U.S. GAAP, a company must determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are described below:

Level 1 - Fair values are measured based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2 - Fair values are measured based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Fair values are measured based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company's own judgments about assumptions where there is little, if any, market activity for that asset or liability that market participants might use.

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead the Company to change the selection of our valuation technique (for example, from market to cash flow approach) or to use multiple valuation techniques to estimate the fair value of a financial instrument. These circumstances could cause an instrument to be reclassified between levels within the fair value hierarchy.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

At March 31, 2016, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient	Total
Managed investments					
U.S. government and government agency	$—	$910,319	$—	$—	$910,319
Non-U.S. government and government agency	—	222,085	—	—	222,085
U.S. states, municipalities and political subdivisions	—	293,622	—	—	293,622
Agency residential mortgage-backed securities	—	663,939	—	—	663,939
Non-agency residential mortgage-backed securities	—	25,350	—	—	25,350
U.S. corporate	—	1,506,619	—	—	1,506,619
Non-U.S. corporate	—	395,056	—	—	395,056
Bank loans	—	348,416	255,011	—	603,427
Asset-backed securities	—	406,827	—	—	406,827
Commercial mortgage-backed securities	—	276,941	—	—	276,941
Total fixed maturities	—	5,049,174	255,011	—	5,304,185
Short-term investments	176,840	18,446	—	—	195,286
Other investments					
Fund of hedge funds	—	—	—	959	959
Hedge funds	—	—	—	18,957	18,957
Private equity investments	—	—	—	65,021	65,021
Investment funds	—	22,210	—	168,593	190,803
Overseas deposits	—	—	—	60,601	60,601
Mutual funds	—	7,810	—	—	7,810
Total other investments	—	30,020	—	314,131	344,151
Total managed investments	$176,840	$5,097,640	$255,011	$314,131	$5,843,622
Non-managed investments					
Catastrophe bonds	$—	$140,014	$37,105	$—	$177,119
Short-term investments	1,912,913	—	—	—	1,912,913
Total non-managed investments	1,912,913	140,014	37,105	—	2,090,032
Total investments	$2,089,753	$5,237,654	$292,116	$314,131	$7,933,654

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

At December 31, 2015, the Company’s investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient	Total
Managed investments					
U.S. government and government agency	$—	$937,202	$—	$—	$937,202
Non-U.S. government and government agency	—	237,968	—	—	237,968
U.S. states, municipalities and political subdivisions	—	301,289	—	—	301,289
Agency residential mortgage-backed securities	—	610,582	—	—	610,582
Non-agency residential mortgage-backed securities	—	26,920	—	—	26,920
U.S. corporate	—	1,489,951	—	—	1,489,951
Non-U.S. corporate	—	446,570	—	—	446,570
Bank loans	—	343,874	232,337	—	576,211
Asset-backed securities	—	437,124	—	—	437,124
Commercial mortgage-backed securities	—	260,135	—	—	260,135
Total fixed maturities	—	5,091,615	232,337	—	5,323,952
Short-term investments	222,678	14,691	—	—	237,369
Other investments					
Fund of hedge funds	—	—	—	1,417	1,417
Hedge funds	—	—	—	20,980	20,980
Private equity investments	—	—	—	63,771	63,771
Investment funds	—	20,811	—	167,910	188,721
Overseas deposits	—	—	—	54,484	54,484
Mutual funds	—	7,483	—	—	7,483
Total other investments	—	28,294	—	308,562	336,856
Total managed investments	$222,678	$5,134,600	$232,337	$308,562	$5,898,177
Non-managed investments					
Catastrophe bonds	$—	$172,879	$13,500	$—	$186,379
Short-term investments	1,704,266	—	—	—	1,704,266
Total non-managed investments	1,704,266	172,879	13,500	—	1,890,645
Total investments	$1,926,944	$5,307,479	$245,837	$308,562	$7,788,822

At March 31, 2016, managed Level 3 investments totaled $255,011 (December 31, 2015: $232,337), representing 4.4% (December 31, 2015: 3.9%) of total managed investments.

(b) Valuation techniques

There have been no material changes in the Company's valuation techniques during the period, or periods, represented by these Consolidated Financial Statements. The following methods and assumptions were used in estimating the fair value of each class of financial instrument recorded in the Consolidated Balance Sheets.

Fixed maturity investments

In general, valuation of the Company's fixed maturity investment portfolio is provided by pricing services, such as index providers and pricing vendors, as well as broker quotations. The pricing vendors provide valuations for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices.

Prices are generally verified using third party data. Securities which are priced by an index provider are generally included in the index.

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets. The Company considers these Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. government and government agency

U.S. government and government agency securities consist primarily of debt securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Fixed maturity investments included in U.S. government and government agency securities are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Non-U.S. government and government agency

Non-U.S. government and government agency securities consist of debt securities issued by non-U.S. governments and their agencies along with supranational organizations (also known as sovereign debt securities). Securities held in these sectors are primarily priced by pricing services who employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

U.S. states, municipalities and political subdivisions

The Company's U.S. states, municipalities and political subdivisions portfolio contains debt securities issued by U.S. domiciled state and municipal entities. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government agency securities described above. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Agency residential mortgage-backed securities

The Company's agency residential mortgage-backed investments are primarily priced by pricing services using a mortgage pool specific model which utilizes daily inputs from the active to be announced (“TBA”) market which is very liquid, as well as the U.S. treasury market. The model also utilizes additional information, such as the weighted average maturity, weighted average coupon and other available pool level data which is provided by the sponsoring agency. Valuations are also corroborated with daily active market quotes. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Non-agency residential mortgage-backed securities

The Company's non-agency mortgage-backed investments include non-agency prime residential mortgage-backed fixed maturity investments. The Company has no fixed maturity investments classified as sub-prime held in its fixed maturity investments portfolio. Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

U.S. corporate

Corporate debt securities consist primarily of investment-grade debt of a wide variety of U.S. corporate issuers and industries. The Company's corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread which is added to the U.S. treasury curve or a security specific swap curve as appropriate. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Non-U.S. corporate

Non-U.S. corporate debt securities consist primarily of investment-grade debt of a wide variety of non-U.S. corporate issuers and industries. The Company's non-U.S. corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Bank loans

The Company's bank loan investments consist primarily of below-investment-grade debt of a wide variety of corporate issuers and industries. The Company's bank loans are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Also, included in the bank loan portfolio is a collection of loan participations held through an intermediary. A third party pricing service provides monthly valuation reports for each loan and participation using a combination of quotations from loan pricing services, leveraged loan indices or market price quotes obtained directly from the intermediary. Significant unobservable inputs used to price these securities include credit spreads and default rates; therefore, the fair value of these investments are classified as Level 3.

Catastrophe bonds

Catastrophe bonds are priced based on broker or underwriter bid indications. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2. To the extent that these indications are based on significant unobservable inputs, the fair value of the relevant bonds will be classified as a Level 3.

Asset-backed securities

Asset backed securities include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligations originated by a variety of financial institutions. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Commercial mortgage-backed securities

Commercial mortgage backed securities are investment-grade debt primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the

Table of Contents

underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Short term investments

Short term investments consist primarily of highly liquid securities, all with maturities of less than one year from the date of purchase. The fair value of the portfolio is generally determined using amortized cost which approximates fair value. As the highly liquid money market-type funds are actively traded, the fair value of these investments are classified as Level 1. To the extent that the remaining securities are not actively traded due to their approaching maturity, the fair value of these investments are classified as Level 2.

Fund of hedge funds

The fund of hedge funds includes a side pocket. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is unknown. The fund's administrator provides a monthly reported NAV with a three month delay in its valuation. The fund manager has provided an estimate of the fund NAV at each period end based on the estimated performance provided from the underlying funds. To determine the reasonableness of the estimated NAV, the Company compares the fund administrator's NAV to the fund manager's estimated NAV that incorporates relevant valuation sources on a timely basis. Material variances are recorded in the current reporting period while immaterial variances are recorded in the following reporting period. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

Hedge funds

The hedge funds consist of one investment assumed in the acquisition of Flagstone Reinsurance Holdings, S.A. ("Flagstone") (the "Flagstone hedge fund"). The Flagstone hedge fund's administrator provides quarterly NAVs with a three month delay in valuation. The fair value of this investment is measured using the NAV practical expedient and therefore has not been categorized within the fair value hierarchy.

Private equity investments

The private equity funds provide quarterly or semi-annual partnership capital statements with a three or six month delay which are used as a basis for valuation. These private equity investments vary in investment strategies and are not actively traded in any open markets. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

Investment funds

Investment funds consist of one pooled investment, one structured securities fund and a mezzanine debt fund. The pooled investment is invested in fixed income securities with high credit ratings and is only open to Lloyd’s Trust Fund participants. The fair value of units in the investment fund is based on the NAV of the fund as reported by Lloyd’s Treasury & Investment Management. As the fund NAV is published, the fair value of this investment is classified as Level 2.

The structured securities fund invests across asset backed, residential mortgage backed and commercial mortgage backed securities, whereas the mezzanine debt fund invests in a portfolio of mezzanine securities which generally take the form of private debt securities with equity participation in connection with buyouts, recapitalizations and refinancings. The fair value of units in each fund is based on the NAV of the respective fund as reported by the independent fund administrator. The NAV for each fund is reported on a one or three month delay by the fund's administrator. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

Overseas deposits

The Company's share of a portfolio of Lloyd's overseas deposits are managed centrally by Lloyd's and invested according to local regulatory requirements. The composition of the portfolio varies and the deposits are made across the market. The fair value of the deposits is based on the portfolio level reporting that is provided by Lloyd's. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

Mutual funds

Mutual funds consist of two investment funds which are invested in various quoted investments. The fair value of units in the mutual funds are based on the NAV of the funds as reported by the fund manager. As the NAVs for each fund are published, the fair value of these investments are classified as Level 2.

(c) Level 3 Investments

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the periods ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016		
	Bank Loans	Catastrophe Bonds	Total
Level 3 investments—beginning of period	$232,337	$ 13,500	$245,837
Purchases	42,103	23,272	65,375
Sales	(2,389)	—	(2,389)
Settlements	(16,249)	(125)	(16,374)
Change in net unrealized (losses) gains	(791)	458	(333)
Level 3 investments—end of period	$255,011	$ 37,105	$292,116

	Three Months Ended March 31, 2015		
	Bank Loans	Catastrophe Bonds	Total
Level 3 investments—beginning of period	$32,748	$ 17,500	$50,248
Purchases	58,175	—	58,175
Sales	—	(1,989)	(1,989)
Settlements	(3,995)	—	(3,995)
Net realized losses	—	(11)	(11)
Change in net unrealized losses	(395)	—	(395)
Level 3 investments—end of period	$86,533	$ 15,500	$102,033

There have not been any transfers into or out of Level 3 during the three months ended March 31, 2016 or 2015, respectively.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

5. Variable interest entities

The Company consolidates all VOEs in which it has a controlling financial interest and all VIEs in which it is considered to be the primary beneficiary. The Company’s VIEs primarily include entities related to the AlphaCat segment.

(a) Consolidated VIEs

AlphaCat sidecars

Beginning on May 25, 2011, the Company joined with other investors in capitalizing a series of sidecars for the purpose of investing in collateralized reinsurance and retrocessional contracts. Certain of these sidecars deployed their capital through transactions entered into by AlphaCat Reinsurance Ltd. (“AlphaCat Re”). Each of these entities return capital once the risk period expires and all losses have been paid out. The AlphaCat sidecars are VIEs and are consolidated by the Company as the primary beneficiary. The Company's maximum exposure to any of the sidecars is the amount of capital invested at any given time and any remaining capital commitments.

AlphaCat ILS funds

The AlphaCat ILS funds received third party subscriptions beginning on December 17, 2012. The Company and other investors invest in the AlphaCat ILS funds for the purpose of investing in instruments with returns linked to property catastrophe reinsurance, retrocession and insurance linked securities (“ILS”) contracts. The AlphaCat ILS funds have varying risk profiles and are categorized by the expected loss of the fund. Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit. Lower risk ILS funds are defined as having a maximum permitted portfolio expected loss of less than 7%, whereas higher risk ILS funds have a maximum permitted portfolio expected loss of greater than 7%. The AlphaCat ILS funds primarily deploy their capital through transactions entered into by AlphaCat Re and AlphaCat Master Fund Ltd. (“AlphaCat Master Fund”). The AlphaCat ILS funds are VIEs and are consolidated by the Company as the primary beneficiary. The Company's maximum exposure to any of the funds is the amount of capital invested at any given time and any remaining capital commitments. Refer to Note 15, "Commitments and contingencies," for further details.

AlphaCat Re and AlphaCat Master Fund

The Company utilizes AlphaCat Re and AlphaCat Master Fund (collectively the “master funds”), both market facing entities, for the purpose of writing collateralized reinsurance and investing in capital markets products, respectively, on behalf of certain entities within the AlphaCat segment and direct third party investors. AlphaCat Re enters into transactions on behalf of the AlphaCat sidecars and ILS funds (collectively the “feeder funds”) and direct third party investors, whereas AlphaCat Master Fund only enters into transactions on behalf of certain AlphaCat ILS funds. All of the risks and rewards of the underlying transactions are allocated to the feeder funds and direct third party investors using variable funding notes. The master funds are VIEs and are consolidated by the Company as the primary beneficiary.

Notes Payable to AlphaCat Investors

The master funds issue variable funding notes to the feeder funds, and direct to third party investors, in order to write collateralized reinsurance and invest in capital markets products on their behalf. The Company’s investments in the feeder funds, together with investments made by third parties in the feeder funds and on a direct basis, are provided as consideration for the notes to the master funds. The duration of the underlying collateralized reinsurance contracts and capital market products is typically twelve months; however, the variable funding notes do not have a stated maturity date or principal amount since repayment is dependent on the settlement and income or loss of the underlying transactions. Therefore, the notes are subsequently redeemed as the underlying transactions are settled. The income or loss generated by the underlying transactions is then transferred to the feeder funds and direct third party investors via the variable funding notes.

As both the master and feeder funds are consolidated by the Company, any notes issued by the master funds to the feeder funds are eliminated on consolidation and only variable funding notes issued by AlphaCat Re to direct third party investors remain on the Consolidated Balance Sheets as notes payable to AlphaCat investors with the related income or loss included in the Consolidated Statements of Comprehensive Income as (income) loss attributable to AlphaCat investors. To the extent that the (income) loss has not been returned to the investors, it is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

During the three months ended March 31, 2016, one of the AlphaCat ILS funds issued both common shares and structured notes to the Company and other third party investors in order to capitalize the fund. The fund deploys its capital through AlphaCat Re; therefore, the structured notes do not have a stated maturity date or principal amount since repayment is dependent on the settlement and income or loss of the variable funding notes with AlphaCat Re. The structured notes rank senior to the common shares and earn an interest rate of 8.0% per annum, payable on a cumulative basis in arrears.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

As the fund is consolidated by the Company, the structured notes issued to the Company are eliminated on consolidation and only the structured notes issued to third party investors remain on the Consolidated Balance Sheets as notes payable to AlphaCat investors with any related interest included in the Consolidated Statements of Comprehensive Income as (income) loss attributable to AlphaCat investors. To the extent that the accrued interest on the structured notes has not been returned to the investors, it is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

The following table presents a reconciliation of the beginning and ending notes payable to AlphaCat investors for the three months ended March 31, 2016:

	Three Months Ended March 31, 2016		
	Variable Funding Notes	Structured Notes	Total
Notes payable to AlphaCat investors, beginning of period	$75,493	$ —	$75,493
Issuance of notes payable to AlphaCat investors	195,288	61,717	257,005
Redemption of notes payable to AlphaCat investors	(9,605)	—	(9,605)
Foreign exchange losses	617	—	617
Notes payable to AlphaCat investors, end of period	$261,793	$ 61,717	$323,510

The income attributable to AlphaCat investors was $4,600 for the three months ended March 31, 2016, with $7,012 included in accounts payable and accrued expenses as at March 31, 2016 (December 31, 2015: $2,412).

BetaCat ILS funds

The BetaCat ILS funds invest exclusively in catastrophe bonds (principal-at-risk variable rate notes and other event-linked securities, being referred to collectively as “Cat Bonds”) focused on property and casualty risk issued under Rule 144A of the Securities Act of 1933, as amended, following a passive buy-and-hold investment strategy. One of the funds is a VIE and is consolidated by the Company as the primary beneficiary. The remaining funds are VOEs and are consolidated by the Company as it owns all of the voting equity interests. The Company's maximum exposure to any of the funds is the amount of capital invested at any given time.

The following table presents the total assets and total liabilities of the Company’s consolidated VIEs, excluding intercompany eliminations, as at March 31, 2016 and December 31, 2015:

	March 31, 2016		December 31, 2015	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
AlphaCat sidecars	$82,492	$ 34,517	$206,581	$ 14,804
AlphaCat ILS funds - Lower Risk (a)	1,303,522	16,307	1,268,070	143,371
AlphaCat ILS funds - Higher Risk (a)	570,033	99,339	522,867	300,122
AlphaCat Re and AlphaCat Master Fund	2,218,094	2,217,924	1,615,779	1,615,609
BetaCat ILS funds	63,043	707	64,221	2,472

(a) Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of greater than 7%. Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.

Assets of consolidated VIEs can only be used to settle obligations and liabilities of the consolidated VIEs and do not have recourse to the general credit of the Company. Investments held by these entities are presented separately in Note 3, "Investments," as non-managed investments.

(b) Non-Consolidated VIEs

The Company invests in private equity and other investment vehicles as part of the Company's investment portfolio. The activities of these VIEs are generally limited to holding investments and the Company's involvement in these entities is passive in nature. The Company's maximum exposure to the VIEs is the amount of capital invested at any given time, and the Company does not have the power to direct the activities which most significantly impact the VIEs economic performance. The Company is therefore not the primary beneficiary of these VIEs.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

6. Investments in affiliates

The following table presents the Company's investments in affiliates as at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Investment affiliate	$84,135	$ 87,673
Operating affiliate	369	392
Investments in affiliates	$84,504	$ 88,065

(a) Investment affiliate

Aquiline Financial Services Fund II L.P.

On December 20, 2011, 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 "Aquiline II General Partner") pursuant to which the Company has assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. (the "Aquiline II Partnership") representing a total capital commitment of $50,000 (the "Aquiline II Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). The Transferred Interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement of the Fund dated January 9, 2013 (the "Aquiline II Limited Partnership Agreement").

On October 2, 2014, the Company assumed an additional investment in the Aquiline II Partnership as part of the Western World acquisition representing a total capital commitment of $10,000. This interest is also governed by the terms of the Aquiline II Limited Partnership Agreement.

The partnership is a VIE and the Company is not the primary beneficiary. Therefore, the Company's investment in the fund has been treated as an equity method investment. The partnership provides a quarterly capital account statement, with a three month delay in its valuation, which was used as the basis for calculating the Company's share of partnership income for the period.

In accordance with the terms of the Agreement, no limited partner has the right to withdraw from the partnership or to withdraw any part of its capital account without prior consent from the general partner. The Company's maximum exposure to the fund is limited to the amount invested and any remaining capital commitment. Refer to Note 15, "Commitments and contingencies," for further details.

Aquiline Financial Services Fund III L.P.

On November 7, 2014, the Company, entered into a Subscription Agreement (the "Subscription Agreement") with Aquiline Capital Partners III GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "Aquiline III General Partner") pursuant to which the Company committed and agreed to purchase limited partnership or other comparable limited liability equity interests (the "Limited Partnership Interests") in Aquiline Financial Services Fund III L.P., a Cayman Islands exempted limited partnership (the "Aquiline III Partnership"), and/or one or more Alternative Investment Vehicles and Intermediate Entities (together with the Aquiline III Partnership, the "Fund" or the "Entities") with a capital commitment (the "Aquiline III Commitment") in an amount equal to $100,000, as a limited partner in the Aquiline III Partnership. The Limited Partnership Interests are governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of November 7, 2014 (the “Aquiline III Limited Partnership Agreement”).

The partnership is a VIE and the Company is not the primary beneficiary. Therefore, the Company's investment in the fund has been treated as an equity method investment. The partnership provides a quarterly capital account statement, with a three month delay in its valuation, which was used as the basis for calculating the Company's share of partnership income for the period.

In accordance with the terms of the Agreement, no limited partner has the right to withdraw from the partnership or to withdraw any part of its capital account without prior consent from the general partner. The Company's maximum exposure to the fund is limited to the amount invested and any remaining capital commitment. Refer to Note 15, "Commitments and contingencies," for further details.

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

The following table presents a reconciliation of the beginning and ending investment in the Company's investment affiliate balance for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
Investment affiliate, beginning of period	$87,673	$63,506
Capital contributions	575	19,700
(Loss) income from investment affiliate	(4,113)	2,776
Investment affiliate, end of period	$84,135	$85,982

The following table presents the Company's investment in the partnerships as at March 31, 2016:

	Investment at cost	Voting ownership %	Equity ownership %	Carrying value
Aquiline Financial Services Fund II L.P.	$ 56,479	—%	8.1 %	$70,342
Aquiline Financial Services Fund III L.P.	$ 13,890	—%	13.7 %	$13,793
Total	$ 70,369			$84,135

The following table presents the Company's investment in the partnerships as at December 31, 2015:

	Investment at cost	Voting ownership %	Equity ownership %	Carrying value
Aquiline Financial Services Fund II L.P.	$ 55,904	—%	8.1 %	$73,880
Aquiline Financial Services Fund III L.P.	13,890	—%	13.7 %	13,793
Total	$ 69,794			$87,673

(b) Operating affiliate

PaCRe, Ltd.

On April 2, 2012, the Company joined with other investors in capitalizing PaCRe, a Class 4 Bermuda reinsurer formed for the purpose of writing high excess property catastrophe reinsurance. However, during the fourth quarter of 2015, PaCRe's Class 4 license was surrendered and the company was considered off-risk effective January 1, 2016. The Company's investment in PaCRe has been treated as an equity method investment. The Company's maximum exposure to the fund is the amount of capital invested at any given time.

The following table presents a reconciliation of the beginning and ending investment in the Company's operating affiliate balance for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
Operating affiliate, beginning of period	$392	$50,944
(Loss) income from operating affiliate	(23)	3,984
Operating affiliate, end of period	$369	$54,928

The following table presents the Company's investment in PaCRe as at March 31, 2016:

	Investment at cost	Voting ownership %	Equity ownership %	Carrying value
Investment in PaCRe	$ 392	100.0 %	10.0 %	$ 369

The following table presents the Company's investment in PaCRe as at December 31, 2015:

	Investment at cost	Voting ownership %	Equity ownership %	Carrying value
Investment in PaCRe	$ 392	100.0 %	10.0 %	$ 392

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

7. Noncontrolling interest

Investors in certain of the AlphaCat ILS funds have rights that enable shareholders, subject to certain limitations, to redeem their shares. The third party equity is therefore recorded in the Company's Consolidated Balance Sheets as redeemable noncontrolling interest. When and if a redemption notice is received, the fair value of the redemption is reclassified to a liability.

