

VALIDUS HOLDINGS LTD  
Form 10-Q  
November 06, 2015

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

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

For the quarterly period ended September 30, 2015

Commission file number 001-33606

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

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BERMUDA (State or other jurisdiction of incorporation or organization)	98-0501001 (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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 4, 2015 there were 81,923,744 outstanding Common Shares, \$0.175 par value per share, of the registrant.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Validus Holdings, Ltd.

Consolidated Balance Sheets

As at September 30, 2015 (unaudited) and December 31, 2014

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

	September 30, 2015 (unaudited)	December 31, 2014
<b>Assets</b>		
Fixed maturities, at fair value (amortized cost: 2015—\$5,581,846; 2014—\$5,534,494)	\$5,578,856	\$5,532,731
Short-term investments, at fair value (amortized cost: 2015—\$1,661,705; 2014—\$1,051,222)	1,661,687	1,051,074
Other investments, at fair value (cost: 2015—\$864,651; 2014—\$879,176)	817,374	813,011
Cash and cash equivalents	408,485	577,240
Restricted cash	74,002	173,003
Total investments and cash	8,540,404	8,147,059
Investments in affiliates	347,962	261,483
Premiums receivable	1,062,654	707,647
Deferred acquisition costs	225,065	161,295
Prepaid reinsurance premiums	125,547	81,983
Securities lending collateral	6,461	470
Loss reserves recoverable	385,212	377,466
Paid losses recoverable	21,681	38,078
Income taxes recoverable	15,870	—
Deferred tax asset	22,352	23,821
Receivable for investments sold	15,055	18,318
Intangible assets	122,676	126,924
Goodwill	196,758	195,897
Accrued investment income	23,755	24,865
Other assets	124,511	164,633
Total assets	\$ 11,235,963	\$ 10,329,939
<b>Liabilities</b>		
Reserve for losses and loss expenses	\$3,169,334	\$3,234,394
Unearned premiums	1,281,319	990,564
Reinsurance balances payable	90,838	127,128
Securities lending payable	6,927	936
Deferred tax liability	8,921	5,541
Payable for investments purchased	118,164	68,574
Accounts payable and accrued expenses	248,834	318,245
Notes payable to AlphaCat investors	1,443,198	671,465
Senior notes payable	247,387	247,306
Debentures payable	538,054	539,277
Total liabilities	\$7,152,976	\$6,203,430

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Commitments and contingent liabilities		
Redeemable noncontrolling interest	—	79,956
Shareholders' equity		
Common shares, 571,428,571 authorized, par value \$0.175 (Issued: 2015—158,434,541; 2014—155,554,224; Outstanding: 2015—81,997,891; 2014—83,869,845)	\$27,726	\$27,222
Treasury shares (2015—76,436,650; 2014—71,684,379)	(13,376)	(12,545)
Additional paid-in-capital	1,048,917	1,207,493
Accumulated other comprehensive loss	(10,869)	(8,556)
Retained earnings	2,592,162	2,374,344
Total shareholders' equity available to Validus	3,644,560	3,587,958
Noncontrolling interest	438,427	458,595
Total shareholders' equity	\$4,082,987	\$4,046,553
Total liabilities, noncontrolling interests and shareholders' equity	\$11,235,963	\$10,329,939
The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).		

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Validus Holdings, Ltd.

Consolidated Statements of Comprehensive Income

For the Three and Nine Months Ended September 30, 2015 and 2014 (unaudited)