The AlphaCat sidecars and one of the AlphaCat ILS funds have no shareholder redemption rights. Therefore, the third party equity is recorded in the Company's Consolidated Balance Sheets as noncontrolling interest.

The following tables present a reconciliation of the beginning and ending balances of redeemable noncontrolling interest and noncontrolling interest for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31, 2016		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
Balance, beginning of period	$1,111,714	$ 154,662	$1,266,376
Issuance of shares	268,750	112,325	381,075
Income attributable to noncontrolling interest	28,573	8,958	37,531
Distributions	—	(118,722)	(118,722)
Balance, end of period	$1,409,037	$ 157,223	$1,566,260

	Three Months Ended March 31, 2015		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
Balance, beginning of period	$617,791	$ 292,274	$910,065
Issuance of shares	203,400	—	203,400
Income attributable to noncontrolling interest	13,453	4,725	18,178
Distributions	—	(145,416)	(145,416)
Balance, end of period	$834,644	$ 151,583	$986,227

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

8. Derivative instruments

The Company enters into derivative instruments for risk management purposes, specifically to hedge unmatched foreign currency exposures and interest rate exposures. As at March 31, 2016 and December 31, 2015, the Company held foreign currency forward contracts to mitigate the risk of fluctuations in the U.S. dollar against a number of foreign currencies. In addition, the Company held two interest rate swaps to fix the payment of interest on the Company's 2006 and 2007 Junior Subordinated Deferrable Debentures, as well as three interest rate swaps and one cross-currency interest rate swap to fix the payment of interest and mitigate the foreign exchange rate impact on Flagstone's 2006 and 2007 Junior Subordinated Deferrable Debentures.

As at March 31, 2016 and December 31, 2015, none of the Company's foreign currency forward contracts were designated as hedging instruments for accounting purposes. Whereas, all but one of the Company's foreign currency forward contracts were designated as hedging instruments for accounting purposes through September 30, 2015.

The following table summarizes information on the classification and amount of the fair value of derivatives not designated as hedging instruments for accounting purposes on the Consolidated Balance Sheets at March 31, 2016 and December 31, 2015:

	March 31, 2016			December 31, 2015		
Derivatives not designated as hedging instruments:	Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Foreign currency forward contracts	$224,219	$ 7,368	$ 5,694	$255,840	$ 2,601	$ 3,211

(a) Asset and liability derivatives are classified within other assets and accounts payable and accrued expenses, respectively, on the Consolidated Balance Sheets. The net impact on earnings, recognized in income within foreign exchange gains (losses) and other income (loss), relating to the foreign currency forward contracts that were not designated as hedging instruments during the three months ended March 31, 2016 was $(2,013) and $36, respectively (2015: $nil and $1, respectively).

The following table summarizes information on the classification and amount of the fair value of derivatives designated as hedging instruments for accounting purposes on the Consolidated Balance Sheets at March 31, 2016 and December 31, 2015:

	March 31, 2016			December 31, 2015		
Derivatives designated as hedging instruments:	Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Interest rate swap contracts	$552,263	$ 22	$ 2,626	$552,263	$ 21	$ 1,942

(a) Asset and liability derivatives are classified within other assets and accounts payable and accrued expenses, respectively, on the Consolidated Balance Sheets.

(a) Classification within the fair value hierarchy

As described in Note 4, "Fair value measurements," under U.S. GAAP, a company must determine the appropriate level in the fair value hierarchy for each fair value measurement. The assumptions used within the valuation of the Company's derivative instruments are observable in the marketplace, can be derived from observable data or are supported by observable levels at which other similar transactions are executed in the marketplace. Accordingly, these derivatives were classified within Level 2 of the fair value hierarchy.

(b) Derivative instruments designated as a fair value hedge

The Company designates certain foreign currency derivative instruments as fair value hedges for accounting purposes and formally and contemporaneously documents all relationships between the derivative instruments and hedged items and links the derivative instruments to specific assets and liabilities. The Company assesses the effectiveness of these hedges, both at inception and on an on-going basis and determines whether the hedges are highly effective in offsetting changes in fair value of the linked hedged items.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

The following table provides the total impact on earnings, recognized in income within foreign exchange gains (losses), relating to the derivative instruments formally designated as fair value hedges for accounting purposes along with the impact of the related hedged items for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
Foreign currency forward contracts	2016	2015
Amount of loss recognized in income on derivative	$—	$(6,202)
Amount of gain on hedged item recognized in income attributable to risk being hedged	—	6,202
Amount of gain recognized in income on derivative (ineffective portion)	—	—

(c) Derivative instruments designated as a cash flow hedge

The Company designates its interest rate derivative instruments as cash flow hedges for accounting purposes and formally and contemporaneously documents all relationships between the hedging instruments and hedged items and links the derivative instruments to specific assets and liabilities. The Company assesses the effectiveness of the hedges, both at inception and on an on-going basis and determines whether the hedges are highly effective in offsetting changes in fair value of the linked hedged items. The Company currently applies the long haul method when assessing the hedge's effectiveness.

The following table provides the total impact on other comprehensive income (loss) and earnings relating to the derivative instruments formally designated as cash flow hedges along with the impact of the related hedged items for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
Interest rate swap contracts	2016	2015
Amount of effective portion recognized in other comprehensive income	$3,656	$4,040
Amount of effective portion subsequently reclassified to earnings	(2,898)	(3,239)
Amount of ineffective portion excluded from effectiveness testing	(758)	(801)

The above balances relate to interest payments and have therefore been classified as finance expenses in the Consolidated Statements of Comprehensive Income.

(d) Balance sheet offsetting

There was no balance sheet offsetting activity as at March 31, 2016 or December 31, 2015.

The Company currently provides cash collateral as security for interest rate swap contracts. The Company does not provide cash collateral or financial instruments as security for foreign currency forward contracts. Our derivative instruments are generally traded under International Swaps and Derivatives Association master netting agreements, which establish terms that apply to all transactions. On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash.

The Company has not elected to settle multiple transactions with an individual counterparty on a net basis.

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

9. Reserve for losses and loss expenses

Reserves for losses and loss expenses are based in part upon the estimation of case reserves from broker, insured and ceding company reported data. The Company also uses statistical and actuarial methods to estimate ultimate expected losses and loss expenses, from which incurred but not reported losses can be calculated. The period of time from the occurrence of a loss to the reporting of a loss to the Company and to the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. As these factors become apparent, reserves will be adjusted, sometimes requiring an increase or decrease in the overall reserves of the Company, and at other times requiring a reallocation of incurred but not reported reserves to specific case reserves. These estimates are reviewed and adjusted regularly, and such adjustments, if any, are reflected in earnings in the period in which they become known. While management believes that it has made a reasonable estimate of ultimate losses, there can be no assurances that ultimate losses and loss expenses will not exceed this estimate.

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid losses and loss expenses for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
Reserve for losses and loss expenses, beginning of period	$2,996,567	$3,243,147
Losses and loss expenses recoverable	(350,586)	(377,466)
Net reserves for losses and loss expenses, beginning of period	2,645,981	2,865,681
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:		
Current year	278,186	324,488
Prior years (a)	(53,739)	(83,559)
Total incurred losses and loss expenses (a)	224,447	240,929
Less net losses and loss expenses paid in respect of losses occurring in:		
Current year	(15,773)	(13,100)
Prior years	(253,304)	(236,233)
Total net paid losses	(269,077)	(249,333)
Foreign exchange loss (gain)	8,260	(25,274)
Net reserve for losses and loss expenses, end of period	2,609,611	2,832,003
Losses and loss expenses recoverable	370,689	375,882
Reserve for losses and loss expenses, end of period	$2,980,300	$3,207,885

Incurred losses and loss expenses comprise:

	Three Months Ended March 31,	
	2016	2015
Gross losses and loss expenses (a)	$269,853	$264,796
Reinsurance recoverable	(45,406)	(23,867)
Net incurred losses and loss expenses (a)	$224,447	$240,929

(a) Upon closing the acquisition of Western World, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $3,223 during the three months ended March 31, 2015, benefiting the loss ratio by 4.7 percentage points. The remaining fair value adjustment of $7,756 was fully amortized during 2015.

30

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

The March 31, 2016 gross reserves balances comprise reserves for reported claims of $1,242,102 (December 31, 2015: $1,278,697) and reserves for claims incurred but not reported of $1,738,198 (December 31, 2015: $1,717,870). The net favorable development on prior years by segment and line of business for the three months ended March 31, 2016 and 2015 was as follows:

	Three Months Ended March 31, 2016				
	Property	Marine	Specialty	Liability	Total
Validus Re	$(22,832)	$3,555	$(6,407)	$—	$(25,684)
Talbot	(18,446)	2,964	(7,238)	—	(22,720)
Western World	(441)	—	—	(3,985)	(4,426)
AlphaCat	(909)	—	—	—	(909)
Net favorable development	$(42,628)	$6,519	$(13,645)	$(3,985)	$(53,739)

The Validus Re and Talbot segments experienced favorable development on prior years in the property and specialty lines primarily due to favorable development on attritional losses; whereas, the unfavorable development in the marine lines was primarily driven by adverse development on events, which included unfavorable development on an individual marine policy that incepted during the second half of 2015. This adverse development was partially offset by favorable development on attritional losses. The Western World segment experienced favorable development on prior years primarily due favorable development on attritional losses.

	Three Months Ended March 31, 2015				
	Property	Marine	Specialty	Liability	Total
Validus Re	$(14,896)	$(4,570)	$(5,230)	$—	$(24,696)
Talbot	(20,752)	(22,514)	(8,421)	—	(51,687)
Western World (a)	(2,728)	—	—	(3,604)	(6,332)
AlphaCat	(844)	—	—	—	(844)
Net favorable development (a)	$(39,220)	$(27,084)	$(13,651)	$(3,604)	$(83,559)

(a) Upon closing the acquisition of Western World, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $3,223 during the three months ended March 31, 2015, benefiting the loss ratio by 4.7 percentage points. The remaining fair value adjustment of $7,756 was fully amortized during 2015.

The Validus Re segment experienced favorable development on prior years primarily due to favorable development on attritional losses; whereas, the Talbot segment experienced favorable development on prior years primarily due to favorable development on attritional losses and certain events, including the Thailand floods, which was a 2011 notable loss event. The Western World segment experienced favorable development on prior years primarily due to the amortization of the fair value adjustment made at the acquisition date as well as favorable development on attritional losses.

10. Reinsurance

The Company enters into reinsurance and retrocession agreements in order to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits and increase its aggregate capacity. The cession of insurance and reinsurance does not legally discharge the Company from its primary liability for the full amount of the policies, and the Company is required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocession agreement. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At March 31, 2016, 98.5% (December 31, 2015: 98.7%) of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses and $239,160 of total IBNR recoverable (December 31, 2015: $214,863)) were fully collateralized or from reinsurers rated A- or better.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

Reinsurance recoverables by reinsurer as at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016			December 31, 2015		
	Reinsurance Recoverable	% of Total		Reinsurance Recoverable	% of Total	
Top 10 reinsurers	$324,817	82.1	%	$303,108	81.1	%
Other reinsurers' balances > $1 million	61,621	15.6	%	61,222	16.4	%
Other reinsurers' balances < $1 million	9,252	2.3	%	9,327	2.5	%
Total	$395,690	100.0	%	$373,657	100.0	%

	March 31, 2016			
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Swiss Re	AA-	$ 85,611	21.6	%
Lloyd's Syndicates	A+	71,931	18.2	%
Everest Re	A+	48,012	12.1	%
Hannover Re	AA-	46,862	11.8	%
Munich Re	AA-	20,011	5.1	%
Hamilton Re	A-	12,501	3.2	%
Transatlantic Re	A+	12,481	3.1	%
National Indemnity Company	AA+	9,462	2.4	%
Toa Re	A+	9,001	2.3	%
XL Re	A+	8,945	2.3	%
Total		$ 324,817	82.1	%

	December 31, 2015			
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Swiss Re	AA-	$ 83,048	22.2	%
Lloyd's Syndicates	A+	66,356	17.8	%
Hannover Re	AA-	43,765	11.7	%
Everest Re	A+	43,060	11.5	%
Munich Re	AA-	18,707	5.0	%
Transatlantic Re	A+	11,923	3.2	%
Hamilton Re	A-	10,898	2.9	%
National Indemnity Company	AA+	10,293	2.8	%
XL Re	A+	8,728	2.3	%
Toa Re	A+	6,330	1.7	%
Total		$ 303,108	81.1	%

At March 31, 2016 and December 31, 2015, the provision for uncollectible reinsurance relating to reinsurance recoverables was $5,427 and $4,997, respectively. To estimate this provision for uncollectible reinsurance, the reinsurance recoverable is first allocated to applicable reinsurers. This determination is based on a process rather than an estimate, although an element of judgment is applied, especially in relation to ceded IBNR. The Company then uses default factors to determine the portion of a reinsurer's balance deemed to be uncollectible. Default factors require considerable judgment and are determined in part using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions.

32

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

11. Share capital
(a) Authorized and issued
The Company's authorized share capital is 571,428,571 common shares with a par value of $0.175 per share. The holders of common shares are entitled to receive dividends. Holders of common shares are allocated one vote per share, provided that, if the controlled shares of any shareholder or group of related shareholders constitute more than 9.09 percent of the outstanding common shares of the Company, their voting power will be reduced to 9.09 percent.
The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. On February 3, 2015, the Board of Directors of the Company approved an increase in the Company's common share purchase authorization to $750,000. This amount is in addition to the $2,274,401 of common shares repurchased by the Company through February 3, 2015 under its previously authorized share repurchase programs.
The Company has repurchased 77,387,916 common shares for an aggregate purchase price of $2,552,098 from the inception of its share repurchase program to March 31, 2016. The Company had $472,303 remaining under its authorized share repurchase program as of March 31, 2016.
The Company expects the purchases under its share repurchase program to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.
The following table is a summary of the common shares issued and outstanding:

	Common Shares
Common shares issued, December 31, 2015	160,570,772
Restricted share awards vested, net of shares withheld	9,566
Restricted share units vested, net of shares withheld	1,939
Common shares issued, March 31, 2016	160,582,277
Treasury shares, March 31, 2016	(79,026,791)
Common shares outstanding, March 31, 2016	81,555,486

	Common Shares
Common shares issued, December 31, 2014	155,554,224
Restricted share awards vested, net of shares withheld	14,447
Restricted share units vested, net of shares withheld	1,997
Options exercised	704,974
Warrants exercised	473,817
Direct issuance of common stock	324
Common shares issued, March 31, 2015	156,749,783
Treasury shares, March 31, 2015	(73,114,868)
Common shares outstanding, March 31, 2015	83,634,915

(b) Dividends
On February 2, 2016, the Company announced a quarterly cash dividend of $0.35 (2015: $0.32) per common share. This dividend was paid on March 31, 2016 to holders of record on March 15, 2016.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

12. Stock plans

(a) Long Term Incentive Plan

The Company's Amended and Restated 2005 Long Term Incentive Plan ("LTIP") provides for grants to employees of options, stock appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, dividend equivalents or other share-based awards. The total number of shares reserved for issuance under the LTIP are 2,753,292 shares of which 1,933,932 shares remain available for issuance at March 31, 2016. The LTIP is administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. Grant prices are established at the fair market value of the Company's common shares at the date of grant.

i. Options

Options may be exercised for voting common shares upon vesting. Outstanding options have a life of 10 years and vest either pro rata or at the end of the required service period from the date of grant. Fair value of the option awards at the date of grant is determined using the Black-Scholes option-pricing model.

Expected volatility is based on stock price volatility of comparable publicly-traded companies. The Company used the simplified method consistent with U.S. GAAP authoritative guidance on stock compensation expenses to estimate expected lives for options granted during the period as historical exercise data was not available and the options met the requirement as set out in the guidance.

The Company has not granted any stock option awards since September 4, 2009. These stock option awards were fully amortized during the year ended December 31, 2012.

Activity with respect to options for the three months ended March 31, 2016 was as follows:

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2015	65,401	$ 7.74	$ 20.17
Options exercised	—	—	—
Options outstanding, March 31, 2016	65,401	$ 7.74	$ 20.17

Activity with respect to options for the three months ended March 31, 2015 was as follows:

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2014	1,160,057	$ 7.12	$ 17.74
Options exercised	(1,017,165)	7.36	16.55
Options outstanding, March 31, 2015	142,892	$ 5.45	$ 26.24

ii. Restricted share awards

Restricted shares granted under the LTIP vest either pro rata or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. The Company recognized share compensation expenses during the three months ended March 31, 2016 of $9,129 (2015: $8,479). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

Activity with respect to unvested restricted share awards for the three months ended March 31, 2016 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2015	2,739,446	$ 38.25
Restricted share awards vested	(12,550)	35.75
Restricted share awards forfeited	(8,317)	37.94
Restricted share awards outstanding, March 31, 2016	2,718,579	$ 38.26

Activity with respect to unvested restricted share awards for the three months ended March 31, 2015 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2014	2,858,711	$ 35.81
Restricted share awards vested	(19,682)	32.25
Restricted share awards forfeited	(2,410)	41.50
Restricted share awards outstanding, March 31, 2015	2,836,619	$ 35.83

At March 31, 2016, there were $60,076 (December 31, 2015: $69,143) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 2.3 years (December 31, 2015: 2.4 years).

iii. Restricted share units

Restricted share units under the LTIP vest either ratably or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. The Company recognized share compensation expenses during the three months ended March 31, 2016 of $311 (2015: $262). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested restricted share units for the three months ended March 31, 2016 was as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2015	114,337	$ 38.47
Restricted share units vested	(2,056)	38.24
Restricted share units issued in lieu of cash dividends	790	38.47
Restricted share units outstanding, March 31, 2016	113,071	$ 38.47

Activity with respect to unvested restricted share units for the three months ended March 31, 2015 was as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2014	103,484	$ 36.54
Restricted share units vested	(1,997)	38.24
Restricted share units issued in lieu of cash dividends	747	36.54

Restricted share units forfeited	(893)	35.42
Restricted share units outstanding, March 31, 2015	101,341	$ 36.51

At March 31, 2016, there were $2,493 (December 31, 2015: $2,790) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 2.4 years (December 31, 2015: 2.6 years).

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

iv. Performance share awards

The performance share awards contain a performance based component. The performance component relates to the compounded growth in the Dividend Adjusted Diluted Book Value per Share ("DBVPS") over a three-year period relative to the Company's peer group. For performance share awards granted during the period, the grant date Diluted Book Value per Share is based on the DBVPS at the end of the most recent financial reporting year. The Dividend Adjusted Performance Period End DBVPS will be the DBVPS three years after the grant date DBVPS. The fair value estimate earns over the requisite attribution period and the estimate will be reassessed at the end of each performance period which will reflect any adjustments in the consolidated statements of comprehensive income in the period in which they are determined.

The Company recognized share compensation expenses during the three months ended March 31, 2016 of $1,797 (2015: $313).

Activity with respect to unvested performance share awards for the three months ended March 31, 2016 was as follows:

	Performance Share Awards	Weighted Average Grant Date Fair Value
Performance share awards outstanding, December 31, 2015	172,594	$ 40.70
Performance share awards conversion adjustment	45,517	36.82
Performance share awards outstanding, March 31, 2016	218,111	$ 39.89

Activity with respect to unvested performance share awards for the three months ended March 31, 2015 was as follows:

	Performance Share Awards	Weighted Average Grant Date Fair Value
Performance share awards outstanding, December 31, 2014	106,369	$ 36.03
Performance share awards outstanding, March 31, 2015	106,369	$ 36.03

At March 31, 2016, there were $3,893 (December 31, 2015: $4,011) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 1.9 years (December 31, 2015: 2.1 years).

(b) Total share compensation expenses

The breakdown of share compensation expenses by award type for the periods indicated was as follows:

	Three Months Ended March 31,	
	2016	2015
Restricted share awards	9,129	8,479
Restricted share units	311	262
Performance share awards	1,797	313
Total	$11,237	$9,054

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

13. Debt and financing arrangements
(a) Financing structure
The financing structure at March 31, 2016 was as follows:

	Commitment	Issued and outstanding (a)	Drawn
2006 Junior Subordinated Deferrable Debentures	$ 150,000	$ 150,000	$ 150,000
2007 Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	134,785	134,785	134,785
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	598,535	538,335	538,335
2010 Senior Notes due 2040	250,000	250,000	245,211
Total debentures and senior notes payable	848,535	788,335	783,546
$85,000 syndicated unsecured letter of credit facility	85,000	—	—
$300,000 syndicated secured letter of credit facility	300,000	105,756	—
$24,000 secured bi-lateral letter of credit facility	24,000	11,564	—
AlphaCat Re secured letter of credit facility	30,000	30,000	—
IPC bi-lateral facility	25,000	5,483	—
$236,000 Flagstone bi-lateral facility	236,000	197,419	—
Total credit and other facilities	700,000	350,222	—
Total debt and financing arrangements	$ 1,548,535	$ 1,138,557	$ 783,546

The financing structure at December 31, 2015 was as follows:

	Commitment	Issued and outstanding (a)	Drawn
2006 Junior Subordinated Deferrable Debentures	$ 150,000	$ 150,000	$ 150,000
2007 Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	134,118	134,118	134,118
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	597,868	537,668	537,668
2010 Senior Notes due 2040	250,000	250,000	245,161
Total debentures and senior notes payable	847,868	787,668	782,829
$85,000 syndicated unsecured letter of credit facility	85,000	—	—
$300,000 syndicated secured letter of credit facility	300,000	235,540	—
$24,000 secured bi-lateral letter of credit facility	24,000	10,543	—
AlphaCat Re secured letter of credit facility	30,000	30,000	—
IPC bi-lateral facility	25,000	9,241	—
$236,000 Flagstone bi-lateral facility	236,000	193,764	—
Total credit and other facilities	700,000	479,088	—
Total debt and financing arrangements	$ 1,547,868	$ 1,266,756	$ 782,829

(a) Indicates utilization of commitment amount, not necessarily drawn borrowings.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

(b) Senior notes and junior subordinated deferrable debentures

The following table summarizes the key terms of the Company's senior notes and junior subordinated deferrable debentures:

Description	Issuance date	Commitment	Maturity date	Interest Rate as at Issuance Date	Interest Rate as at March 31, 2016	Interest payments due
2006 Junior Subordinated Deferrable Debentures	June 15, 2006	$ 150,000	June 15, 2036	9.069 % (a)	5.831 % (e)	Quarterly
Flagstone 2006 Junior Subordinated Deferrable Debentures	August 23, 2006	$ 134,785	September 15, 2036	3.540 % (b)	6.463 % (e)	Quarterly
2007 Junior Subordinated Deferrable Debentures	June 21, 2007	$ 200,000	June 15, 2037	8.480 % (c)	5.180 % (e)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	June 8, 2007	$ 88,750	July 30, 2037	3.000 % (b)	5.900 % (e)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 20, 2007	$ 25,000	September 15, 2037	3.100 % (b)	5.983 % (e)	Quarterly
2010 Senior Notes due 2040	January 26, 2010	$ 250,000	January 26, 2040	8.875 % (d)	8.875 % (d)	Semi-annually in arrears

(a) Fixed interest rate for 5 years, floating interest rate of three-month LIBOR plus 3.550% thereafter, reset quarterly.
(b) Floating interest rate of three-month LIBOR plus amount stated, reset quarterly.
(c) Fixed interest rate for 5 years, floating interest rate of three-month LIBOR plus 2.950% thereafter, reset quarterly.
(d) Fixed interest rate.
(e) Fixed interest rate as a result of interest rate swap contracts entered into by the Company.

Senior Notes

The Senior Notes due 2040 (the “2010 Senior Notes”) were part of a registered public offering. The 2010 Senior Notes mature on January 26, 2040. The Company may redeem the notes, in whole at any time, or in part from time to time, at the Company's option on not less than 30 nor more than 60 days’ notice, at a make-whole redemption price as described in “Description of the Notes - Optional Redemption” in the 2010 Senior Notes prospectus supplement. In addition, the Company may redeem the notes, in whole, but not in part, at any time upon the occurrence of certain tax events as described in “Description of the Notes - Redemption for Tax Purposes” in the prospectus supplement.

Debt issuance costs are amortized to income over the life of the 2010 Senior Notes and are presented on a net basis within the senior notes payable balance in the Company's Consolidated Balance Sheets. There were no redemptions made during the three months ended March 31, 2016 and 2015.

The 2010 Senior Notes are unsecured and unsubordinated obligations of the Company and rank equally in right of payment with all of the Company’s existing and future unsecured and unsubordinated indebtedness. The 2010 Senior Notes will be effectively junior to all of the Company’s future secured debt, to the extent of the value of the collateral securing such debt, and will rank senior to all our existing and future subordinated debt. The 2010 Senior Notes are structurally subordinated to all obligations of the Company’s subsidiaries.

Future payments of principal of $250,000 on the 2010 Senior Notes are all expected to be after 2021.

Junior subordinated deferrable debentures

The Company participated in private placements of junior subordinated deferrable interest debentures due 2036 and 2037 (respectively, the “2006 Junior Subordinated Deferrable Debentures” and “2007 Junior Subordinated Deferrable Debentures”).

Debt issuance costs for the 2006 and 2007 Junior Subordinated Deferrable Debentures were amortized to income over the five year optional redemption periods. They are redeemable at the Company's option at par. There were no redemptions made during the three months ended March 31, 2016 and 2015.

As part of the acquisition of Flagstone, the Company assumed junior subordinated deferrable debentures due 2036 and 2037 (respectively, the “Flagstone 2006 Junior Subordinated Deferrable Debentures” and “Flagstone 2007 Junior Subordinated Deferrable Debentures”). These debentures are redeemable quarterly at par. There were no redemptions made during the three months ended March 31, 2016 and 2015.

Future payments of principal of $538,335 on the debentures discussed above are all expected to be after 2021.

(c) Credit facilities

i. $85,000 syndicated unsecured letter of credit facility and $300,000 syndicated secured letter of credit facility

On December 9, 2015, the Company entered into a $85,000 five-year unsecured credit facility with various counterparties as co-documentation agents and the lenders party thereto, which provides for letter of credit and revolving credit availability for the Company (the “Five Year Unsecured Facility”) (the full $85,000 of which is available for letters of credit and/or revolving loans). The Five Year Unsecured Facility was provided by a syndicate of commercial banks. Letters of credit under the Five Year Unsecured Facility are available to support obligations in connection with the reinsurance business of the Company and its subsidiaries. Loans under the Five Year Unsecured Facility are available for the general corporate and working capital purposes of the Company. The Company may request that existing lenders under the Five Year Unsecured Facility or prospective additional lenders agree to make available additional commitments from time to time so long as the aggregate commitments under the Five Year Unsecured Facility do not exceed $150,000.

Also on December 9, 2015, the Company entered into a $300,000 five-year secured credit facility, with the same parties, which provides for letter of credit availability for the Company (the “Five Year Secured Facility” and together with the Five Year Unsecured Facility, the “Credit Facilities”). The Five Year Secured Facility was also provided by a syndicate of commercial banks. Letters of credit under the Five Year Secured Facility will be available to support obligations in connection with the reinsurance business of the Company and its subsidiaries. The Company may request that existing lenders under the Five Year Secured Facility or prospective additional lenders agree to make available additional commitments from time to time so long as the aggregate commitments under the Five Year Secured Facility do not exceed $400,000. The obligations of the Company under the Five Year Secured Facility are secured by cash and securities deposited into cash collateral accounts from time to time with The Bank of New York Mellon.

As of March 31, 2016, there was $nil outstanding under the Five Year Unsecured Facility and $105,756 in outstanding letters of credit under the Five Year Secured Facility.

The Credit Facilities contain covenants that include, among other things (i) the requirement that the Company initially maintain a minimum level of consolidated net worth of at least $2,600,000 and, commencing with the end of the fiscal quarter ending June 30, 2015, to be increased quarterly by an amount equal to 25.0% of the Company’s consolidated net income (if positive) for such quarter plus 50.0% of the aggregate increases in the consolidated shareholders’ equity of the Company during such fiscal quarter by reason of the issuance and sale of common equity interests of the Company, including upon any conversion of debt securities of the Company into such equity interests, (ii) the requirement that the Company maintain at all times a consolidated total debt to consolidated total capital ratio not greater than 0.35:1.00, and (iii) the requirement that Validus Reinsurance, Ltd. and any other material insurance subsidiaries maintain a financial strength rating by A.M. Best of not less than “B++” (Fair). In addition, the Credit Facilities contain customary negative covenants applicable to the Company, including limitations on the ability to pay dividends and other payments in respect of equity interests at any time that the Company is otherwise in default with respect to certain provisions under the respective Credit Facilities, limitations on the ability to incur liens, sell assets, merge or consolidate with others, enter into transactions with affiliates, and limitations on the ability of its subsidiaries to incur indebtedness. The Credit Facilities also contain customary affirmative covenants, representations and warranties and events of default for credit facilities of its type. As of March 31, 2016, the Company was in compliance with all covenants and restrictions under the Credit Facilities.

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

ii. $25,000 IPC bi-lateral facility

The Company assumed an existing evergreen letter of credit facility through the acquisition of IPC Holdings, Ltd. (the “IPC bi-lateral facility”). As of March 31, 2016, there were $5,483 outstanding letters of credit issued under the IPC bi-lateral facility (December 31, 2015: $9,241). As of March 31, 2016, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the IPC bi-lateral facility.

iii. $24,000 secured bi-lateral letter of credit facility

The Company is party to an evergreen secured bi-lateral letter of credit facility with Citibank Europe plc (the “Secured bi-lateral letter of credit facility”). As of March 31, 2016, $11,564 (December 31, 2015: $10,543) of letters of credit were outstanding under the Secured bi-lateral letter of credit facility. The Secured bi-lateral letter of credit facility has no fixed termination date and as of March 31, 2016, and throughout the reporting periods presented, the Company is in compliance with all terms and covenants thereof.

iv. $30,000 AlphaCat Re secured letter of credit facility

During 2013, AlphaCat Re entered into a secured evergreen letter of credit facility with Comerica Bank. This facility provided for letters of credit issued by AlphaCat Re to be used to support its reinsurance obligations. As of March 31, 2016, $30,000 (December 31, 2015: $30,000) of letters of credit were outstanding under this facility. As of March 31, 2016, and throughout the reporting periods presented, AlphaCat Re was in compliance with all covenants and restrictions thereof.

v. $236,000 Flagstone bi-lateral facility

As part of the Flagstone Acquisition, the Company assumed an evergreen Letters of Credit Master Agreement between Citibank Europe plc and Flagstone Reassurance Suisse, S.A. (the “Flagstone Bi-Lateral Facility”). As of March 31, 2016, the Flagstone Bi-Lateral Facility had $197,419 (December 31, 2015: $193,764) letters of credit issued and outstanding. As of March 31, 2016, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Flagstone Bi-Lateral Facility.

(d) Finance expenses

Finance expenses consist of interest on the junior subordinated deferrable debentures and senior notes, the amortization of debt offering costs, credit facilities fees, bank charges, Talbot FAL facility and other charges and AlphaCat financing fees as follows:

	Three Months Ended March 31,	
	2016	2015
2006 Junior Subordinated Deferrable Debentures	$2,211	$2,187
2007 Junior Subordinated Deferrable Debentures	1,831	1,809
Flagstone 2006 Junior Subordinated Deferrable Debentures	2,245	2,218
Flagstone 2007 Junior Subordinated Deferrable Debentures	1,767	1,758
2010 Senior Notes due 2040	5,597	5,597
Credit facilities	661	1,707
Bank charges, Talbot FAL facility and other charges (a)	7	1,207
AlphaCat fees (b)	884	4,484
Total finance expenses	$15,203	$20,967

(a) On November 30, 2015, the Company terminated its Funds-at-Lloyd’s Standby Letter of Credit Facility (the “Talbot FAL Facility”) provided and arranged by Lloyds Bank plc and INGBank N.V., London Branch.

(b) Includes finance expenses incurred by AlphaCat Managers Ltd. in relation to fund raising for the AlphaCat sidecars, the AlphaCat ILS funds and AlphaCat direct.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

14. Accumulated other comprehensive loss

The changes in accumulated other comprehensive loss, by component for the three months ended March 31, 2016 and 2015 was as follows:

Three Months Ended March 31, 2016	Foreign currency translation adjustment	Minimum pension liability	Cash flow hedge	Total
Balance beginning of period, net of tax	$(11,834)	$ 334	$(1,069)	$(12,569)
Net current period other comprehensive loss, net of tax	(2,028)	(83)	(758)	(2,869)
Balance end of period, net of tax	$(13,862)	$ 251	$(1,827)	$(15,438)

Three Months Ended March 31, 2015	Foreign currency translation adjustment	Minimum pension liability	Cash flow hedge	Total
Balance beginning of period, net of tax	$(8,118)	$ (210)	$(228)	$(8,556)
Net current period other comprehensive loss, net of tax	(3,019)	(265)	(801)	(4,085)
Balance end of period, net of tax	$(11,137)	$ (475)	$(1,029)	$(12,641)

15. Commitments and contingencies

(a) Funds at Lloyd's

Talbot operates in Lloyd’s through a corporate member, Talbot 2002 Underwriting Capital Ltd (“T02”), which is the sole participant in Syndicate 1183. Lloyd’s sets T02’s required capital annually based on Syndicate 1183’s business plan, rating environment and reserving environment together with input arising from Lloyd’s discussions with, inter alia, regulatory and rating agencies. Such capital, called Funds at Lloyd’s (“FAL”), comprises cash and investments. The Company provided FAL in the amount of $617,000 for the 2016 underwriting year (2015 underwriting year: $595,100).

The amounts which are provided as FAL are not available for distribution to the Company for the payment of dividends. Talbot’s corporate member may also be required to maintain funds under the control of Lloyd’s in excess of its capital requirement and such funds also may not be available for distribution to the Company for the payment of dividends. See Note 3(e) for investments pledged as collateral.

(b) Lloyd's Central Fund

Whenever a member of Lloyd’s is unable to pay its debts to policyholders, such debts may be payable by the Lloyd’s Central Fund. If Lloyd’s determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd’s members up to 3% of a member's underwriting capacity in any one year. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2016 underwriting capacity at Lloyd's of £600,000, at the March 31, 2016 exchange rate of £1 equals $1.43 and assuming the maximum 3% assessment, the Company would be assessed approximately $25,740.

(c) Investment affiliate commitments

As discussed in Note 6, "Investments in affiliates," on December 20, 2011 the Company entered into an Assignment and Assumption Agreement with Aquiline Capital Partners LLC, pursuant to which it assumed total capital commitments of $50,000. The Company’s remaining commitment at March 31, 2016 was $2,934 (December 31, 2015: $3,413).

On October 2, 2014, the Company assumed an additional investment in Aquiline Capital Partners II GP (Offshore) Ltd. as part of the Western World acquisition representing a total capital commitment of $10,000. The

Company's remaining capital commitment at March 31, 2016 was $587 (December 31, 2015: $683).

On November 7, 2014, the Company entered into a Subscription Agreement with Aquiline Capital Partners III GP (Offshore) Ltd., pursuant to which it assumed total capital commitments of $100,000 in respect of Limited Partnership Interests in Aquiline Financial Services Fund III L.P. (the "Fund"). The Company's remaining commitment at March 31, 2016 was $86,110 (December 31, 2015: $86,110).

(d) AlphaCat commitments

On December 29, 2014, the Company entered into an agreement with an AlphaCat ILS fund pursuant to which it assumed total capital commitments of $20,000. On December 29, 2015, the Company assumed an additional capital commitment of $20,000. The Company's remaining commitment at March 31, 2016 was $9,000 (December 31, 2015: $10,000).

On December 30, 2015, the Company entered into an agreement with another AlphaCat ILS fund pursuant to which it assumed total capital commitments of $25,000. The Company's remaining commitment at March 31, 2016 was $8,643 (December 31, 2015: $9,536).

(e) Fixed maturity commitments

At March 31, 2016, the Company had an outstanding commitment to participate in certain secured loan facilities through participation agreements with an established loan originator. The undrawn amount under the revolver facility participations as at March 31, 2016 was $35,431 (December 31, 2015: $34,888).

The Company also had other loan commitments of $25,000 at March 31, 2016. The Company's remaining commitment at March 31, 2016 was $12,588.

(f) Other investment commitments

At March 31, 2016, the Company had capital commitments in certain other investments of $273,000 (December 31, 2015: $263,000). The Company's remaining commitment to these investments at March 31, 2016 was $190,780 (December 31, 2015: $185,548).

16. Related party transactions

The transactions listed below are classified as related party transactions as principals and/or directors of each counter party are members of the Company's board of directors.

Aquiline Capital Partners, LLC and its related companies ("Aquiline"), which own 1,002,338 shares in the Company, have two employees on the Company's Board of Directors who do not receive compensation from the Company, and are shareholders of Group Ark Insurance Holdings Ltd. ("Group Ark"). Christopher E. Watson, a director of the Company, serves as a director of Group Ark. Pursuant to reinsurance agreements with a subsidiary of Group Ark, the Company recognized gross premiums written during the three months ended March 31, 2016 of $1,906 (2015: $1,870) with $1,384 included in premiums receivable at March 31, 2016 (December 31, 2015: $82). The Company also recognized reinsurance premiums ceded during the three months ended March 31, 2016 of $17 (2015: $29) and had reinsurance balances payable of $4 at March 31, 2016 (December 31, 2015: $4). The Company recorded $808 of loss reserves recoverable at March 31, 2016 (December 31, 2015: $790). Earned premium adjustments of $526 (2015: $783) were recorded during the three months ended March 31, 2016.

On November 24, 2009, the Company entered into an Investment Management Agreement with Conning, Inc. ("Conning") to manage a portion of the Company's investment portfolio. Aquiline acquired Conning on June 16, 2009. Jeffrey W. Greenberg, a director of the Company, serves as a director of Conning Holdings Corp., the parent company of Conning. During the three months ended September 30, 2015, Aquiline disposed of its investment in Conning. Therefore, effective September 30, 2015, Conning was no longer a related party. Investment management fees earned by Conning for the three months ended March 31, 2015 were $285.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

On December 20, 2011, 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 the Company has assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. (the "Aquiline II Partnership") representing a total capital commitment of $50,000 (the "Aquiline II Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). On October 2, 2014, the Company assumed an additional investment in the Aquiline II Partnership as part of the Western World acquisition representing a total capital commitment of $10,000. Messrs. Greenberg and Watson, directors of the Company, serve as managing principal and senior principal, respectively, of Aquiline Capital Partners LLC. For the three months ended March 31, 2016, the Company incurred $nil in partnership fees (2015: $448) and made capital contributions of $575 (2015: $5,562), with $nil included in accounts payable and accrued expenses at March 31, 2016 (December 31, 2015: $nil).
On November 7, 2014, the Company entered into a Subscription Agreement (the "Subscription Agreement") with Aquiline Capital Partners III GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "Aquiline III General Partner") pursuant to which the Company is committing and agreeing to purchase limited partnership or other comparable limited liability equity interests (the "Limited Partnership Interests") in Aquiline Financial Services Fund III L.P., a Cayman Islands exempted limited partnership (the "Aquiline III Partnership"), and/or one or more Alternative Investment Vehicles and Intermediate Entities (together with the Aquiline III Partnership, the "Fund" or the "Entities") with a capital commitment (the "Aquiline III Commitment") in an amount equal to $100,000, as a limited partner in the Aquiline Financial Services III Partnership. For the three months ended March 31, 2016, the Company incurred $nil in partnership fees (2015: $870) and made capital contributions of $nil (2015: $14,138), with $nil included in accounts payable and accrued expenses at March 31, 2016 (December 31, 2015: $nil).
On November 24, 2015, Western World, a subsidiary of the Company, 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. 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.
Certain shareholders of the Company and their affiliates, as well as employers of entities associated with directors or officers have purchased insurance and/or reinsurance from the Company in the ordinary course of business. The Company believes these transactions were settled for arm's length consideration.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

17. Earnings per share

The following table sets forth the computation of basic and earnings per diluted share for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
	2016	2015
Basic earnings per share		
Net income	$204,341	$191,589
Net (income) attributable to noncontrolling interest	(37,531)	(18,178)
Net income available to Validus	166,810	173,411
Less: Dividends and distributions declared on outstanding warrants	—	(1,405)
Income available to common shareholders	$166,810	$172,006
Weighted average number of common shares outstanding	82,821,261	83,251,243
Basic earnings per share available to common shareholders	$2.01	$2.07
Earnings per diluted share		
Net income	$204,341	$191,589
Net (income) attributable to noncontrolling interest	(37,531)	(18,178)
Net income available to Validus	166,810	173,411
Less: Dividends and distributions declared on outstanding warrants	—	—
Income available to common shareholders	$166,810	$173,411
Weighted average number of common shares outstanding	82,821,261	83,251,243
Share equivalents:		
Warrants	—	2,745,066
Stock options	35,878	473,424
Unvested restricted shares	1,341,176	1,113,396
Weighted average number of diluted common shares outstanding	84,198,315	87,583,129
Earnings per diluted share available to common shareholders	$1.98	$1.98

Share equivalents that would result in the issuance of 645 common shares were outstanding for the three months ended March 31, 2015, but were not included in the computation of earnings per diluted share because the effect would be antidilutive. There were no antidilutive shares noted for the three months ended March 31, 2016.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

18. Segment information

The Company conducts its operations worldwide through four operating segments, which have been determined under U.S. GAAP segment reporting to be Validus Re, Talbot, Western World and AlphaCat. The Company’s operating segments are strategic business units that offer different products and services. They are managed and have capital allocated separately because each segment requires different strategies.

During the fourth quarter of 2015, the Company made certain changes in its presentation of segment information. The changes were made to present the results of Validus Re, Talbot and Western World on an underwriting income basis and the results of AlphaCat on an asset manager basis. Investment results, foreign exchange, other income (loss), finance expenses and income taxes are now presented on a consolidated basis, reflecting how the Company operationally manages these areas. The Company's assets primarily comprise cash and investments which are managed on a consolidated basis; accordingly, the Company's assets have not been presented on a segmental basis. The presentation changes have not had an effect on the reportable income or loss to any of the operating segments and all prior period disclosures have been revised to conform to current period presentation.

Underwriting income and the AlphaCat asset manager view are non-GAAP financial measures. A reconciliation of segmental income to net income available to Validus is included in the tables below.

Validus Re Segment

The Validus Re segment is focused on treaty reinsurance. The primary lines in which the segment conducts business are property, marine and specialty which includes agriculture, aerospace and aviation, financial lines of business, nuclear, terrorism, life, accident & health, workers’ compensation, crisis management, contingency, technical lines, composite, trade credit and casualty.

Talbot Segment

The Talbot segment is focused on a wide range of marine and energy, political lines, commercial property, financial lines, contingency, accident & health and aviation classes of business on an insurance or facultative reinsurance basis and principally property, aerospace and marine classes of business on a treaty reinsurance basis.

Western World Segment

The Western World segment is focused on providing commercial insurance products on a surplus lines and specialty admitted basis. Western World specializes in underwriting classes of business that are not easily placed in the standard insurance market due to their complexity, high hazard, or unusual nature; including general liability, property and professional liability classes of business.

AlphaCat Segment

The AlphaCat segment leverages the Company’s underwriting and analytical expertise and earns management and performance fees from the Company and other third party investors primarily through the AlphaCat ILS funds and sidecars.

Corporate and Investment information

The Company has a corporate function ("Corporate"), which includes the activities of the parent company, and which carries out certain functions for the group, including investment management. Corporate includes investment income on a managed basis and other non-segment expenses, predominantly general and administrative, stock compensation and finance expenses. Corporate also denotes the activities of certain key executives such as the Chief Executive Officer and Chief Financial Officer. For internal reporting purposes, Corporate is reflected separately; however, Corporate is not considered an operating segment under these circumstances. Other reconciling items include, but are not limited to, the elimination of certain inter segment revenues and expenses and other items that are not allocated to the operating segments.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

The following tables summarize the results of our operating segments and "Corporate and Investments":

	Three Months Ended March 31,	
Validus Re Segment Information	2016	2015
Underwriting income		
Gross premiums written	$691,668	$711,693
Reinsurance premiums ceded	(92,495)	(113,777)
Net premiums written	599,173	597,916
Change in unearned premiums	(355,342)	(344,828)
Net premiums earned	243,831	253,088
Other insurance related (loss) income	(315)	315
Underwriting revenues	243,516	253,403
Underwriting deductions		
Losses and loss expenses	82,868	113,128
Policy acquisition costs	42,259	42,094
General and administrative expenses	17,179	19,509
Share compensation expenses	2,901	2,578
Total underwriting deductions	145,207	177,309
Underwriting income	$98,309	$76,094
Selected ratios:		
Net premiums written / Gross premiums written	86.6 %	84.0 %
Losses and loss expenses	34.0 %	44.7 %
Policy acquisition costs	17.4 %	16.7 %
General and administrative expenses (a)	8.2 %	8.7 %
Expense ratio	25.6 %	25.4 %
Combined ratio	59.6 %	70.1 %

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

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31,	
Talbot Segment Information	2016	2015
Underwriting income		
Gross premiums written	$266,317	$270,077
Reinsurance premiums ceded	(87,458)	(91,075)
Net premiums written	178,859	179,002
Change in unearned premiums	27,933	43,587
Net premiums earned	206,792	222,589
Other insurance related income	11	54
Underwriting revenues	206,803	222,643
Underwriting deductions		
Losses and loss expenses	100,101	78,128
Policy acquisition costs	44,343	49,104
General and administrative expenses	38,535	36,494
Share compensation expenses	3,522	2,957
Total underwriting deductions	186,501	166,683
Underwriting income	$20,302	$55,960
Selected ratios:		
Net premiums written / Gross premiums written	67.2 %	66.3 %
Losses and loss expenses	48.4 %	35.1 %
Policy acquisition costs	21.5 %	22.1 %
General and administrative expenses (a)	20.3 %	17.7 %
Expense ratio	41.8 %	39.8 %
Combined ratio	90.2 %	74.9 %

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

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31,	
Western World Segment Information	2016	2015
Underwriting income		
Gross premiums written	$63,959	$56,947
Reinsurance premiums ceded	(4,139)	(3,233)
Net premiums written	59,820	53,714
Change in unearned premiums	1,679	14,168
Net premiums earned	61,499	67,882
Other insurance related income	288	263
Underwriting revenues	61,787	68,145
Underwriting deductions		
Losses and loss expenses	39,646	50,517
Policy acquisition costs	14,200	4,279
General and administrative expenses	12,075	10,627
Share compensation expenses	581	477
Total underwriting deductions	66,502	65,900
Underwriting (loss) income	$(4,715)	$2,245
Selected ratios:		
Net premiums written / Gross premiums written	93.5 %	94.3 %
Losses and loss expenses	64.5 %	74.4 %
Policy acquisition costs	23.1 %	6.3 %
General and administrative expenses (a)	20.5 %	16.4 %
Expense ratio	43.6 %	22.7 %
Combined ratio	108.1 %	97.1 %

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

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31,	
AlphaCat Segment Information (a)	2016	2015
Revenue - management fees		
Third party	$4,727	$4,537
Related party	891	1,186
Total revenue	5,618	5,723
Expenses		
General and administrative expenses	1,482	2,429
Share compensation expenses	141	149
Finance expenses	808	4,428
Foreign exchange losses (gains)	8	(13)
Total expenses	2,439	6,993
Income (loss) before investments from AlphaCat Funds and Sidecars	3,179	(1,270)
Investment income (loss) from AlphaCat Funds and Sidecars (b)		
AlphaCat Sidecars	124	1,168
AlphaCat ILS Funds - Lower Risk (c)	2,507	1,286
AlphaCat ILS Funds - Higher Risk (c)	2,436	2,425
BetaCat ILS Funds	563	174
PaCRe	(23)	3,984
Total investment income from AlphaCat Funds and Sidecars	5,607	9,037
Validus' share of AlphaCat income	$8,786	$7,767
Supplemental information:		
Gross premiums written		
AlphaCat Sidecars	$(52)	$40,106
AlphaCat ILS Funds - Lower Risk (c)	59,958	42,748
AlphaCat ILS Funds - Higher Risk (c)	96,320	18,951
AlphaCat Direct (d)	11,122	—
Total	$167,348	$101,805

(a) The results of AlphaCat are presented on an asset manager basis, which is non-GAAP. A reconciliation of segmental income to net income available to Validus is included in the tables below.
(b) The investment income from the AlphaCat funds and sidecars is based on equity accounting.
(c) Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of greater than 7%. Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.
(d) AlphaCat Direct includes direct investments from third party investors in AlphaCat Re.

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31,	
Corporate and Investment Information	2016	2015
Investment income		
Net investment income (a)	$27,923	$29,436
Operating expenses		
General and administrative expenses	16,183	15,606
Share compensation expenses	4,092	2,893
Finance expenses (a)	14,341	15,336
Tax (benefit) expense	(2,118)	2,565
Total operating expenses	32,498	36,400
Other items		
Net realized (losses) gains on investments (a)	(1,086)	4,180
Change in net unrealized gains on investments (a)	47,078	34,669
(Loss) income from investment affiliate	(4,113)	2,776
Foreign exchange gains (losses) (a)	6,074	(3,456)
Other income	677	—
Total other items	48,630	38,169
Total Corporate and Investment information	$44,055	$31,205

(a) These items exclude the components which are included in Validus' share of AlphaCat and amounts which are consolidated from VIEs.

50

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

The following tables reconcile the results of our operating segments and "Corporate & Investments" to the Consolidated results of the Company for the periods indicated:

	Three Months Ended March 31, 2016						
	Validus Re Segment	Talbot Segment	Western World Segment	AlphaCat & Consolidated Variable Interest Entities	Corporate & Investments	Eliminations	Total
Underwriting income							
Gross premiums written	$691,668	$266,317	$63,959	$ 167,348		$ (16,501)	$1,172,791
Reinsurance premiums ceded	(92,495)	(87,458)	(4,139)	(244)		16,501	(167,835)
Net premiums written	599,173	178,859	59,820	167,104		—	1,004,956
Change in unearned premiums	(355,342)	27,933	1,679	(107,958)		—	(433,688)
Net premiums earned	243,831	206,792	61,499	59,146		—	571,268
Other insurance related (loss) income	(315)	11	288	5,665		(4,913)	736
Underwriting revenues	243,516	206,803	61,787	64,811		(4,913)	572,004
Underwriting deductions							
Losses and loss expenses	82,868	100,101	39,646	1,832		—	224,447
Policy acquisition costs	42,259	44,343	14,200	6,157		234	107,193
General and administrative expenses	17,179	38,535	12,075	7,456	16,183	(5,220)	86,208
Share compensation expenses	2,901	3,522	581	141	4,092	—	11,237
Total underwriting deductions	145,207	186,501	66,502	15,586	20,275	(4,986)	429,085
Underwriting income (loss)	$98,309	$20,302	$(4,715)	$ 49,225	$ (20,275)	$ 73	$142,919
Other items (a)				154	36,407		36,561
Net investment income				1,538	27,923		29,461
(Income) attributable to AlphaCat investors				(4,600)	—		(4,600)
Net (income) attributable to noncontrolling interest				(37,531)	—		(37,531)
Segmental income (loss)	98,309	20,302	(4,715)	8,786	44,055	73	
Net income available to Validus							$166,810

(a) Other items includes finance expenses, tax expenses, foreign exchange gains (losses), net realized and change in net unrealized gains (losses) on investments, income from investment and operating affiliates and other income (loss).

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended March 31, 2015						
	Validus Re Segment	Talbot Segment	Western World Segment	AlphaCat & Consolidated Variable Interest Entities	Corporate & Investments	Eliminations	Total
Underwriting income							
Gross premiums written	$711,693	$270,077	$56,947	$ 101,805		$ (21,298)	$1,119,224
Reinsurance premiums ceded	(113,777)	(91,075)	(3,233)	(4,538)		21,298	(191,325)
Net premiums written	597,916	179,002	53,714	97,267		—	927,899
Change in unearned premiums	(344,828)	43,587	14,168	(64,936)		—	(352,009)
Net premiums earned	253,088	222,589	67,882	32,331		—	575,890
Other insurance related income	315	54	263	5,924		(5,616)	940
Underwriting revenues	253,403	222,643	68,145	38,255		(5,616)	576,830
Underwriting deductions							
Losses and loss expenses	113,128	78,128	50,517	(844)		—	240,929
Policy acquisition costs	42,094	49,104	4,279	3,435		(501)	98,411
General and administrative expenses	19,509	36,494	10,627	7,254	15,606	(5,255)	84,235
Share compensation expenses	2,578	2,957	477	149	2,893	—	9,054
Total underwriting deductions	177,309	166,683	65,900	9,994	18,499	(5,756)	432,629
Underwriting income	$76,094	$55,960	$2,245	$ 28,261	$ (18,499)	$ 140	$144,201
Other items (a)				(3,909)	20,268		16,359
Net investment income				1,593	29,436		31,029
Net (income) attributable to noncontrolling interest				(18,178)	—		(18,178)
Segmental income	76,094	55,960	2,245	7,767	31,205	140	
Net income available to Validus							$173,411

(a) Other items includes finance expenses, tax expenses, foreign exchange gains (losses), net realized and change in net unrealized gains (losses) on investments, income from investment and operating affiliates and other income (loss).

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

The Company's exposures are generally diversified across geographic zones. The following tables set forth the gross premiums written allocated to the territory of coverage exposure for the periods indicated:

	Gross Premiums Written Three Months Ended March 31, 2016						
	Validus Re	Talbot	Western World	AlphaCat	Eliminations	Total	%
United States	$295,394	$26,110	$63,959	$25,391	$(1,138)	$409,716	35.0 %
Worldwide excluding United States (a)	30,264	35,504	—	16,011	(475)	81,304	6.9 %
Australia and New Zealand	4,923	2,312	—	4,082	(134)	11,183	1.0 %
Europe	22,467	13,861	—	3,451	(924)	38,855	3.3 %
Latin America and Caribbean	13,582	23,807	—	—	(3,026)	34,363	2.9 %
Japan	872	617	—	1,500	(24)	2,965	0.3 %
Canada	1,676	1,092	—	—	(51)	2,717	0.2 %
Rest of the world (b)	16,688	27,484	—	—	(1,885)	42,287	3.6 %
Sub-total, non United States	90,472	104,677	—	25,044	(6,519)	213,674	18.2 %
Worldwide including United States (a)	111,777	28,454	—	115,373	(8,834)	246,770	21.0 %
Other locations non-specific (c)	194,025	107,076	—	1,540	(10)	302,631	25.8 %
Total	$691,668	$266,317	$63,959	$167,348	$(16,501)	$1,172,791	100.0%

	Gross Premiums Written Three Months Ended March 31, 2015						
	Validus Re	Talbot	Western World	AlphaCat	Eliminations	Total	%
United States	$339,014	$28,058	$56,947	$13,145	$(1,454)	$435,710	38.9 %
Worldwide excluding United States (a)	34,966	34,942	—	5,833	(1,002)	74,739	6.8 %
Australia and New Zealand	9,864	1,876	—	—	(151)	11,589	1.0 %
Europe	24,735	13,214	—	1,439	(820)	38,568	3.4 %
Latin America and Caribbean	9,248	22,692	—	—	(3,894)	28,046	2.5 %
Japan	1,384	754	—	—	(13)	2,125	0.2 %
Canada	2,185	1,698	—	194	(76)	4,001	0.4 %
Rest of the world (b)	18,654	23,006	—	—	(2,248)	39,412	3.5 %
Sub-total, non United States	101,036	98,182	—	7,466	(8,204)	198,480	17.8 %
Worldwide including United States (a)	84,844	21,794	—	77,894	(11,638)	172,894	15.4 %
Other locations non-specific (c)	186,799	122,043	—	3,300	(2)	312,140	27.9 %
Total	$711,693	$270,077	$56,947	$101,805	$(21,298)	$1,119,224	100.0%

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

Table of Contents

Validus Holdings, Ltd.
Notes to Consolidated Financial Statements (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

19. Subsequent events

Quarterly Dividend

On May 5, 2016, the Company announced a quarterly cash dividend of $0.35 per each common share, payable on June 30, 2016 to holders of record on June 15, 2016.

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the Company's consolidated results of operations for the three months ended March 31, 2016 and 2015 and the Company's consolidated financial condition, liquidity and capital resources as at March 31, 2016 and December 31, 2015. This discussion and analysis should be read in conjunction with the Company's unaudited Consolidated Financial Statements and notes thereto included in this filing and the Company's audited Consolidated Financial Statements and related notes for the fiscal year ended December 31, 2015, the discussions of critical accounting policies and the qualitative and quantitative disclosure about market risk, as well as management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

For a variety of reasons, the Company's historical financial results may not accurately indicate future performance. See "Cautionary Note Regarding Forward-Looking Statements." The Risk Factors set forth in Part I Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 present a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

Executive Overview

The Company conducts its operations worldwide through four operating segments which have been determined under U.S. GAAP segment reporting to be Validus Re, Talbot, Western World, and AlphaCat. Validus Re is a Bermuda-based reinsurance segment focused on treaty reinsurance. Talbot is a specialty insurance segment, primarily operating within the Lloyd's insurance market through Syndicate 1183. Western World is a U.S. based specialty excess and surplus lines insurance segment operating within the U.S. commercial market. AlphaCat is a Bermuda-based investment adviser, managing capital for third parties and the Company in insurance linked securities and other investments in the property catastrophe reinsurance space. The Company has a corporate function ("Corporate"), which includes the activities of the parent company, and which carries out certain functions for the group, including investment management. Corporate includes investment income on a managed basis and other non-segment expenses, predominantly general and administrative, stock compensation and finance expenses. Corporate also denotes the activities of certain key executives such as the Chief Executive Officer and Chief Financial Officer. The Company's corporate expenses, capital servicing and debt costs and investment results are presented separately within the non-segment discussion.

The Company’s strategy is to concentrate primarily on short-tail risks, which has been an area where management believes prices and terms provide an attractive risk-adjusted return and the management team has proven expertise. The Company’s profitability in any given period is based upon premium and investment revenues, less net losses and loss expenses, acquisition expenses and operating expenses. The Company's portfolio, as measured by gross premium written, was comprised of 22% insurance and 78% reinsurance for the three months ended March 31, 2016 (2015: 24% insurance and 76% reinsurance), compared to 46% insurance and 54% reinsurance for the year ended December 31, 2015. The change in portfolio composition was driven primarily by the seasonality of reinsurance renewals.

Financial results in the insurance and reinsurance industry are influenced by the frequency and/or severity of claims and losses, including as a result of catastrophic events, changes in interest rates, financial markets and general economic conditions, the supply of insurance and reinsurance capacity and changes in legal, regulatory and judicial environments.

Business Outlook and Trends

We underwrite global property insurance and reinsurance and have large aggregate exposures to natural and man-made disasters. The occurrence of claims from catastrophic events results in substantial volatility, and can have material adverse effects on the Company’s financial condition and results and its ability to write new business. This volatility affects results for the period in which the loss occurs because U.S. accounting principles do not permit reinsurers to reserve for such catastrophic events until they occur. Catastrophic events of significant magnitude

historically have been relatively infrequent, although management believes the property catastrophe reinsurance market has experienced a higher level of worldwide catastrophic losses in terms of both frequency and severity in the period from 1992 to the present. We also expect that increases in the values and concentrations of insured property will increase the severity of such occurrences in the future. The Company seeks to reflect these types of trends when pricing contracts.
Property and other reinsurance premiums have historically risen in the aftermath of significant catastrophic losses. As loss reserves are established, industry surplus is depleted and the industry’s capacity to write new business diminishes. The global property and casualty insurance and reinsurance industry has historically been highly cyclical. Since 2007, increased capital provided by new entrants or by the commitment of capital by existing insurers and reinsurers increased the supply of insurance and reinsurance which resulted in a softening of rates on most lines. From 2010 to 2012, there was an increased level of catastrophe activity, principally the Chilean earthquake, Deepwater Horizon, the Tohoku earthquake, the New Zealand earthquakes and Superstorm Sandy, but the Company continues to see increased competition and decreased premium rates in most classes of business. In the absence of significant catastrophes in recent years, the market supply of capital is greater than the demand and therefore we expect to see continued pressure on rates in the near term.

Table of Contents

During the January 2016 renewal season, the Validus Re and AlphaCat segments underwrote $610.5 million in gross premiums written (excluding U.S. agriculture premiums and net of intercompany eliminations between Validus Re and AlphaCat), an increase of 12.9% from the prior year renewal period. This increase was primarily driven by an increase in AlphaCat AUM and new business in the casualty and specialty lines, offset by non-renewed business in the property and marine lines due to rate reductions. The U.S. property lines experienced rate declines in the low single-digits, while rate declines in the international property lines were more challenging, with rates down closer to 10%. The marine lines experienced rate declines in the mid-single digits due to the worldwide reduction in oil prices. Business written by the Talbot and Western World segments is distributed more evenly throughout the year. Through March 31, 2016, the Talbot segment experienced a whole account rate decrease of approximately 4.6% driven primarily by decreases in energy classes. The Western World segment experienced a whole account rate increase of approximately 2.8% through March 31, 2016.

Financial Measures

The Company believes that the primary financial indicator for evaluating performance and measuring the overall growth in value generated for shareholders is book value per diluted common share. Book value per diluted common share plus accumulated dividends, together with other important financial indicators, is shown below:

	March 31, 2016	December 31, 2015
Book value per diluted common share plus accumulated dividends	$54.51	$52.49
Book value per diluted common share	$44.00	$42.33
Tangible book value per diluted common share	$40.26	$38.63

Book value per diluted common share plus accumulated dividends is considered by management to be the primary indicator of financial performance, as we believe growth in book value on a diluted basis, plus the dividends that have accumulated, ultimately translates into the return that a shareholder will receive. Book value per diluted common share plus accumulated dividends increased by $2.02, or 3.8%, from $52.49 at December 31, 2015 to $54.51 at March 31, 2016. Cash dividends per common share are an integral part of the value created for shareholders. The Company paid quarterly cash dividends of $0.35 per common share during the three months ended March 31, 2016. On May 5, 2016, the Company announced a quarterly cash dividend of $0.35 per common share payable on June 30, 2016 to holders of record on June 15, 2016.

Book value per diluted common share plus accumulated dividends is calculated based on total shareholders' equity available to Validus plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares and options and warrants outstanding (assuming their exercise), plus accumulated dividends. Book value per diluted common share plus accumulated dividends is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures."

Book value per diluted common share is considered by management to be a measure of returns to common shareholders, as we believe growth in book value on a diluted basis ultimately translates into growth in stock price. Book value per diluted common share after dividends paid, increased by $1.67, or 3.9%, from $42.33 at December 31, 2015 to $44.00 at March 31, 2016. Growth in book value per diluted common share inclusive of dividends was 4.8% and 4.9% for the three months ended March 31, 2016 and 2015, respectively. Book value per diluted common share is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures." All outstanding warrants expired on December 12, 2015 and no further warrants are anticipated to be issued.

Tangible book value per diluted common share is considered by management to be a measure of returns to common shareholders excluding intangible assets and goodwill, as we believe growth in tangible book value on a diluted basis ultimately translates into growth in the tangible value of the Company. Tangible book value per diluted common share increased by $1.63, or 4.2%, from $38.63 at December 31, 2015 to $40.26 at March 31, 2016. Tangible book value per diluted common share is calculated based on total shareholders' equity available to Validus, less intangible assets and goodwill, plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares and options and warrants outstanding (assuming their exercise). Tangible book value per diluted common share is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures."

Table of Contents

	Three Months Ended March 31,	
	2016	2015
Underwriting income	$142,919	$144,201
Net operating income available to Validus	$117,378	$136,874
Annualized return on average equity	18.1%	19.1%
Annualized net operating return on average equity	12.8%	15.1%

Underwriting income measures the performance of the Company’s core underwriting function, excluding revenues and expenses such as net investment income, finance expenses, tax (expense) benefit, income (loss) from operating affiliates, (income) attributable to AlphaCat investors, net realized and change in net unrealized gains (losses) on investments, income (loss) from investment affiliate, foreign exchange gains (losses), other income (loss), non-recurring items and net (income) loss attributable to noncontrolling interest. The Company believes the reporting of underwriting income enhances the understanding of results by highlighting the underlying profitability of the Company’s core insurance and reinsurance operations. Underwriting income for the three months ended March 31, 2016 and 2015 was $142.9 million and $144.2 million, respectively. Underwriting income is a non-GAAP financial measure, which are described in the section entitled “Non-GAAP Financial Measures."

Net operating income available to Validus is defined as net income (loss) excluding net realized and change in net unrealized gains (losses) on investments, income (loss) from investment affiliate, foreign exchange gains (losses), other income (loss), non-recurring items and operating income (loss) attributable to noncontrolling interest. This measure focuses on the underlying fundamentals of the Company's operations without the influence of gains (losses) from the sale of investments, translation of non-U.S. dollar currencies, non-recurring items and income (loss) attributable to noncontrolling interest. Net operating income available to Validus for three months ended March 31, 2016 and 2015 was $117.4 million and $136.9 million, respectively. Net operating income available to Validus is a non-GAAP financial measure, which are described in the section entitled “Non-GAAP Financial Measures.”

Annualized return on average equity represents the return generated on common shareholders’ equity during the period. Annualized return on average equity is calculated by dividing the net income available to Validus for the period by the average shareholders’ equity available to Validus during the period. Average shareholders’ equity is the average of the beginning, ending and intervening quarter end shareholders’ equity balances. The Company’s objective is to generate superior returns on capital that appropriately reward shareholders for the risks assumed. The annualized return on average equity for the three months ended March 31, 2016 and 2015 was 18.1% and 19.1%, respectively.

Annualized net operating return on average equity represents the operating return generated on common shareholders’ equity during the period. Annualized net operating return on average equity is calculated by dividing the net operating income available to Validus for the period by the average shareholders’ equity available to Validus during the period. Average shareholders’ equity is the average of the beginning, ending and intervening quarter end shareholders’ equity balances. The annualized net operating return on average equity for the three months ended March 31, 2016 and 2015 was 12.8% and 15.1%, respectively. Annualized net operating return on average equity is a non-GAAP financial measure, which are described in the section entitled “Non-GAAP Financial Measures.”

Table of Contents

First Quarter 2016 Summarized Results of Operations - Consolidated

The following table presents results of operations for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Underwriting income			
Gross premiums written	$1,172,791	$53,567	$1,119,224
Reinsurance premiums ceded	(167,835)	23,490	(191,325)
Net premiums written	1,004,956	77,057	927,899
Change in unearned premiums	(433,688)	(81,679)	(352,009)
Net premiums earned	571,268	(4,622)	575,890
Other insurance related income	736	(204)	940
Underwriting revenues	572,004	(4,826)	576,830
Underwriting deductions			
Losses and loss expenses	224,447	(16,482)	240,929
Policy acquisition costs	107,193	8,782	98,411
General and administrative expenses	86,208	1,973	84,235
Share compensation expenses	11,237	2,183	9,054
Total underwriting deductions	429,085	(3,544)	432,629
Underwriting income (a)	$142,919	$(1,282)	$144,201
Net investment income	29,461	(1,568)	31,029
Finance expenses	(15,203)	5,764	(20,967)
Operating income before taxes, (loss) income from operating affiliates and (income) attributable to AlphaCat investors	157,177	2,914	154,263
Tax benefit (expense)	2,118	4,683	(2,565)
(Loss) income from operating affiliates	(23)	(4,007)	3,984
(Income) attributable to AlphaCat investors	(4,600)	(4,600)	—
Net operating income (a)	$154,672	$(1,010)	$155,682
Net (income) attributable to noncontrolling interest	(37,294)	(18,486)	(18,808)
Net operating income available to Validus	$117,378	$(19,496)	$136,874
Supplemental information:			
Losses and loss expenses			
Current period excluding items below	$278,186	$(31,302)	$309,488
Current period—notable loss events	—	—	—
Current period—non-notable loss events	—	(15,000)	15,000
Change in prior accident years	(53,739)	29,820	(83,559)
Total losses and loss expenses	$224,447	$(16,482)	$240,929
Selected ratios:			
Net premiums written / Gross premiums written	85.7%	2.8	82.9%
Losses and loss expense ratio			
Current period excluding items below	48.7%	(5.0)	53.7%
Current period—notable loss events	—%	—	—%

Current period—non-notable loss events	— %	(2.6)	2.6 %
Change in prior accident years	(9.4)%	5.1	(14.5)%
Losses and loss expenses	39.3 %	(2.5)	41.8 %
Policy acquisition costs	18.8 %	1.7	17.1 %
General and administrative expenses (b)	17.0 %	0.8	16.2 %
Expense ratio	35.8 %	2.5	33.3 %
Combined ratio	75.1 %	—	75.1 %

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

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

Table of Contents

First Quarter 2016 Summarized Results of Operations - Consolidated

Highlights for the first quarter are as follows:

- Gross premiums written for the three months ended March 31, 2016 were $1,172.8 million compared to $1,119.2 million for the three months ended March 31, 2015, an increase of $53.6 million, or 4.8%. The increase was primarily driven by an increase in the AlphaCat and Western World segments, offset by a decrease in the Validus Re segment as follows:
- Gross premiums written in the AlphaCat segment, on behalf of the Company's VIEs, were $167.3 million for the three months ended March 31, 2016, compared to $101.8 million for the three months ended March 31, 2015, an increase of $65.5 million or 64.4%, primarily due to an increase in the capital base of the AlphaCat ILS Funds.
- Gross premiums written for the three months ended March 31, 2016 in the Western World segment were $64.0 million compared to $56.9 million for the three months ended March 31, 2015, an increase of $7.0 million or 12.3%, primarily driven by an increase in the property lines.
- Gross premiums written for the three months ended March 31, 2016 in the Validus Re segment were $691.7 million compared to $711.7 million for the three months ended March 31, 2015, a decrease of $20.0 million or 2.8%. This decrease was primarily due to utilization of third party capital and the current rate environment, partially offset by increases relating to new casualty business and adjustments to premiums on existing business.
- Gross premiums written for the three months ended March 31, 2016 in the Talbot segment were $266.3 million compared to $270.1 million for the three months ended March 31, 2015, a decrease of $3.8 million or 1.4%.
- Underwriting revenues for the three months ended March 31, 2016 were $572.0 million compared to $576.8 million for the three months ended March 31, 2015, a decrease of $4.8 million or 0.8%.
- Losses and loss expenses for the three months ended March 31, 2016 were $224.4 million compared to $240.9 million for the three months ended March 31, 2015, a decrease of $16.5 million or 6.8% primarily as a result of no notable or non-notable loss events incurred during the three months ended March 31, 2016.
- Loss ratios by line of business were as follows:

	Three Months Ended March 31,		
	2016	Change	2015
Property	9.9 %	(9.8)	19.7%
Marine	63.5%	26.6	36.9%
Specialty	57.0%	(2.9)	59.9%
Liability	62.0%	(15.2)	77.2%
All lines	39.3%	(2.5)	41.8%

- The loss ratio for the three months ended March 31, 2016 was 39.3% which included $53.7 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 9.4 percentage points compared to a loss ratio for the three months ended March 31, 2015 of 41.8% which included $83.6 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 14.5 percentage points. The favorable development of $53.7 million for the three months ended March 31, 2016 was primarily due to favorable development on non-event reserves of $71.4 million; offset by unfavorable development on events of $17.7 million. The unfavorable development was driven by reserves established following the receipt of a loss advice on an individual marine policy that incepted during the second half of 2015. The term events refers to aggregate notable and non-notable losses incurred.
- The combined ratio for the three months ended March 31, 2016 and 2015 was 75.1%.
- Policy acquisition costs for the three months ended March 31, 2016 were $107.2 million compared to $98.4 million, an increase of $8.8 million or 8.9%, primarily driven by an increase in the Western World segment due to the impact of the acquisition fair value adjustments during the three months ended March 31, 2015.
-

Underwriting income for the three months ended March 31, 2016 was $142.9 million compared to $144.2 million for the three months ended March 31, 2015, a decrease of $1.3 million or 0.9% primarily as a result of the changes in underwriting revenues and deductions described above.

Table of Contents

- Net operating income available to Validus for the three months ended March 31, 2016 was $117.4 million compared to $136.9 million for the three months ended March 31, 2015, a decrease of $19.5 million, or 14.2%.
- Net income available to Validus for the three months ended March 31, 2016 was $166.8 million compared to $173.4 million for the three months ended March 31, 2015, a decrease of $6.6 million, or 3.8%.
- Annualized return on average equity was 18.1% and annualized net operating return on average equity was 12.8% for the three months ended March 31, 2016 compared to 19.1% and 15.1%, respectively, for the three months ended March 31, 2015.

Table of Contents

Segment Reporting

Management has determined that the Company operates in four reportable segments Validus Re, Talbot, Western World and AlphaCat.

First Quarter 2016 Results of Operations - Validus Re Segment

The following table presents underwriting income for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Underwriting income			
Gross premiums written	$691,668	$(20,025)	$711,693
Reinsurance premiums ceded	(92,495)	21,282	(113,777)
Net premiums written	599,173	1,257	597,916
Change in unearned premiums	(355,342)	(10,514)	(344,828)
Net premiums earned	243,831	(9,257)	253,088
Other insurance related (loss) income	(315)	(630)	315
Underwriting revenues	243,516	(9,887)	253,403
Underwriting deductions			
Losses and loss expenses	82,868	(30,260)	113,128
Policy acquisition costs	42,259	165	42,094
General and administrative expenses	17,179	(2,330)	19,509
Share compensation expenses	2,901	323	2,578
Total underwriting deductions	145,207	(32,102)	177,309
Underwriting income (a)	$98,309	$22,215	$76,094
Supplemental information:			
Losses and loss expenses			
Current period excluding items below	$108,552	$(14,272)	$122,824
Current period—notable loss events	—	—	—
Current period—non-notable loss events	—	(15,000)	15,000
Change in prior accident years	(25,684)	(988)	(24,696)
Total losses and loss expenses	$82,868	$(30,260)	$113,128
Selected ratios:			
Net premiums written / Gross premiums written	86.6%	2.6	84.0%
Losses and loss expense ratio			
Current period excluding items below	44.5%	(4.1)	48.6%
Current period—notable loss events	—%	—	—%
Current period—non-notable loss events	—%	(5.9)	5.9%
Change in prior accident years	(10.5)%	(0.7)	(9.8)%
Losses and loss expenses	34.0%	(10.7)	44.7%
Policy acquisition costs	17.4%	0.7	16.7%
General and administrative expenses (b)	8.2%	(0.5)	8.7%

Expense ratio	25.6	%	0.2		25.4	%
Combined ratio	59.6	%	(10.5	)	70.1	%

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

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

Table of Contents

Gross Premiums Written

	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	$192,637	27.9 %	$(27,190)	(3.0)	$219,827	30.9 %
Marine	106,603	15.4 %	(26,797)	(3.3)	133,400	18.7 %
Specialty	392,428	56.7 %	33,962	6.3	358,466	50.4 %
Total	$691,668	100.0%	$(20,025)		$711,693	100.0%

The decrease in gross premiums written in the property lines of $27.2 million was primarily due to a decrease in the catastrophe excess of loss lines of $40.1 million driven by the utilization of third party capital, along with reductions in our participation and non-renewals on various programs due to the current rate environment. This decrease was partially offset by an increase in the proportional lines of $8.0 million as a result of new quota share programs totaling $11.4 million, partially offset by adjustments to premiums on existing business. The decrease in gross premiums written in the marine lines of $26.8 million was primarily driven by reductions in our participation on various programs due to current market conditions and some business historically written in marine lines being renewed in specialty lines. The increase in gross premiums written in the specialty lines of $34.0 million was primarily due to new casualty business of $23.6 million written during the three months ended March 31, 2016 along with increases in the financial, trade credit, and composite lines, partially offset by decreases in the agriculture lines due to a significant reduction in our participation on an existing agriculture deal and adjustments to premiums on existing business.

Reinsurance Premiums Ceded

	Reinsurance Premiums Ceded Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property	$72,496	$(24,981)	$97,477
Marine	7,415	2,131	5,284
Specialty	12,584	1,568	11,016
Total	$92,495	$(21,282)	$113,777

Reinsurance premiums ceded in the property lines decreased by $25.0 million primarily due to a reduction in the Company's main proportional retrocession program.

Net Premiums Written

	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	$120,141	62.4 %	$(2,209)	6.7	$122,350	55.7 %
Marine	99,188	93.0 %	(28,928)	(3.0)	128,116	96.0 %
Specialty	379,844	96.8 %	32,394	(0.1)	347,450	96.9 %

Total	$599,173	86.6	%	$1,257	2.6	$597,916	84.0	%

The changes in net premiums written and net retention ratios are driven by factors highlighted above in respect of gross premiums written and reinsurance premiums ceded.

62

Table of Contents

Net Premiums Earned

	Net Premiums Earned Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property	$102,152	$(8,185)	$110,337
Marine	34,871	(3,360)	38,231
Specialty	106,808	2,288	104,520
Total	$243,831	$(9,257)	$253,088

The decrease in property lines net premiums earned of $8.2 million was as a result of lower gross premiums written during the twelve months ended March 31, 2016 compared to the twelve months ended March 31, 2015, offset by the earned impact of the reduction in reinsurance premium ceded. The decrease in marine lines net premiums earned of $3.4 million was due to lower gross premiums written during the twelve months ended March 31, 2016 compared to the twelve months ended March 31, 2015.

Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Three Months Ended March 31,		
	2016	Change	2015
All lines—current period excluding items below	44.5 %	(4.1)	48.6 %
All lines—current period—notable loss events	0.0 %	—	0.0 %
All lines—current period—non-notable loss events	0.0 %	(5.9)	5.9 %
All lines—change in prior accident years	(10.5)%	(0.7)	(9.8)%
All lines—loss ratio	34.0 %	(10.7)	44.7 %

	Losses and Loss Expenses - All Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
All lines—current period excluding items below	$108,552	$(14,272)	$122,824
All lines—current period—notable loss events	—	—	—
All lines—current period—non-notable loss events	—	(15,000)	15,000
All lines—change in prior accident years	(25,684)	(988)	(24,696)
All lines—losses and loss expenses	$82,868	$(30,260)	$113,128

Notable Loss Events

There were no notable loss events for the three months ended March 31, 2016 or 2015.

Non-notable Loss Events

Losses and loss expenses from non-notable loss events for the three months ended March 31, 2016 were $nil compared to $15.0 million during the three months ended March 31, 2015. The non-notable loss event for the three months ended March 31, 2015 was Windstorm Niklas.

Table of Contents

Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended March 31,		
	2016	Change	2015
Property—current period excluding items below	19.2 %	2.1	17.1 %
Property—current period—notable loss events	0.0 %	0.0	0.0 %
Property—current period—non-notable loss events	0.0 %	(13.6)	13.6 %
Property—change in prior accident years	(22.4) %	(8.9)	(13.5) %
Property—loss ratio	(3.2)%	(20.4)	17.2 %

	Losses and Loss Expenses - Property Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property—current period excluding items below	$19,590	$674	$18,916
Property—current period—notable loss events	—	—	—
Property—current period—non-notable loss events	—	(15,000)	15,000
Property—change in prior accident years	(22,832)	(7,936)	(14,896)
Property—losses and loss expenses	$(3,242)	$(22,262)	$19,020

There were no non-notable loss events for the three months ended March 31, 2016. During the three months ended March 31, 2015, the property lines incurred $15.0 million of losses and loss expenses from a single non-notable loss event, Windstorm Niklas, which represented 13.6 percentage points of the property lines loss ratio.

The property lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, increased by 2.1 percentage points, representing a higher level of attritional losses in the current quarter. The favorable development on prior accident years for the three months ended March 31, 2016 of $22.8 million included favorable development on prior years from events of $10.6 million. The remainder was primarily due to favorable development on attritional losses. The favorable development on prior accident years for the three months ended March 31, 2015 of $14.9 million was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Marine Lines Three Months Ended March 31,		
	2016	Change	2015
Marine—current period excluding items below	48.3%	(23.1)	71.4 %
Marine—current period—notable loss events	0.0 %	0.0	0.0 %
Marine—current period—non-notable loss events	0.0 %	0.0	0.0 %
Marine—change in prior accident years	10.2%	22.1	(11.9)%
Marine—loss ratio	58.5%	(1.0)	59.5 %

Losses and Loss Expenses - Marine Lines
Three Months Ended March 31,

(Dollars in thousands)	2016	Change	2015
Marine—current period excluding items below	$16,856	$(10,445)	$27,301
Marine—current period—notable loss events	—	—	—
Marine—current period—non-notable loss events	—	—	—
Marine—change in prior accident years	3,555	8,125	(4,570)
Marine—losses and loss expenses	$20,411	$(2,320)	$22,731

The marine lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 23.1 percentage points, representing a lower level of attritional losses in the three months ended March 31,

Table of Contents

2016 compared to the three months ended March 31, 2015, which included losses of $11.3 million from the Petrobras offshore platform fire that was below the non-notable loss event threshold. The unfavorable development of $3.6 million on prior accident years for the three months ended March 31, 2016 included $12.1 million in unfavorable development on prior years from events, partially offset by favorable development on attritional losses. The favorable development of $4.6 million on prior accident years for the three months ended March 31, 2015 was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Specialty Lines Three Months Ended March 31,		
	2016	Change	2015
Specialty—current period excluding items below	67.5 %	(5.8)	73.3 %
Specialty—current period—notable loss events	0.0 %	0.0	0.0 %
Specialty—current period—non-notable loss events	0.0 %	0.0	0.0 %
Specialty—change in prior accident years	(6.0)%	(1.0)	(5.0)%
Specialty—loss ratio	61.5 %	(6.8)	68.3 %

	Losses and Loss Expenses - Specialty Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Specialty—current period excluding items below	$72,106	$(4,501)	$76,607
Specialty—current period—notable loss events	—	—	—
Specialty—current period—non-notable loss events	—	—	—
Specialty—change in prior accident years	(6,407)	(1,177)	(5,230)
Specialty—losses and loss expenses	$65,699	$(5,678)	$71,377

The specialty lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 5.8 percentage points, representing a lower level of attritional losses in the current quarter. The favorable loss reserve development on prior accident years for the three months ended March 31, 2016 and 2015 of $6.4 million and $5.2 million, respectively, was primarily due to favorable development on attritional losses.

Policy Acquisition Costs

	Policy Acquisition Costs Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	$18,944	18.5 %	$709	2.0	$18,235	16.5 %
Marine	4,912	14.1 %	(2,916)	(6.4)	7,828	20.5 %
Specialty	18,403	17.2 %	2,372	1.9	16,031	15.3 %
Total	$42,259	17.4 %	$165	0.7	$42,094	16.7 %

The acquisition cost ratio for the property lines increased by 2.0 percentage points primarily due to an increase in proportional business which carries higher acquisition costs, along with the impact of reinstatement premiums. The acquisition cost ratio for the marine lines decreased by 6.4 percentage points primarily due to the impact of reinstatement premiums, adjustments to existing business and profit commissions.

Table of Contents

Underwriting Income Before General and Administrative and Share Compensation Expenses

	Underwriting Income Before General and Administrative and Share Compensation Expenses		
	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property	$86,450	$13,368	$73,082
Marine	9,548	1,876	7,672
Specialty	22,706	5,594	17,112
Other insurance related income	(315)	(630)	315
Total	$118,389	$20,208	$98,181

The changes in underwriting income before general and administrative and share compensation expenses are driven by factors highlighted above in respect of gross premiums written, reinsurance premiums ceded, other insurance related income, losses and loss expenses and policy acquisition costs.

General and Administrative and Share Compensation Expenses

	General and Administrative and Share Compensation Expenses					
	Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	$17,179	7.0 %	$(2,330)	(0.7)	$19,509	7.7 %
Share compensation expenses	2,901	1.2 %	323	0.2	2,578	1.0 %
Total	$20,080	8.2 %	$(2,007)	(0.5)	$22,087	8.7 %

General and administrative expenses decreased by $2.3 million primarily due to an adjustment to the 2015 performance bonus accrual during the three months ended March 31, 2016. Share compensation expenses were comparable for the three months ended March 31, 2016 and 2015.

Selected Underwriting Ratios

The underwriting results of an insurance or reinsurance company are often measured by reference to its combined ratio, which is the sum of the losses and loss expense ratio and the expense ratio. The losses and loss expense ratio is calculated by dividing losses and loss expenses incurred (including estimates for incurred but not reported losses) by net premiums earned. The expense ratio is calculated by dividing acquisition costs combined with general and administrative expenses by net premiums earned. The following table presents the losses and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,		
	2016	Change	2015
Losses and loss expense ratio	34.0%	(10.7)	44.7%
Policy acquisition cost ratio	17.4%	0.7	16.7%
General and administrative expense ratio (a)	8.2 %	(0.5)	8.7 %
Expense ratio	25.6%	0.2	25.4%
Combined ratio	59.6%	(10.5)	70.1%

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

The decrease in the combined ratio for the three months ended March 31, 2016 of 10.5 percentage points compared to the three months ended March 31, 2015 was due to the movement in the underlying ratios as discussed above.

Table of Contents

First Quarter 2016 Results of Operations - Talbot Segment

The following table presents underwriting income for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Underwriting income			
Gross premiums written	$266,317	$(3,760)	$270,077
Reinsurance premiums ceded	(87,458)	3,617	(91,075)
Net premiums written	178,859	(143)	179,002
Change in unearned premiums	27,933	(15,654)	43,587
Net premiums earned	206,792	(15,797)	222,589
Other insurance related income	11	(43)	54
Underwriting revenues	206,803	(15,840)	222,643
Underwriting deductions			
Losses and loss expenses	100,101	21,973	78,128
Policy acquisition costs	44,343	(4,761)	49,104
General and administrative expenses	38,535	2,041	36,494
Share compensation expenses	3,522	565	2,957
Total underwriting deductions	186,501	19,818	166,683
Underwriting income (a)	$20,302	$(35,658)	$55,960
Supplemental information:			
Losses and loss expenses			
Current period excluding items below	$122,821	$(6,994)	$129,815
Current period—notable loss events	—	—	—
Current period—non-notable loss events	—	—	—
Change in prior accident years	(22,720)	28,967	(51,687)
Total losses and loss expenses	$100,101	$21,973	$78,128
Selected ratios:			
Net premiums written / Gross premiums written	67.2 %	0.9	66.3 %
Losses and loss expense ratio			
Current period excluding items below	59.4 %	1.1	58.3 %
Current period—notable loss events	— %	—	— %
Current period—non-notable loss events	— %	—	— %
Change in prior accident years	(11.0)%	12.2	(23.2)%
Losses and loss expenses	48.4 %	13.3	35.1 %
Policy acquisition costs	21.5 %	(0.6)	22.1 %
General and administrative expenses (b)	20.3 %	2.6	17.7 %
Expense ratio	41.8 %	2.0	39.8 %
Combined ratio	90.2 %	15.3	74.9 %

(a)

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

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

Table of Contents

Gross Premiums Written

	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written					
	Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	$69,767	26.2 %	$(1,894)	(0.3)	$71,661	26.5 %
Marine	88,220	33.1 %	(22,149)	(7.8)	110,369	40.9 %
Specialty	108,330	40.7 %	20,283	8.1	88,047	32.6 %
Total	$266,317	100.0%	$(3,760)		$270,077	100.0%

Talbot gross premiums written for the three months ended March 31, 2016 translated at 2015 exchange rates would have been $269.5 million, a decrease of $0.6 million on the prior year period.

The decrease in gross premiums written in the marine lines of $22.1 million includes an increase in premium estimates of $6.5 million, which had no impact on earned premium. After the impact of these changes in estimates, the decrease was driven primarily by decreases in the upstream energy lines of $11.6 million and cargo and other treaty lines of $12.1 million due to the timing of renewals of certain policies, a reduction in premium adjustments to prior years and ongoing market conditions which have reduced renewals. The increase in gross premiums written in the specialty lines of $20.3 million includes an increase in premium estimates of $15.8 million, which had no impact on earned premium. After the impact of these changes in estimates, the increase of $4.5 million was primarily due to new business in the political lines class of $7.2 million, partially offset by decreases across a number of classes.

Reinsurance Premiums Ceded

	Reinsurance Premiums Ceded		
	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property	$34,056	$(6,199)	$40,255
Marine	21,372	3,543	17,829
Specialty	32,030	(961)	32,991
Total	$87,458	$(3,617)	$91,075

The decrease in reinsurance premiums ceded in the property lines of $6.2 million was primarily due to premium adjustments on prior year quota share policies. The increase in reinsurance premiums ceded in the marine lines of $3.5 million was primarily due to an increase in reinstatement premiums across a number of classes during the three months ended March 31, 2016.

Net Premiums Written

	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written					
	Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	$35,711	51.2 %	$4,305	7.4	$31,406	43.8 %

Marine	66,848	75.8 %	(25,692)	(8.0)	92,540	83.8 %
Specialty	76,300	70.4 %	21,244	7.9	55,056	62.5 %
Total	$178,859	67.2 %	$(143)	0.9	$179,002	66.3 %

The changes in net premiums written and net retention ratios are driven by the factors highlighted above in respect of gross premiums written and reinsurance premiums ceded.

Table of Contents

Net Premiums Earned

	Net Premiums Earned Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property	$60,996	$5,792	$55,204
Marine	69,871	(22,386)	92,257
Specialty	75,925	797	75,128
Total	$206,792	$(15,797)	$222,589

Excluding the impact of the changes in estimates noted above on gross premiums written, which had no impact on earned premium, the changes in net premiums earned were consistent with the pattern of net premiums written for the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Three Months Ended March 31,		
	2016	Change	2015
All lines—current period excluding items below	59.4 %	1.1	58.3 %
All lines—current period—notable loss events	0.0 %	0.0	0.0 %
All lines—current period—non-notable loss events	0.0 %	0.0	0.0 %
All lines—change in prior accident years	(11.0) %	12.2	(23.2) %
All lines—loss ratio	48.4 %	13.3	35.1 %

	Losses and Loss Expenses - All Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
All lines—current period excluding items below	$122,821	$(6,994)	$129,815
All lines—current period—notable loss events	—	—	—
All lines—current period—non-notable loss events	—	—	—
All lines—change in prior accident years	(22,720)	28,967	(51,687)
All lines - losses and loss expenses	$100,101	$21,973	$78,128

Notable and Non-Notable Loss Events

There were no notable or non-notable loss events for the three months ended March 31, 2016 or 2015.

Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended March 31,		
	2016	Change	2015
Property—current period excluding items below	55.5 %	(12.2)	67.7 %
Property—current period—notable loss events	0.0 %	0.0	0.0 %
Property—current period—non-notable loss events	0.0 %	0.0	0.0 %
Property—change in prior accident years	(30.2) %	7.4	(37.6) %
Property—loss ratio	25.3 %	(4.8)	30.1 %

69

Table of Contents

	Losses and Loss Expenses - Property Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property—current period excluding items below	$33,901	$(3,471)	$37,372
Property—current period—notable loss events	—	—	—
Property—current period—non-notable loss events	—	—	—
Property—change in prior accident years	(18,446)	2,306	(20,752)
Property—losses and loss expenses	$15,455	$(1,165)	$16,620

The property lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 12.2 percentage points as a result of lower attritional losses in the current quarter. The favorable development on prior accident years for the three months ended March 31, 2016 of $18.4 million was primarily due to favorable development on attritional losses. The favorable development on prior accident years for the three months ended March 31, 2015 of $20.8 million was due to favorable development on attritional losses and certain events, including the Thailand floods, which was a 2011 notable loss event.

	Losses and Loss Expense Ratio - Marine Lines Three Months Ended March 31,		
	2016	Change	2015
Marine—current period excluding items below	61.8%	9.9	51.9%
Marine—current period—notable loss events	0.0%	0.0	0.0%
Marine—current period—non-notable loss events	0.0%	0.0	0.0%
Marine—change in prior accident years	4.2%	28.6	(24.4)%
Marine—loss ratio	66.0%	38.5	27.5%

	Losses and Loss Expenses - Marine Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Marine—current period excluding items below	$43,143	$(4,734)	$47,877
Marine—current period—notable loss events	—	—	—
Marine—current period—non-notable loss events	—	—	—
Marine—change in prior accident years	2,964	25,478	(22,514)
Marine—losses and loss expenses	$46,107	$20,744	$25,363

The marine lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, increased by 9.9 percentage points primarily due to the decrease in net premiums earned in the current quarter as noted above. The unfavorable development on prior accident years for the three months ended March 31, 2016 of $3.0 million included adverse development of $19.4 million on prior years from events and was partially offset by favorable development on attritional losses. The favorable development on prior accident years for the three months ended March 31, 2015 of $22.5 million primarily related to favorable development on attritional losses.

Losses and Loss Expense Ratio - Specialty Lines

	Three Months Ended March 31, 2016		Change	2015	
Specialty—current period excluding items below	60.3	%	1.0	59.3	%
Specialty—current period—notable loss events	0.0	%	0.0	0.0	%
Specialty—current period—non-notable loss events	0.0	%	0.0	0.0	%
Specialty—change in prior accident years	(9.5	)%	1.7	(11.2)	%
Specialty—loss ratio	50.8	%	2.7	48.1	%

Table of Contents

(Dollars in thousands)	Losses and Loss Expenses - Specialty Lines Three Months Ended March 31, 2016	Change	2015
Specialty—current period excluding items below	$45,777	$1,211	$44,566
Specialty—current period—notable loss events	—	—	—
Specialty—current period—non-notable loss events	—	—	—
Specialty—change in prior accident years	(7,238)	1,183	(8,421)
Specialty—losses and loss expenses	$38,539	$2,394	$36,145

The specialty lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, increased by 1.0 percentage point primarily due to additional attritional losses in the current quarter. The favorable development on prior accident years for the three months ended March 31, 2016 and 2015 of $7.2 million and $8.4 million, respectively, was primarily due to favorable development on attritional losses.

Policy Acquisition Costs

	Policy Acquisition Costs Three Months Ended March 31, 2016		Change		2015	
(Dollars in thousands)	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	$8,417	13.8 %	$549	(0.5)	$7,868	14.3 %
Marine	18,515	26.5 %	(4,837)	1.2	23,352	25.3 %
Specialty	17,411	22.9 %	(473)	(0.9)	17,884	23.8 %
Total	$44,343	21.5 %	$(4,761)	(0.6)	$49,104	22.1 %

The marine acquisition cost ratio increased by 1.2 percentage points primarily due to the impact of higher ceded reinstatement premiums across a number of classes during the three months ended March 31, 2016.

Underwriting Income Before General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Underwriting Income Before General and Administrative and Share Compensation Expenses Three Months Ended March 31, 2016	Change	2015
Property	$37,124	$6,408	$30,716
Marine	5,249	(38,293)	43,542
Specialty	19,975	(1,124)	21,099
Other insurance related income	11	(43)	54
Total	$62,359	$(33,052)	$95,411

The changes in underwriting income before general and administrative and share compensation expenses are driven by factors highlighted above in respect of gross premiums written, reinsurance premiums ceded, other insurance related income, losses and loss expenses and policy acquisition costs.

Table of Contents

General and Administrative and Share Compensation Expenses

	General and Administrative and Share Compensation Expenses					
	Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	$38,535	18.6 %	$2,041	2.2	$36,494	16.4 %
Share compensation expenses	3,522	1.7 %	565	0.4	2,957	1.3 %
Total	$42,057	20.3 %	$2,606	2.6	$39,451	17.7 %

General and administrative expenses for the three months ended March 31, 2016 translated at 2015 exchange rates would have been $40.6 million, an increase of $4.1 million. This increase was primarily due to a greater retention of costs within the segment and an increase in Lloyd's related costs. Share compensation expenses were comparable for the three months ended March 31, 2016 and 2015.

Selected Underwriting Ratios

The following table presents the losses and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,		
	2016	Change	2015
Losses and loss expense ratio	48.4%	13.3	35.1%
Policy acquisition cost ratio	21.5%	(0.6)	22.1%
General and administrative expense ratio (a)	20.3%	2.6	17.7%
Expense ratio	41.8%	2.0	39.8%
Combined ratio	90.2%	15.3	74.9%

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

The increase in the combined ratio for the three months ended March 31, 2016 of 15.3 percentage points compared to the three months ended March 31, 2015 was due to the movement in the underlying ratios as discussed above.

Table of Contents

First Quarter 2016 Results of Operations - Western World Segment

The following table presents underwriting income for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Underwriting income			
Gross premiums written	$63,959	$7,012	$56,947
Reinsurance premiums ceded	(4,139)	(906)	(3,233)
Net premiums written	59,820	6,106	53,714
Change in unearned premiums	1,679	(12,489)	14,168
Net premiums earned	61,499	(6,383)	67,882
Other insurance related income	288	25	263
Underwriting revenues	61,787	(6,358)	68,145
Underwriting deductions			
Losses and loss expenses	39,646	(10,871)	50,517
Policy acquisition costs	14,200	9,921	4,279
General and administrative expenses	12,075	1,448	10,627
Share compensation expenses	581	104	477
Total underwriting deductions	66,502	602	65,900
Underwriting (loss) income (a)	$(4,715)	$(6,960)	$2,245
Supplemental information:			
Losses and loss expenses			
Current period excluding items below	$44,072	$(12,777)	$56,849
Current period—notable loss events	—	—	—
Current period—non-notable loss events	—	—	—
Change in prior accident years	(4,426)	1,906	(6,332)
Total losses and loss expenses	$39,646	$(10,871)	$50,517
Selected ratios:			
Net premiums written / Gross premiums written	93.5 %	(0.8)	94.3 %
Losses and loss expense ratio			
Current period excluding items below	71.7 %	(12.0)	83.7 %
Current period—notable loss events	— %	—	— %
Current period—non-notable loss events	— %	—	— %
Change in prior accident years	(7.2)%	2.1	(9.3)%
Losses and loss expenses	64.5 %	(9.9)	74.4 %
Policy acquisition costs	23.1 %	16.8	6.3 %
General and administrative expenses (b)	20.5 %	4.1	16.4 %
Expense ratio	43.6 %	20.9	22.7 %
Combined ratio	108.1 %	11.0	97.1 %

(a)

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

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

73

Table of Contents

Gross Premiums Written

	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written					
	Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	$15,426	24.1 %	$6,040	7.6	$9,386	16.5 %
Liability	48,533	75.9 %	972	(7.6)	47,561	83.5 %
Total	$63,959	100.0%	$7,012		$56,947	100.0%

The property lines consist largely of commercial package property, program and brokerage business. The increase in gross premiums written in the property lines of $6.0 million was due to additional business written in the brokerage property and commercial package property classes of $3.9 million and $1.1 million, respectively, as a result continued enhancements in the coastal wind property program. Gross premiums written in the liability lines consist largely of commercial package liability, program and other liability business. The increase in gross premiums written in the liability lines of $1.0 million was driven by growth in the contract general liability lines and was partially offset by reductions in underperforming programs and brokerage general liability lines that have been discontinued.

Reinsurance Premiums Ceded

	Reinsurance Premiums Ceded		
	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property	$1,554	$ 988	$566
Liability	2,585	(82)	2,667
Total	$4,139	$ 906	$3,233

Reinsurance premiums ceded were comparable for the three months ended March 31, 2016 and 2015.

Net Premiums Written

	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written					
	Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	$13,872	89.9 %	$5,052	(4.1)	$8,820	94.0 %
Liability	45,948	94.7 %	1,054	0.3	44,894	94.4 %
Total	$59,820	93.5 %	$6,106	(0.8)	$53,714	94.3 %

Net premiums written and the net retention ratios were driven by the factors highlighted above in respect of gross premiums written and reinsurance premiums ceded.

Net Premiums Earned

Net Premiums Earned

(Dollars in thousands)	Three Months Ended March 31, 2016	Change	2015
Property	$12,195	$1,500	$10,695
Liability	49,304	(7,883)	57,187
Total	$61,499	$(6,383)	$67,882

Net premiums earned were driven by the earnings pattern of net premiums written. Net premiums earned exceeded net premiums written for the three months ended March 31, 2016 and 2015 as Western World discontinued writing business in several underperforming classes during the three months ended December 31, 2014, including binding authority commercial auto business, a large bar and tavern program and certain brokerage general liability habitational accounts.

Table of Contents

Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Three Months Ended March 31,		
	2016	Change	2015
All lines—current period excluding items below	71.7 %	(12.0)	83.7 %
All lines—current period—notable loss events	0.0 %	0.0	0.0 %
All lines—current period—non-notable loss events	0.0 %	0.0	0.0 %
All lines—change in prior accident years (a)	(7.2)%	2.1	(9.3)%
All lines—loss ratio (a)	64.5 %	(9.9)	74.4 %

	Losses and Loss Expenses - All Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
All lines—current period excluding items below	$44,072	$(12,777)	$56,849
All lines—current period—notable loss events	—	—	—
All lines—current period—non-notable loss events	—	—	—
All lines—change in prior accident years (a)	(4,426)	1,906	(6,332)
All lines—losses and loss expenses (a)	$39,646	$(10,871)	$50,517

(a) Upon closing the acquisition, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $3,223 during the three months ended March 31, 2015, benefiting the loss ratio by 4.7 percentage points. The remaining fair value adjustment of $7,756 was fully amortized during the year ended December 31, 2015.

Notable and Non-Notable Loss Events

There were no notable or non-notable loss events for the three months ended March 31, 2016 or 2015.

Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended March 31,		
	2016	Change	2015
Property—current period excluding items below	77.9 %	(6.9)	84.8 %
Property—current period—notable loss events	0.0 %	0.0	0.0 %
Property—current period—non-notable loss events	0.0 %	0.0	0.0 %
Property—change in prior accident years (a)	(3.6)%	21.9	(25.5)%
Property—loss ratio (a)	74.3 %	15.0	59.3 %

	Losses and Loss Expenses - Property Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property—current period excluding items below	$9,496	$426	$9,070
Property—current period—notable loss events	—	—	—

Property—current period—non-notable loss events	—	—	
Property—change in prior accident years (a)	(441)	2,287	(2,728)
Property—losses and loss expenses (a)	$9,055	$2,713	$6,342

(a) Upon closing the acquisition, an adjustment of $409 was made to decrease net reserves to reflect fair value. This adjustment was amortized to income through an increase in losses and loss expenses of $85 during the three months ended March 31, 2015, increasing the loss ratio by 0.8 percentage points. The remaining fair value adjustment of $203 was fully amortized during the year ended December 31, 2015.

The property lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 6.9 percentage points primarily due to higher winter weather related claims during the three months ended March 31, 2015. The loss ratio for the three months ended March 31, 2016 included catastrophe losses totaling $2.0 million, or 16.4 percentage points; whereas, the loss ratio for the three months ended March 31, 2015 included winter weather related losses

Table of Contents

of $2.4 million, or 22.4 percentage points. The favorable development on prior accident years for the three months ended March 31, 2016 and 2015 of $0.4 million and $2.7 million, respectively, primarily relates to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Liability Lines Three Months Ended March 31,		
	2016	Change	2015
Liability—current period excluding items below	70.1 %	(13.4)	83.5 %
Liability—current period—notable loss events	0.0 %	0.0	0.0 %
Liability—current period—non-notable loss events	0.0 %	0.0	0.0 %
Liability—change in prior accident years (a)	(8.1)%	(1.8)	(6.3)%
Liability—loss ratio (a)	62.0 %	(15.2)	77.2 %

	Losses and Loss Expenses - Liability Lines Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Liability—current period excluding items above	$34,576	$(13,203)	$47,779
Liability—current period—notable loss events	—	—	—
Liability—current period—non-notable loss events	—	—	—
Liability—change in prior accident years (a)	(3,985)	(381)	(3,604)
Liability—losses and loss expenses (a)	$30,591	$(13,584)	$44,175

(a) Upon closing the acquisition, an adjustment of $15,995 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $3,308 during the three months ended March 31, 2015, benefiting the loss ratio by 5.8 percentage points. The remaining fair value adjustment of $7,959 was fully amortized during the year ended December 31, 2015.

The liability lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 13.4 percentage points as Western World discontinued writing business in several underperforming classes during the three months ended December 31, 2014. The favorable loss reserve development during the three months ended March 31, 2016 of $4.0 million was due to favorable development on attritional losses, whereas the favorable loss reserve development of $3.6 million during the three months ended March 31, 2015 was primarily due to the amortization of the fair value adjustment as noted in the table footnote above.

Policy Acquisition Costs

	Policy Acquisition Costs Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	$2,902	23.8 %	$2,078	16.1	$824	7.7 %
Liability	11,298	22.9 %	7,843	16.9	3,455	6.0 %
Total (a)	$14,200	23.1 %	$9,921	16.8	$4,279	6.3 %

(a)

Upon closing the acquisition, an adjustment of $34,736 was made to reduce deferred acquisition costs to reflect fair value. These deferred acquisition costs would otherwise have been expensed in the amount of $10,408 during the three months ended March 31, 2015 benefiting the policy acquisition cost ratio by 15.3 percentage points.

The acquisition cost ratio for the property and liability lines increased by 16.1 and 16.9 percentage points, respectively, primarily due to the impact of the acquisition fair value adjustments during the three months ended March 31, 2015 as noted in the table footnote above.

Table of Contents

Underwriting Income Before General and Administrative and Share Compensation Expenses

	Underwriting Income Before General and Administrative and Share Compensation Expenses Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Property	$238	$(3,291)	$3,529
Liability	7,415	(2,142)	9,557
Other insurance related income	288	25	263
Total	$7,941	$(5,408)	$13,349

The changes in underwriting income before general and administrative and share compensation expenses are driven by factors highlighted above in respect of gross premiums written, reinsurance premiums ceded, losses and loss expenses and policy acquisition costs.

General and Administrative and Share Compensation Expenses

	General and Administrative and Share Compensation Expenses Three Months Ended March 31,					
	2016		Change		2015	
(Dollars in thousands)	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	$12,075	19.6 %	$1,448	3.9	$10,627	15.7 %
Share compensation expenses	581	0.9 %	104	0.2	477	0.7 %
Total	$12,656	20.5 %	$1,552	4.1	$11,104	16.4 %

The increase in general and administrative expenses of $1.4 million for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was primarily due to the hiring of new underwriting teams and the opening of new offices in Arizona, Atlanta and New York.

Selected Underwriting Ratios

The following table presents the losses and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the three months ended March 31, 2016 and 2015.

	Three Months Ended March 31,		
	2016	Change	2015
Losses and loss expense ratio	64.5 %	(9.9)	74.4 %
Policy acquisition cost ratio	23.1 %	16.8	6.3 %
General and administrative expense ratio (a)	20.5 %	4.1	16.4 %
Expense ratio	43.6 %	20.9	22.7 %
Combined ratio	108.1 %	11.0	97.1 %

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

The increase in the combined ratio for the three months ended March 31, 2016 of 11.0% percentage points compared to the three months ended March 31, 2015 was due to the movement in the underlying ratios as discussed above.

Table of Contents

First Quarter 2016 Results of Operations - AlphaCat Segment

The following table presents Validus' share of the AlphaCat segment income on an asset manager basis for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Revenue - management fees			
Third party	$4,727	$190	$4,537
Related party	891	(295)	1,186
Total revenue	5,618	(105)	5,723
Expenses			
General and administrative expenses	1,482	(947)	2,429
Share compensation expenses	141	(8)	149
Finance expenses	808	(3,620)	4,428
Foreign exchange losses (gains)	8	21	(13)
Total expenses	2,439	(4,554)	6,993
Income (loss) before investments from AlphaCat Funds and Sidecars	$3,179	$4,449	$(1,270)
Investment income (loss) from AlphaCat Funds and Sidecars (b)			
AlphaCat Sidecars	124	(1,044)	1,168
AlphaCat ILS Funds - Lower Risk (c)	2,507	1,221	1,286
AlphaCat ILS Funds - Higher Risk (c)	2,436	11	2,425
BetaCat ILS Funds	563	389	174
PaCRe	(23)	(4,007)	3,984
Total investment income from AlphaCat Funds and Sidecars	5,607	(3,430)	9,037
Validus' share of AlphaCat income	$8,786	$1,019	$7,767
Supplemental information:			
Gross premiums written			
AlphaCat Sidecars	$(52)	$(40,158)	$40,106
AlphaCat ILS Funds - Lower Risk (c)	59,958	17,210	42,748
AlphaCat ILS Funds - Higher Risk (c)	96,320	77,369	18,951
AlphaCat Direct (d)	11,122	11,122	—
Total	$167,348	$65,543	$101,805

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

(b) The investment income from the AlphaCat funds and sidecars is based on equity accounting.

(c) Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of greater than 7%. Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.

(d) AlphaCat Direct includes direct investments from third party investors in AlphaCat Re.

Table of Contents

Revenue - Management Fees

Management fees were comparable for the three months ended March 31, 2016 and 2015.

Expenses

The decrease in expenses of $4.6 million was primarily due to the decrease in finance expenses of $3.6 million as a result of reduced placement fees incurred in relation to raising new capital during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Investment income from AlphaCat Funds and Sidecars

Investment income available to Validus from the AlphaCat Funds and Sidecars decreased by $3.4 million, primarily due to the wind down of PaCRe, which was off-risk effective January 1, 2016. Excluding PaCRe, investment income available to Validus from the AlphaCat Funds and Sidecars increased by $0.6 million during the three months ended March 31, 2016 compared to the three months ended March 31, 2015.

Assets Under Management

	Assets Under Management (a)		
(Dollars in thousands)	April 1, 2016	Change	January 1, 2016
Assets Under Management - Related Party			
AlphaCat Sidecars	$10,122	$(25,294)	$35,416
AlphaCat ILS Funds - Lower Risk (b)	167,497	3,483	164,014
AlphaCat ILS Funds - Higher Risk (b)	67,621	2,157	65,464
AlphaCat Direct (c)	—	—	—
BetaCat ILS Funds	62,336	587	61,749
Total	$307,576	$(19,067)	$326,643
Assets Under Management - Third Party			
AlphaCat Sidecars	$38,385	$(116,001)	$154,386
AlphaCat ILS Funds - Lower Risk (b)	1,135,635	33,173	1,102,462
AlphaCat ILS Funds - Higher Risk (b)	466,324	31,473	434,851
AlphaCat Direct (c)	370,032	2,212	367,820
BetaCat ILS Funds	—	—	—
Total	2,010,376	(49,143)	2,059,519
Total Assets Under Management	$2,317,952	$(68,210)	$2,386,162

(a) The Company’s assets under management are based on NAV and are represented by investments made by related parties and third parties in the feeder funds and on a direct basis.

(b) Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of greater than 7%. Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.

(c) AlphaCat Direct includes direct investments from third party investors in AlphaCat Re.

AlphaCat's assets under management were $2.3 billion as at April 1, 2016, compared to $2.4 billion as at January 1, 2016. Third party assets under management were $2.0 billion as at April 1, 2016, compared to $2.1 billion as at January 1, 2016. During the three months ended April 1, 2016, a total of $49.2 million of capital was raised, of which $45.8 million was raised from third parties. During the three months ended April 1, 2016, $146.5 million was returned to Sidecar investors upon expiration of the risk period. Of this, $120.2 million was returned to third party investors.

First Quarter 2016 Consolidated Non-Segment Results

The following table presents non-segment income and expense items on a consolidated basis for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Investment income			
Net investment income (a)	$27,923	$(1,513)	$29,436
Operating expenses			
General and administrative expenses	16,183	577	15,606
Share compensation expenses	4,092	1,199	2,893
Finance expenses (a)	14,341	(995)	15,336
Tax (benefit) expense	(2,118)	(4,683)	2,565
Total operating expenses	32,498	(3,902)	36,400
Other items			
Net realized (losses) gains on investments (a)	(1,086)	(5,266)	4,180
Change in net unrealized gains on investments (a)	47,078	12,409	34,669
(Loss) income from investment affiliate	(4,113)	(6,889)	2,776
Foreign exchange gains (losses) (a)	6,074	9,530	(3,456)
Other income	677	677	—
Total other items	48,630	10,461	38,169
Total corporate and investment information	$44,055	$12,850	$31,205

(a) These items exclude the components which are included in the Company's share of AlphaCat and amounts which are consolidated from VIEs.

Net Investment Income

	Net Investment Income Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Managed investments			
Fixed maturities and short-term investments	$28,017	$344	$27,673
Other investments	872	(2,316)	3,188
Cash and cash equivalents	865	449	416
Securities lending income	5	2	3
Total gross investment income	29,759	(1,521)	31,280
Investment expenses	(1,836)	8	(1,844)
Total managed net investment income	$27,923	$(1,513)	$29,436

The decrease in managed net investment income for the three months ended March 31, 2016 was $1.5 million or 5.1% and was primarily due to reduced yield on certain investment funds within other investments. Managed net investment income from other investments includes distributed and undistributed net income from certain investments.

The Company's managed yield-bearing portfolio had an annualized effective yield of 1.79% for the three months ended March 31, 2016 compared to 1.83% for the three months ended March 31, 2015, a decrease of 4.0 basis points. Investment yield is calculated by dividing total managed net investment income by the average balance of the yield bearing assets managed by the Company's portfolio managers. Average assets for the period ended is the average of the beginning, ending and intervening quarter end asset balances.

Table of Contents

General and Administrative and Share Compensation Expenses

Corporate general and administrative expenses for the three months ended March 31, 2016, excluding eliminations, were $16.2 million compared to $15.6 million for the three months ended March 31, 2015, an increase of $0.6 million or 3.7%. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses for the Corporate function and other costs relating to the Company as a whole.

Corporate share compensation expenses for the three months ended March 31, 2016 were $4.1 million compared to $2.9 million for the three months ended March 31, 2015, an increase of $1.2 million or 41.4%. The increase was primarily due to performance share award adjustments.

Finance Expenses

Finance expenses, excluding the Company's share of AlphaCat finance expenses from consolidated VIEs, for the three months ended March 31, 2016 were $14.3 million compared to $15.3 million for the three months ended March 31, 2015, a decrease of $1.0 million or 6.5% due to reduced credit facility expenses.

Net Realized and Change in Net Unrealized Gains (Losses) on Investments

Net realized losses on managed investments for the three months ended March 31, 2016 were $1.1 million compared to gains of $4.2 million for the three months ended March 31, 2015, an unfavorable movement of $5.3 million. The losses primarily resulted from the sale of managed fixed maturities.

The change in net unrealized gains on managed investments for the three months ended March 31, 2016 was $47.1 million compared to $34.7 million for the three months ended March 31, 2015, a favorable movement of $12.4 million. The favorable movement was primarily due to a falling interest rate environment during 2016 as compared to 2015.

(Loss) Income From Investment Affiliate

The (loss) income from investment affiliate relates to the income earned from the Company's investment in the Aquiline Financial Services Fund II L.P. which is recorded on a three-month lag and therefore reflects the underlying performance of that fund for the three months ended December 31, 2015 and 2014. For further details, refer to Note 6, "Investments in affiliates," to the Consolidated Financial Statements in Part I, Item 1.

Foreign Exchange Gains (Losses)

The Company's reporting currency is the U.S. dollar. As a significant portion of the Company's operations are transacted in currencies other than the U.S. dollar, fluctuations in foreign exchange rates may affect year-to-year comparisons. The Company's largest foreign currency fluctuation exposure is to the following currencies, with the movement in each currency against the U.S. dollar for the three months ended March 31, 2016 and 2015 shown in the table below:

	Three Months Ended March 31,	
U.S. dollar (weakened) strengthened against:	2016	2015
British Pound sterling	3.0 %	4.8 %
Euro	(4.5)%	12.2 %
Canadian dollar	(6.1)%	8.9 %
Swiss franc	(4.0)%	(2.4)%
Australian dollar	(4.7)%	6.8 %
New Zealand dollar	(1.1)%	4.1 %
Singapore dollar	(4.4)%	3.3 %
Japanese yen	(7.1)%	(0.1)%
South African rand	(5.0)%	4.7 %

Foreign exchange gains for the three months ended March 31, 2016 were $6.1 million compared to losses of $3.5 million for the three months ended March 31, 2015, a favorable movement of $9.5 million primarily due to gains on overseas assets held by the Company as a result of the U.S. dollar weakening against several currencies, notably the Canadian dollar, Swiss franc, Australian dollar, and Singapore dollar. Also contributing to the favorable movement were gains on liabilities denominated in British pounds as a result of the U.S. dollar strengthening against the British pound sterling.

Table of Contents

The Company currently hedges foreign currency exposure by substantively balancing assets (primarily cash and premium receivables) with liabilities (primarily case reserves and event IBNR) for certain major non-U.S. dollar currencies, or by entering into forward foreign currency contracts. Consequently, the Company aims to have a limited exposure to foreign exchange fluctuations.

Non-GAAP Financial Measures

The operating results of an insurance or reinsurance company are also often measured by reference to its underwriting income and net operating income, which are non-GAAP financial measures. Underwriting income and net operating income available to Validus, as set out in the table below, is reconciled to net income available to Validus (the most directly comparable GAAP financial measure) by the addition or subtraction of certain Consolidated Statement of Comprehensive Income (Loss) line items, as illustrated below.

	Three Months Ended March 31,	
(Dollars in thousands)	2016	2015
Underwriting income	$142,919	$144,201
Net investment income	29,461	31,029
Finance expenses	(15,203)	(20,967)
Tax benefit (expense)	2,118	(2,565)
(Loss) income from operating affiliates	(23)	3,984
(Income) attributable to AlphaCat investors	(4,600)	—
Net operating (income) attributable to noncontrolling interest	(37,294)	(18,808)
Net operating income available to Validus	$117,378	$136,874
Net realized (losses) gains on investments	(584)	4,169
Change in net unrealized gains on investments	47,444	33,227
(Loss) income from investment affiliate	(4,113)	2,776
Foreign exchange gains (losses)	6,245	(4,265)
Other income	677	—
Net (income) loss attributable to noncontrolling interest	(237)	630
Net income available to Validus	$166,810	$173,411

The Company uses underwriting income as a primary measure of underwriting results in its analysis of historical financial information and when performing its budgeting and forecasting processes. Analysts, investors and rating agencies who follow the Company request this non-GAAP financial information on a regular basis. In addition, underwriting income is one of the factors considered by the compensation committee of our Board of Directors in determining the total annual incentive compensation.

Underwriting income is the primary financial measure for the Company's insurance and reinsurance operating segments: Validus Re, Talbot and Western World. The results of the AlphaCat operating segment are presented on an asset manager basis, which is also non-GAAP. Refer to Part I, Item 1, Note 18, "Segment information," for a reconciliation of segmental income to net income available to Validus.

Net operating income available to Validus indicates the performance of the Company's core underwriting function and includes net investment income, finance expenses, tax (expense) benefit, income (loss) from operating affiliates and (income) attributable to AlphaCat investors and excludes net operating (income) attributable to noncontrolling interest and certain other revenues and expenses such as the reconciling items in the table above. The Company believes the reporting of net operating income available to Validus enhances the understanding of results by highlighting the underlying profitability of the Company's core insurance and reinsurance business. This profitability is influenced significantly by earned premium growth, adequacy of the Company's pricing and loss frequency and severity. Over time it is also influenced by the Company's underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance and its ability to manage its expense ratio, which it accomplishes through its management of acquisition costs and other underwriting expenses. The Company excludes the U.S. GAAP measures noted above, in particular net realized and change in net unrealized gains and losses on investments, from its calculation of net operating income available to Validus because the amount of these gains and losses is heavily influenced by, and fluctuates in part, according to availability of investment market opportunities. The Company believes these amounts are largely independent of its core underwriting activities and including them distorts the analysis of trends in its operations. In addition to presenting net income available to Validus determined in accordance with U.S. GAAP, the Company believes that showing underwriting income and net operating income available to Validus provides investors with a valuable measure

Table of Contents

of profitability and enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the Company’s results in a manner similar to how management analyzes the Company’s underlying business performance.

Underwriting income and net operating income available to Validus should not be viewed as a substitute for U.S. GAAP net income available to Validus as there are inherent material limitations associated with the use of underwriting income and net operating income available to Validus as compared to using net income available to Validus, which is the most directly comparable U.S. GAAP financial measure. The most significant limitation is the ability of users of the financial information to make comparable assessments of underwriting income and operating income with other companies, particularly as these measures may be defined or calculated differently by other companies. Therefore, the Company provides prominence in this filing to the use of the most comparable U.S. GAAP financial measure, net income available to Validus, which includes the reconciling items in the table above. The Company compensates for these limitations by providing both clear and transparent disclosure of net income available to Validus and reconciliation of underwriting income and net operating income available to Validus to net income available to Validus.

In presenting the Company's results, management has also included and discussed certain schedules containing book value and tangible book value per diluted common share and book value per diluted common share plus accumulated dividends that are not calculated in accordance with U.S. GAAP.

Such measures described above which are referred to as non-GAAP, 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.

Table of Contents

The following tables present reconciliations of book value per diluted common share to book value per common share, the most comparable U.S. GAAP financial measure, as at March 31, 2016 and December 31, 2015:

	March 31, 2016			
(Dollars in thousands, except share and per share amounts)	Equity Amount	Shares	Exercise Price (a)	Book Value Per Share
Book value per common share				
Total shareholders' equity available to Validus	$3,724,426	81,555,486		$45.67
Tangible book value per common share				$41.79
Book value per diluted common share				
Total shareholders' equity available to Validus	3,724,426	81,555,486		
Assumed exercise of outstanding stock options (b)	1,319	65,401	$ 20.17	
Unvested restricted shares	—	3,049,761		
Book value per diluted common share	$3,725,745	84,670,648		$44.00
Adjustment for accumulated dividends				10.51
Book value per diluted common share plus accumulated dividends				$54.51
Tangible book value per diluted common share				$40.26

	December 31, 2015			
(Dollars in thousands, except share and per share amounts)	Equity Amount	Shares	Exercise Price (a)	Book Value Per Share
Book value per common share				
Total shareholders' equity available to Validus	$3,638,975	82,900,617		$43.90
Tangible book value per common share				$40.06
Book value per diluted common share				
Total shareholders' equity available to Validus	3,638,975	82,900,617		
Assumed exercise of outstanding stock options (b)	1,319	65,401	$ 20.17	
Unvested restricted shares	—	3,026,376		
Book value per diluted common share	$3,640,294	85,992,394		$42.33
Adjustment for accumulated dividends				10.16
Book value per diluted common share plus accumulated dividends				$52.49
Tangible book value per diluted common share				$38.63

(a) Weighted average exercise price for those warrants and stock options that have an exercise price lower than book value per share.

(b) Using the "as-if-converted" method, assuming all proceeds received upon exercise of warrants and stock options will be retained by the Company and the resulting common shares from exercise remain outstanding.

Table of Contents

Liquidity and Capital Resources
Investments
Managed investments represent assets governed by the Company’s investment policy statement (“IPS”) whereas, non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company’s IPS. Refer to Note 5, "Variable interest entities," to the Consolidated Financial Statements in Part I, Item 1 for further details.
At March 31, 2016, the Company's managed cash and investment portfolio totaled $6.4 billion, compared to $6.4 billion at December 31, 2015, a decrease of $0.1 billion, or 1.0%, primarily as a result of share repurchases under the Company's share repurchase program. Refer to Note 3, "Investments,” to the Consolidated Financial Statements in Part I, Item 1 for further details.
A significant portion of (re)insurance contracts written by the Company provide short-tail reinsurance coverage for losses resulting mainly from natural and man-made catastrophes, which could result in payment of a substantial amount of losses at short notice. Accordingly, the Company’s investment portfolio is primarily structured to provide liquidity, which means the investment portfolio contains a significant amount of relatively short-term fixed maturity investments. The Company’s IPS specifically requires certain minimum thresholds of cash, short-term investments, and highly-rated fixed maturity securities relative to our consolidated net reserves and estimates of probable maximum loss exposures at the 1 in 100 year threshold to provide necessary liquidity in a wide range of reasonable scenarios. As such, we structure our managed cash and investment portfolio to support policyholder reserves and contingent risk exposures with a liquid portfolio of high quality fixed-income investments with a comparable duration profile.
The Company’s IPS requires managed investments to have an average duration in the range of 0.75 years to 3.00 years. At March 31, 2016, the average duration of the Company’s managed investment portfolio was 2.15 years (December 31, 2015: 2.15 years). This duration is reviewed regularly based on changes in the duration of the Company's liabilities and in general market conditions.
The Company’s IPS also requires certain minimum credit quality standards for its managed fixed maturity portfolio, including a minimum weighted average portfolio rating of A+ for securities assigned ratings. Further limits on asset classes and security types are also mandated. In addition, the Company stress-tests the downside risks within its asset portfolio using internal and external inputs and stochastic modeling processes to help define and limit asset risks to acceptable levels that are consistent with our overall ERM framework. At March 31, 2016, the Company’s rated managed fixed maturity portfolio had an average credit quality rating of AA- (December 31, 2015: AA-).
The value of the Company’s managed fixed maturity portfolio will fluctuate with, among other factors, changes in the interest rate environment and in overall economic conditions. Additionally, the structure of the Company’s overall managed investment portfolio exposes the Company to other risks, including insolvency or reduced credit quality of corporate debt securities, prepayment, default and structural risks on asset-backed securities, mortgage-backed securities and bank loans and liquidity risks on certain other investments, including hedge funds, investment funds and private equity investments. For further details on market risks, refer to
Part I, Item 3 “Quantitative And Qualitative Disclosures About Market Risk”.

Table of Contents

As part of the ongoing risk management process, the Company monitors the aggregation of country or jurisdiction risk exposure. Jurisdiction risk exposure is the risk that events within a jurisdiction, such as currency crises, regulatory changes and other political events, will adversely affect the ability of obligors within the jurisdiction to honor their obligations. The following table provides a breakdown of the fair value of jurisdiction risk exposures outside the United States within the Company's managed fixed maturity portfolio:

	March 31, 2016		
(Dollars in thousands)	Fair Value	% of Total	
Germany	$54,354	8.8	%
United Kingdom	33,408	5.4	%
Supranational	32,581	5.3	%
Province of Ontario	16,071	2.6	%
Norway	15,984	2.6	%
France	15,795	2.6	%
Province of Manitoba	13,065	2.1	%
Jordan	10,229	1.7	%
Other (individual jurisdictions below $10,000)	30,598	5.0	%
Total Managed Non-U.S. Government Securities	222,085	36.1	%
European Corporate Securities	157,278	25.4	%
United Kingdom Corporate Securities	114,672	18.6	%
Other Non-U.S. Corporate Securities	123,106	19.9	%
Total Managed Non-U.S. Fixed Maturity Portfolio	$617,141	100.0	%

At March 31, 2016, the Company did not have an aggregate exposure to any single issuer of more than 0.8% of managed cash and investments, other than with respect to government and agency securities. The top ten exposures to fixed income corporate issuers at March 31, 2016 were as follows:

	March 31, 2016			
Issuer (a)	Fair Value (b)	S&P Rating (c)	% of Total Managed Cash and Investments	
JPMorgan Chase & Co	$53,196	BBB+	0.8	%
HSBC Holdings plc	48,254	A	0.8	%
Goldman Sachs Group	43,643	BBB+	0.7	%
Morgan Stanley	43,215	BBB+	0.7	%
Anheuser-Busch Inbev NV	41,162	A-	0.6	%
Citigroup Inc	40,539	BBB	0.6	%
Bank of America Corp	38,885	BBB	0.6	%
US Bancorp	37,835	AA-	0.6	%
Bank of New York Mellon Corp	33,625	A	0.5	%
UBS Group AG	31,783	BBB+	0.5	%
Total	$412,137		6.4	%

(a) Issuers exclude government-backed government-sponsored enterprises and cash and cash equivalents.

(b) Credit exposures represent only direct exposure to fixed maturities and short-term investments of the parent issuer and its major subsidiaries. These exposures exclude asset and mortgage backed securities that were issued, sponsored or serviced by the parent.

(c) Investment ratings are the median of Moody's, Standard & Poor's and Fitch, presented in Standard & Poor's equivalent rating. For investments where three ratings are unavailable, the lower of the ratings shall apply, presented in Standard & Poor's equivalent rating.

Table of Contents

Reserves for Losses and Loss Expenses

At March 31, 2016, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in the Critical Accounting Policies and Estimates section. The following tables indicate the breakdown of gross and net reserves for losses and loss expenses between lines of business and between case reserves and IBNR.

	March 31, 2016		
(Dollars in thousands)	Gross Case Reserves	Gross IBNR	Total Gross Reserve for Losses and Loss Expenses
Property	$394,106	$408,928	$ 803,034
Marine	395,442	446,770	842,212
Specialty	264,969	492,888	757,857
Liability	187,585	389,612	577,197
Total	$1,242,102	$1,738,198	$ 2,980,300

	March 31, 2016		
(Dollars in thousands)	Net Case Reserves	Net IBNR	Total Net Reserve for Losses and Loss Expenses
Property	$352,926	$366,495	$ 719,421
Marine	353,690	385,690	739,380
Specialty	228,855	428,977	657,832
Liability	175,102	317,876	492,978
Total	$1,110,573	$1,499,038	$ 2,609,611

The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the three months ended March 31, 2016.

	Three Months Ended March 31, 2016					
(Dollars in thousands)	Validus Re Segment	Talbot Segment	Western World Segment	AlphaCat Segment	Eliminations	Total
Reserve for losses and loss expenses, beginning of period	$1,146,869	$1,302,635	$600,331	$11,013	$ (64,281)	$2,996,567
Losses and loss expenses recoverable	(36,055)	(293,662)	(85,150)	—	64,281	(350,586)
Net reserves for losses and loss expenses, beginning of period	1,110,814	1,008,973	515,181	11,013	—	2,645,981
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:						
Current year	108,552	122,821	44,072	2,741	—	278,186
Prior years	(25,684)	(22,720)	(4,426)	(909)	—	(53,739)
Total incurred losses and loss expenses	82,868	100,101	39,646	1,832	—	224,447
Foreign exchange loss (gain)	12,813	(4,663)	—	110	—	8,260
Net paid losses	(130,314)	(92,477)	(46,244)	(42)	—	(269,077)
Net reserve for losses and loss expenses, end of period	1,076,181	1,011,934	508,583	12,913	—	2,609,611
Losses and loss expenses recoverable	31,566	321,644	84,773	—	(67,294)	370,689
	$1,107,747	$1,333,578	$593,356	$12,913	$ (67,294)	$2,980,300

Reserve for losses and loss expenses, end of period

87

Table of Contents

The amount of recorded reserves represents management’s best estimate of expected losses and loss expenses on premiums earned. For the three months ended March 31, 2016, favorable loss reserve development on prior accident years was $53.7 million of which $25.7 million related to the Validus Re segment, $22.7 million related to the Talbot segment, $4.4 million related to the Western World segment and $0.9 million related to the AlphaCat segment. There were no notable or non-notable loss events for the three months ended March 31, 2016.
The management of insurance and reinsurance companies use significant judgment in the estimation of reserves for losses and loss expenses. Given the magnitude of some notable loss events and other uncertainties inherent in loss estimation, meaningful uncertainty remains regarding the estimation for these events. The Company's actual ultimate net loss may vary materially from these estimates. Ultimate losses for notable loss events are estimated through detailed review of contracts which are identified by the Company as potentially exposed to the specific notable loss event. However, there can be no assurance that the ultimate loss amount estimated for a specific contract will be accurate, or that all contracts with exposure to a specific notable loss event will be identified in a timely manner. Potential losses in excess of the estimated ultimate loss assigned to a contract on the basis of a specific review, or loss amounts from contracts not specifically included in the detailed review may be reserved for in the reserve for potential development on notable loss events ("RDE"). Any RDE is included as part of the Company's overall reserve as defined and disclosed in the Critical Accounting Policies and Estimates section. As at March 31, 2016, the Company had no RDE.
For disclosure purposes, only those notable loss events which have an ultimate loss estimate above $30.0 million are disclosed separately and included in the reserves for notable loss event roll forward table below. To the extent that there are increased complexity and volatility factors relating to notable loss events in the aggregate, RDE may be established for a specific accident year.

Table of Contents

The reserves for notable loss events table below does not disclose notable loss events prior to 2014. Deepwater Horizon, a 2010 event, had closing reserves of $12.7 million as at March 31, 2016. The New Zealand earthquakes of 2010 and 2011, had total closing reserves of $96.4 million as at March 31, 2016. Superstorm Sandy, a 2012 event, had total closing reserves of $62.9 million as at March 31, 2016 and Costa Concordia, also a 2012 event, had total closing reserves of $26.4 million as at March 31, 2016.

Reserves for Notable Loss Events (Dollars in thousands)

2014 Notable Loss Event		Year Ended December 31, 2014			Year Ended December 31, 2015			Three Months Ended March 31, 2016		
Notable Loss Event	Initial Estimate (a)	Development (Favorable) / Unfavorable (b)	Allocations of RDE	Closing Estimate (c) December 31, 2014	Development (Favorable) / Unfavorable (b)	Allocations of RDE	Closing Estimate (c) December 31, 2015	Development (Favorable) / Unfavorable (b)	Allocations of RDE	Closing Estimate (c) March 31, 2016
Tripoli Airport (e)	$28,134	$6,810	—	$34,944	$(1,196)	—	$33,748	$(28)	—	$33,720

	Year Ended December 31, 2014		Year Ended December 31, 2015		Three Months Ended March 31, 2016	
Notable Loss Event	Paid Loss (Recovery)	Closing Reserve (d) December 31, 2014	Paid Loss (Recovery)	Closing Reserve (d) December 31, 2015	Paid Loss (Recovery)	Closing Reserve (d) March 31, 2016
Tripoli Airport (e)	$ —	$34,944	$22,938	$10,810	$60	$10,722

2015 Notable Loss Events		Year Ended December 31, 2015			Three Months Ended March 31, 2016		
Notable Loss Events	Initial Estimate (a)	Development (Favorable) / Unfavorable (b)	Allocations of RDE	Closing Estimate (c) December 31, 2015	Development (Favorable) / Unfavorable (b)	Allocations of RDE	Closing Estimate (c) March 31, 2016
Pemex	$48,074	$1,464	—	$49,538	$(426)	—	$49,112
Tianjin	47,789	(362)	—	47,427	(121)	—	47,306
Total 2015 Notable Loss Events	$95,863	$1,102	$—	$96,965	$(547)	$—	$96,418

	Year Ended December 31, 2015		Three Months Ended March 31, 2016	
Notable Loss Events	Paid Loss (Recovery)	Closing Reserve (d)	Paid Loss (Recovery)	Closing Reserve (d)

		December 31, 2015		March 31, 2016
Pemex	$ 44	$ 49,494	$ 44	$ 49,024
Tianjin	—	47,427	1,554	45,752
Total 2015 Notable Loss Events	$ 44	$ 96,921	$ 1,598	$ 94,776

(a) Includes paid losses, case reserves and IBNR reserves.
(b) Development other than allocation of RDE.
(c) Excludes impact of movements in foreign exchange rates.
(d) Closing Reserve for the period equals Closing Estimate for the period less cumulative Paid Losses (Recovery).
(e) As at September 30, 2014, the initial estimate for Tripoli Airport was below the $30.0 million notable loss event threshold; however, during the fourth quarter of 2014 adverse development caused this event to exceed the notable loss event threshold.

Table of Contents

Sources of Liquidity

Holding Company Liquidity

Validus Holdings, Ltd. is a holding company and conducts no operations of its own. The Company relies primarily on cash dividends and other permitted payments from operating subsidiaries within the Validus Re, Talbot, Western World and AlphaCat segments to pay dividends, finance expenses and other holding company expenses. There are restrictions on the payment of dividends from most operating subsidiaries, primarily due to regulatory requirements in the jurisdictions in which the operating subsidiaries are domiciled. The Company believes the dividend/distribution capacity of the Company's subsidiaries will provide the Company with sufficient liquidity for the foreseeable future. The Company continues to generate substantial cash from operating activities and remains in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing capital structure to meet its short and long-term objectives.

The following table details the capital resources of certain subsidiaries of the Company on an unconsolidated basis:

(Dollars in thousands)	March 31, 2016
Validus Reinsurance, Ltd. (excluding capital supporting FAL) (a) (b)	$3,633,993
Talbot Holdings, Ltd. (including capital supporting FAL) (b)	935,222
Other, net	(61,243)
Redeemable noncontrolling interest in AlphaCat	1,409,037
Noncontrolling interest in AlphaCat	157,223
Total consolidated capitalization	6,074,232
Senior notes payable	(245,211)
Debentures payable	(538,335)
Redeemable noncontrolling interest in AlphaCat	(1,409,037)
Total shareholders' equity	$3,881,649

(a) Validus Reinsurance, Ltd. (excluding capital supporting FAL) includes capital of $653,218 relating to Western World Insurance Group, Inc.

(b) Validus Reinsurance, Ltd. (excluding capital supporting FAL) excludes capital of $731,985 which supports Talbot's FAL. This capital was included in Talbot Holdings, Ltd. (including capital supporting FAL).

Sources and Uses of Cash

The Company has written certain (re)insurance business that has loss experience generally characterized as having low frequency and high severity. This results in volatility in both results and operational cash flows. The potential for large claims or a series of claims under one or more reinsurance contracts means that substantial and unpredictable payments may be required within relatively short periods of time. As a result, cash flows from operating activities may fluctuate, perhaps significantly, between individual quarters and years. Management believes the Company's unused credit facility amounts and highly liquid investment portfolio are sufficient to support any potential operating cash flow deficiencies.

In addition to relying on premiums received and investment income from the investment portfolio, the Company intends to meet these cash flow demands by carrying a substantial amount of short and medium term investments that would mature, or possibly be sold, prior to the settlement of expected liabilities. The Company cannot provide assurance, however, that it will successfully match the structure of its investments with its liabilities due to uncertainty related to the timing and severity of loss events.

Table of Contents

There are three main sources of cash flows for the Company: operating activities, investing activities and financing activities. The movement in net cash provided by or used in operating, investing and financing activities and the effect of foreign currency rate changes on cash and cash equivalents for the three months ended March 31, 2016 and 2015 is provided in the following table:

	Three Months Ended March 31,		
(Dollars in thousands)	2016	Change	2015
Net cash used in operating activities	$(34,046)	$68,238	$(102,284)
Net cash (used in) provided by investing activities	(122,026)	(312,889)	190,863
Net cash provided by (used in) financing activities	3,170	156,077	(152,907)
Effect of foreign currency rate changes on cash and cash equivalents	(433)	11,291	(11,724)
Net decrease in cash	$(153,335)	$(77,283)	$(76,052)

Operating Activities

Cash flow from operating activities is derived primarily from the receipt of premiums less the payment of losses and loss expenses related to underwriting activities.

Net cash used in operating activities during the three months ended March 31, 2016 was $34.0 million compared to $102.3 million for three months ended March 31, 2015, a favorable movement of $68.2 million. This favorable movement was due to the timing of premium receipts and certain payments made in respect of retrocessional coverage.

We anticipate that cash flows from operations will continue to be sufficient to cover cash outflows under our contractual commitments as well as most loss scenarios through the foreseeable future. Refer to the “Capital Resources” section below for further information on our anticipated obligations.

Investing Activities

Cash flow from investing activities is derived primarily from the receipt of net proceeds on the Company’s investment portfolio. As at March 31, 2016, the Company’s portfolio was composed of fixed income, short-term and other investments amounting to $7.9 billion or 92.1% of total cash and investments. For further details related to investments pledged as collateral, refer to Note 3, "Investments," to the Consolidated Financial Statements in Part I, Item 1.

Net cash used in investing activities during the three months ended March 31, 2016 was $122.0 million compared to net cash provided by investing activities of $190.9 million for the three months ended March 31, 2015, an unfavorable movement of $312.9 million. This unfavorable movement was primarily due to a decrease in the proceeds on sales and maturities of investments of $469.5 million and an increase in the purchases of short-term investments of $282.3 million, partially offset by a decrease in the purchases of fixed maturities of $437.5 million.

Financing Activities

Cash flow from financing activities is derived primarily from the issuance and purchase of shares in the Company and its subsidiaries, including third party investments in the AlphaCat ILS funds and sidecars, as well as the issuance of notes payable to AlphaCat investors.

Net cash provided by financing activities during the three months ended March 31, 2016 was $3.2 million compared to net cash used in financing activities of $152.9 million during the three months ended March 31, 2015, a favorable movement of $156.1 million. This favorable movement was driven primarily by an increase in the issuance of notes payable to AlphaCat investors of $247.4 million, an increase in third party investments in noncontrolling interests of $112.3 million and an increase in third party investments in redeemable noncontrolling interest of $65.4 million; partially offset by, an increase in third party subscriptions deployed on AlphaCat funds and sidecars of $299.6 million.

Table of Contents

Capital Resources

The following table details the Company's capital position as at March 31, 2016 and December 31, 2015.

Capitalization (Dollars in thousands)	March 31, 2016	December 31, 2015
Senior Notes (a)	$245,211	$245,161
Junior Subordinated Deferrable Debentures (JSDs) (a)	289,800	289,800
Flagstone Junior Subordinated Deferrable Debentures (JSDs) (a)	248,535	247,868
Total debt	783,546	782,829
Redeemable noncontrolling interest	1,409,037	1,111,714
Ordinary shares, capital and surplus available to Validus	3,739,864	3,651,544
Accumulated other comprehensive loss	(15,438)	(12,569)
Noncontrolling interest	157,223	154,662
Total shareholders' equity	3,881,649	3,793,637
Total capitalization	$6,074,232	$5,688,180
Total capitalization available to Validus (b)	$4,507,972	$4,421,804
Debt to total capitalization	12.9 %	13.8 %
Debt (excluding JSDs) to total capitalization	4.0 %	4.3 %
Debt to total capitalization available to Validus	17.4 %	17.7 %
Debt (excluding JSDs) to total capitalization available to Validus	5.4 %	5.5 %

(a) Refer to Part I, Item 1, Note 13, "Debt and financing arrangements," to the Consolidated Financial Statements for further details and discussion on the debt and financing arrangements of the Company.

(b) Total capitalization available to Validus equals total capitalization less noncontrolling interests.

Shareholders' Equity

Shareholders' equity available to Validus at March 31, 2016 was $3.7 billion.

On May 5, 2016, the Company announced a quarterly cash dividend of $0.35 per common share, which is payable on June 30, 2016 to shareholders of record on June 15, 2016. The timing and amount of any future cash dividends, however, will be at the discretion of the Board and will depend upon results of operations and cash flows, the Company's financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that the Board deems relevant.

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. On February 3, 2015, the Board of Directors of the Company approved an increase in the Company's common share repurchase authorization to $750.0 million.

The Company has repurchased approximately 77,387,916 common shares for an aggregate purchase price of $2.6 billion from the inception of its share repurchase program to March 31, 2016. The Company had $472.3 million remaining under its authorized share repurchase program as of March 31, 2016.

The Company expects the purchases under its share repurchase program to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

Table of Contents

Debt and Financing Arrangements

The following table details the Company's borrowings and credit facilities as at March 31, 2016:

(Dollars in thousands)	Maturity Date / Term (a)	Commitment	Issued and Outstanding (b)
2006 Junior Subordinated Deferrable Debentures	June 15, 2036	$ 150,000	$ 150,000
2007 Junior Subordinated Deferrable Debentures	June 15, 2037	200,000	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	September 15, 2036	134,785	134,785
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 15, 2037	113,750	113,750
Total debentures payable		598,535	538,335
2010 Senior Notes due 2040	January 26, 2040	250,000	250,000
Total debentures and senior notes payable		848,535	788,335
$85,000 syndicated unsecured letter of credit facility	December 9, 2020	85,000	—
$300,000 syndicated secured letter of credit facility	December 9, 2020	300,000	105,756
$24,000 secured bi-lateral letter of credit facility	Evergreen	24,000	11,564
AlphaCat Re secured letter of credit facility	Evergreen	30,000	30,000
IPC bi-lateral facility	Evergreen	25,000	5,483
$236,000 Flagstone bi-lateral facility	Evergreen	236,000	197,419
Total credit and other facilities		700,000	350,222
Total debt and financing arrangements		$ 1,548,535	$ 1,138,557

(a) The arrangement is indicated as evergreen if, unless written notice to the contrary is given, it automatically renews on a regular basis.

(b) Indicates utilization of commitment amount, not necessarily drawn borrowings.

For additional information about our debt, including the terms of our financing arrangements, basis for interest rates and debt covenants, refer to Part I, Item 1, Note 13, "Debt and financing arrangements," to the Consolidated Financial Statements for further details.

Table of Contents

Ratings

The following table summarizes the financial strength ratings of the Company and its principal reinsurance and insurance subsidiaries from internationally recognized rating agencies as of May 6, 2016:

	A.M. Best	S&P	Moody’s	Fitch
Validus Holdings, Ltd.				
Issuer credit rating	bbb	BBB+	Baa2	A-
Senior debt	bbb	BBB+	Baa2	BBB+
Subordinated debt	bbb-	—	Baa3	BBB
Preferred stock	bb+	BBB-	Ba1	—
Outlook on ratings	Positive	Stable	Positive	Stable
Validus Reinsurance, Ltd.				
Financial strength rating	A	A	A3	A
Outlook on ratings	Stable	Stable	Positive	Stable
Lloyd's of London				
Financial strength rating applicable to all Lloyd's syndicates	A	A+	—	AA-
Outlook on ratings	Positive	Stable	—	Stable
Validus Reinsurance (Switzerland), Ltd.				
Financial strength rating	A	A	—	—
Outlook on ratings	Stable	Stable	—	—
Western World Insurance Company				
Financial strength rating	A	—	—	—
Outlook on ratings	Stable	—	—	—

Table of Contents

Recent Accounting Pronouncements

Please refer to Note 2, "Recent accounting pronouncements," to the Consolidated Financial Statements (Part I, Item 1) for discussion of relevant recent accounting pronouncements.

Critical Accounting Policies and Estimates

There are certain accounting policies that the Company considers to be critical due to the judgment and uncertainty inherent in the application of those policies. In calculating financial statement estimates, the use of different assumptions could produce materially different estimates. The Company believes the following critical accounting policies affect significant estimates used in the preparation of the Company's Consolidated Financial Statements:

- Reserve for losses and loss expenses;
- Premium estimates for business written on a line slip or proportional basis;
- The valuation of goodwill and intangible assets;
- Reinsurance recoverable balances including the provision for uncollectible amounts; and
- Investment valuation of financial assets.

Critical accounting policies and estimates are discussed further in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (“PSLRA”) provides a “safe harbor” for forward-looking statements. Any prospectus, prospectus supplement, the Company’s Annual Report to shareholders, any proxy statement, any other Form 10-K, Form 10-Q or Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements that reflect the Company’s current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to the Company in general, and to the insurance and reinsurance sectors in particular. Statements that include the words “expect”, “intend”, “plan”, “believe”, “project”, “anticipate”, “will”, “may”, and similar statements of a future or forward-look nature identify forward-looking statements for purposes of the PSLRA or otherwise. 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 statement.

We believe that these factors include, but are not limited to, the following:

- unpredictability and severity of catastrophic events;
- our ability to obtain and maintain ratings, which may affect by our ability to raise additional equity or debt financings, as well as other factors described herein;
- adequacy of the Company’s risk management and loss limitation methods;
- cyclicality of demand and pricing in the insurance and reinsurance markets;
- the Company’s ability to implement its business strategy during “soft” as well as “hard” markets;
- adequacy of the Company’s loss reserves;
- continued availability of capital and financing;
- the Company’s ability to identify, hire and retain, on a timely and unimpeded basis and on anticipated economic and other terms, experienced and capable senior management, as well as underwriters, claims professionals and support staff;
- acceptance of our business strategy, security and financial condition by rating agencies and regulators, as well as by brokers and (re)insureds;
- competition, including increased competition, on the basis of pricing, capacity, coverage terms or other factors;
- potential loss of business from one or more major insurance or reinsurance brokers;

- the Company’s 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;
- general economic and market conditions (including inflation, volatility in the credit and capital markets, interest rates and foreign currency exchange rates) and conditions specific to the insurance and reinsurance markets in which we operate;
- the integration of businesses we may acquire or new business ventures, including overseas offices, we may start and the risk associated with implementing our business strategies and initiatives with respect to the new business ventures;
- accuracy of those estimates and judgments used in the preparation of our financial statements, including those related to revenue recognition, insurance and other reserves, reinsurance recoverables, investment valuations, intangible assets, bad debts, taxes, contingencies, litigation and any determination to use the deposit method of accounting, which, for a relatively new insurance and reinsurance company like our company, are even more difficult to make than those made in a mature company because of limited historical information;
- the effect on the Company’s investment portfolio of changing financial market conditions including inflation, interest rates, liquidity and other factors;
- acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;
- availability and cost of reinsurance and retrocession coverage;
- the failure of reinsurers, retrocessionaires, producers or others to meet their obligations to us;
- the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;
- changes in domestic or foreign laws or regulations, or their interpretations;
- changes in accounting principles or the application of such principles by regulators;
- statutory or regulatory or rating agency developments, including as to tax policy and reinsurance and other regulatory matters such as the adoption of proposed legislation that would affect Bermuda-headquartered companies and/or Bermuda-based insurers or reinsurers; and
- the other factors set forth under Part I Item 1A "Risk Factors" and under Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other sections of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as well as the risk and other factors set forth in the Company's other filings with the SEC, as well as management's response to any of the aforementioned factors.

In addition, other general factors could affect our results, including: (a) developments in the world’s financial and capital markets and our access to such markets; (b) changes in regulations or tax laws applicable to us, and (c) the effects of business disruption or economic contraction due to terrorism or other hostilities.

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. 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.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are principally exposed to five types of market risk:

- interest rate risk;
- foreign currency risk;
- credit risk;
- liquidity risk; and
- inflation risk.

Interest Rate Risk: The Company’s managed fixed maturity portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these investments. As interest rates rise and credit spreads widen, the market value of the Company’s fixed maturity portfolio falls and the Company has the risk that cash outflows will have to be funded by selling assets, which will be trading at depreciated values. As interest rates decline and credit spreads tighten, the market value of the Company’s fixed income portfolio increases and the Company has reinvestment risk, as funds reinvested may earn less than is necessary to match anticipated liabilities. We manage interest rate risk by selecting investments with characteristics such as duration, yield, currency and liquidity tailored to the anticipated cash outflow characteristics of the insurance and reinsurance liabilities the Company assumes.

The following table indicates the impact on the Company’s managed fixed maturity portfolio from an immediate 100 basis point increase and decrease in market interest rates (based on U.S. treasury yield):

(Dollars in thousands)	March 31, 2016 Increase (decrease) in market value		December 31, 2015 Increase (decrease) in market value	
Immediate 100 basis point increase in market interest rates	$(118,456)	(2.2)%	$(126,908)	(2.4)%
Immediate 100 basis point decrease in market interest	$128,684	2.3 %	$127,976	2.4 %

As at March 31, 2016, the Company held $1.4 billion (December 31, 2015: $1.3 billion), or 25.9% (December 31, 2015: 25.1%) of the Company’s managed fixed maturity portfolio in asset-backed and mortgage-backed securities. Some of these assets are exposed to prepayment risk, which occurs when the frequency with which holders of the underlying loans prepay the outstanding principal before the maturity date changes. The adverse impact of prepayment is more evident in a declining interest rate environment. As a result, the Company will be exposed to reinvestment risk, as cash flows received by the Company will be accelerated and will be reinvested at the prevailing interest rates.

Foreign Currency Risk: Certain of the Company’s reinsurance contracts provide that ultimate losses may be payable in foreign currencies depending on the country of original loss. Foreign currency exchange rate risk exists to the extent that there is an increase in the exchange rate of the foreign currency in which losses are ultimately owed. Therefore, we manage our foreign currency risk by seeking to match our net assets or net liabilities held in foreign currencies under insurance and reinsurance policies that are payable in foreign currencies with cash and investments that are denominated in such currencies.

The following table presents the Company’s monetary assets and liabilities held in foreign currencies and the Company's non-monetary assets and liabilities that do not require revaluation:

	March 31, 2016		December 31, 2015	
(Dollars in thousands)	Balance	% of Total	Balance	% of Total
Total monetary assets held in foreign currencies	$633,968	5.7 %	$568,153	5.4 %
Total monetary liabilities held in foreign currencies	713,610	12.1%	732,730	13.1%
Total non-monetary assets that do not require revaluation	17,115	0.2 %	15,937	0.2 %
Total non-monetary liabilities that do not require revaluation	82,761	1.4 %	81,718	1.5 %

97

Table of Contents

When necessary, we may also use derivatives to economically hedge un-matched foreign currency exposures, specifically forward contracts. For further information on the accounting treatment of our foreign currency derivatives, refer to Part I, Item 1, Note 8, "Derivative instruments," in the Consolidated Financial Statements. To the extent foreign currency exposure is not hedged or otherwise matched, the Company may experience exchange losses, which in turn would adversely affect the results of operations and financial condition.

Credit Risk: The Company is exposed to credit risk from the possibility that counterparties may default on their obligations. The Company's primary credit risks reside in investment in U.S. and non-U.S. corporate bonds and amounts recoverable from reinsurers. The Company attempts to limit its credit exposure by purchasing high quality fixed income investments to maintain a minimum weighted average portfolio credit rating of A+ on its rated managed fixed maturity portfolio. As at March 31, 2016, the Company's rated managed fixed maturity portfolio had an average credit quality rating of AA- (December 31, 2015: AA-).

In addition, the Company's IPS limits the amount of "risk assets" held as part of its managed cash and investments portfolio, including investments in investment affiliates, to a maximum of 35% of shareholders' equity available to Validus. Risk assets include non-investment grade debt securities, private equity investments, private placements that are not subject to rule 144A, hedge funds and other alternative assets. The Company's managed cash and investment portfolio, including investments in investment affiliates, had risk assets of $845.7 million or 22.7% of shareholders' equity available to Validus as at March 31, 2016 (December 31, 2015: $837.9 million or 23.0%).

The Company also limits its aggregate exposure to any single issuer to 3.75% or less of its total managed cash and investment portfolio, excluding government and agency securities, depending on the credit rating of the issuer. The Company did not have an aggregate exposure to any single issuer of more than 0.8% of total managed cash and investments, other than with respect to government and agency securities as at March 31, 2016 (December 31, 2015: 0.9%).

Furthermore, fixed maturity investments in below investment grade securities are limited to no more than 15% of the Company's managed cash and investment portfolio. As at March 31, 2016, 10.6% (December 31, 2015: 10.3%) of the managed cash and investment portfolio was below Baa3/BBB-.

The amount of the maximum exposure to credit risk is indicated by the carrying value of the Company's financial assets. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better rated by S&P or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At March 31, 2016, 98.5% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or better, or from reinsurers posting full collateral (December 31, 2015: 98.7% rated A- or better).

Liquidity risk: Certain of the Company's investments may become illiquid. Disruption in the credit markets may materially affect the liquidity of the Company's investments, including non-agency residential mortgage-backed securities and bank loans which represent 9.9% at March 31, 2016 (December 31, 2015: 9.4%) of managed cash and investments. If the Company requires significant amounts of cash on short notice in excess of normal cash requirements (which could include claims on a major catastrophic event) in a period of market illiquidity, the investments may be difficult to sell in a timely manner and may have to be disposed of for less than what may otherwise have been possible under other conditions. At March 31, 2016, the Company had $795.7 million (December 31, 2015: $855.9 million) of unrestricted, liquid assets, defined as managed unpledged cash and cash equivalents, short term investments, government and government agency securities.

For details on the Company's debt and financing arrangements, refer to Part I, Item 1, Note 13, "Debt and financing arrangements," to the Consolidated Financial Statements.

Inflation Risk: We do not believe that inflation has had or will have a material effect on the Company's combined results of operations, except insofar as (a) inflation may affect interest rates, and (b) losses and loss expenses may be affected by inflation.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that all material information relating to the Company required to be filed in this report has been recorded, processed, summarized and reported when required and the information is accumulated and communicated, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting identified in connection with the Company's evaluation required pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

As at March 31, 2016, the Company was not a party to, or involved in any litigation or arbitration that it believes could have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

ITEM 1A. RISK FACTORS

Please refer to the discussion of Risk Factors in Part 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Company has repurchased approximately 77.4 million common shares for an aggregate purchase price of $2.6 billion from the inception of the share repurchase program to May 4, 2016.

The Company expects the purchases under its share repurchase program to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company’s capital position relative to internal and rating agency targets, legal requirements and other factors.

The repurchase program may be modified, extended or terminated by the Board of Directors at any time. The remaining amount available under the current share repurchase authorization was $471.5 million as of May 4, 2016.

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

For the three months ended March 31, 2016, the number of shares repurchased by the Company was 1.4 million. The share repurchases made during the three months ended March 31, 2016 resulted in a dilutive impact on book value per diluted common share of $0.01 for the quarter.

		First Quarter Share Repurchase Activity			
Effect of share repurchases:	As at December 31, 2015 (cumulative)	January	February	March	Quarter ended March 31, 2016
Aggregate purchase price (a)	$ 2,491,731	$ 18,377	$ 28,677	$ 13,313	$ 60,367
Shares repurchased	76,031,280	419,668	647,030	289,938	1,356,636
Average price (a)	$ 32.77	$ 43.79	$ 44.32	$ 45.92	$ 44.50
Maximum number of shares that may yet be purchased under the program (b)		11,660,15[illegible]	10,764,446	10,061,424	

		Share Repurchase Activity Post Quarter End			
Effect of share repurchases:	As at March 31, 2016 (cumulative)	April	May	As at May 4, 2016	Cumulative to Date Effect
Aggregate purchase price (a)	$ 2,552,098	$ 387	$ 409	$ 796	$ 2,552,894
Shares repurchased	77,387,916	8,718	8,734	17,452	77,405,368
Average price (a)	$ 32.98	$ 44.45	$ 46.78	$ 45.62	$ 32.98

(a) Share transactions are on a trade date basis through May 4, 2016 and are inclusive of commissions. Average share price is rounded to two decimal places.

(b) The maximum number of shares that may yet be purchased under the program is calculated using the average execution price at month end.

Table of Contents

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
None.
ITEM 4. MINE SAFETY DISCLOSURE
Not applicable.
ITEM 5. OTHER INFORMATION
None.

Table of Contents

ITEM 6. EXHIBITS

Exhibit	Description
Exhibit 31.1*	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
Exhibit 31.2*	Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
Exhibit 32*	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
Exhibit 101.1 INS*	XBRL Instance Document
Exhibit 101.SCH*	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

*Filed herewith

Table of Contents

SIGNATURES

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

		VALIDUS HOLDINGS, LTD.
		(Registrant)
Date:	May 6, 2016	/s/ Edward J. Noonan
		Edward J. Noonan
		Chief Executive Officer
Date:	May 6, 2016	/s/ Jeffrey D. Sangster
		Jeffrey D. Sangster
		Executive Vice President and Chief Financial Officer