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

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Revenues</b>				
Gross premiums written	\$401,681	\$ 358,974	\$2,248,147	\$ 2,026,639
Reinsurance premiums ceded	(48,425 )	(30,137 )	(294,161 )	(275,610 )
Net premiums written	353,256	328,837	1,953,986	1,751,029
Change in unearned premiums	202,203	165,859	(247,191 )	(307,373 )
Net premiums earned	555,459	494,696	1,706,795	1,443,656
Net investment income	31,524	25,261	96,153	69,909
Net realized (losses) gains on investments	(41,906 )	4,595	(35,493 )	16,193
Change in net unrealized (losses) gains on investments	(34,908 )	(84,974 )	19,766	16,146
Income from investment affiliate	2,482	1,754	5,542	7,881
Other insurance related income and other (loss)	8,187	(4,080 )	15,559	14,985
Foreign exchange losses	(2,274 )	(11,441 )	(9,061 )	(14,761 )
Total revenues	518,564	425,811	1,799,261	1,554,009
<b>Expenses</b>				
Losses and loss expenses	258,258	224,125	765,333	545,541
Policy acquisition costs	105,091	86,404	308,152	251,006
General and administrative expenses	95,999	83,319	263,990	231,606
Share compensation expenses	9,983	8,764	28,279	24,252
Finance expenses	17,498	15,354	55,085	47,380
Transaction expenses	—	149	—	3,401
Total expenses	486,829	418,115	1,420,839	1,103,186
Income before taxes, income from operating affiliates and (income) attributable to AlphaCat investors	31,735	7,696	378,422	450,823
Tax (expense) benefit	(2,018 )	953	(7,132 )	(398 )
Income from operating affiliates	5,526	3,761	12,083	13,580
(Income) attributable to AlphaCat investors	(40,256 )	(25,807 )	(94,341 )	(82,833 )
Net (loss) income	\$(5,013 )	\$(13,397 )	\$289,032	\$ 381,172
Net loss (income) attributable to noncontrolling interest	71,663	53,069	15,042	(25,745 )
Net income available to Validus	\$66,650	\$ 39,672	\$304,074	\$ 355,427
<b>Other comprehensive loss</b>				
Change in foreign currency translation adjustments	(1,850 )	(5,198 )	(2,106 )	(2,121 )
Change in minimum pension liability, net of tax	(28 )	—	129	—
Change in fair value of cash flow hedge	75	—	(336 )	—
Other comprehensive loss	\$(1,803 )	\$(5,198 )	\$(2,313 )	\$(2,121 )

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Comprehensive income available to Validus	\$64,847	\$ 34,474	\$301,761	\$ 353,306
Earnings per share				
Weighted average number of common shares and common share equivalents outstanding				
Basic	82,635,316	90,593,329	83,296,703	91,665,950
Diluted	85,629,494	91,939,610	86,841,927	95,937,641
Basic earnings per share available to common shareholders	\$0.79	\$ 0.42	\$3.61	\$ 3.83
Earnings per diluted share available to common shareholders	\$0.78	\$ 0.41	\$3.50	\$ 3.70
Cash dividends declared per share	\$0.32	\$ 0.30	\$0.96	\$ 0.90

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

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Validus Holdings, Ltd.

Consolidated Statements of Shareholders' Equity

For the Nine Months Ended September 30, 2015 and 2014 (unaudited)

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

	September 30, 2015 (unaudited)	September 30, 2014 (unaudited)
Common shares		
Balance - Beginning of period	\$27,222	\$27,036
Common shares issued, net	504	133
Balance - End of period	\$27,726	\$27,169
Treasury shares		
Balance - Beginning of period	\$(12,545 )	\$(10,228 )
Repurchase of common shares	(831 )	(1,347 )
Balance - End of period	\$(13,376 )	\$(11,575 )
Additional paid-in capital		
Balance - Beginning of period	\$1,207,493	\$1,677,894
Common shares issued, net	16,231	(3,822 )
Repurchase of common shares	(203,086 )	(285,179 )
Share compensation expenses	28,279	24,252
Balance - End of period	\$1,048,917	\$1,413,145
Accumulated other comprehensive loss		
Balance - Beginning of period	\$(8,556 )	\$(617 )
Other comprehensive loss	(2,313 )	(2,121 )
Balance - End of period	\$(10,869 )	\$(2,738 )
Retained earnings		
Balance - Beginning of period	\$2,374,344	\$2,010,009
Dividends	(86,256 )	(89,027 )
Net income	289,032	381,172
Net loss (income) attributable to noncontrolling interest	15,042	(25,745 )
Balance - End of period	\$2,592,162	\$2,276,409
Total shareholders' equity available to Validus	\$3,644,560	\$3,702,410
Noncontrolling interest	\$438,427	\$522,287
Total shareholders' equity	\$4,082,987	\$4,224,697
The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).		



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Validus Holdings, Ltd.

Consolidated Statements of Cash Flows

For the Nine Months Ended September 30, 2015 and 2014 (unaudited)

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

	September 30, 2015 (unaudited)	September 30, 2014 (unaudited)
Cash flows provided by (used in) operating activities		
Net income	\$289,032	\$381,172
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Share compensation expenses	28,279	24,252
Loss (gain) on deconsolidation/sale of subsidiary	1,777	(2,081 )
Amortization of discount on senior notes	81	81
Income from investment affiliate	(5,542 )	(7,881 )
Net realized losses (gains) on investments	35,493	(16,193 )
Change in net unrealized gains on investments	(19,766 )	(16,146 )
Amortization of intangible assets	4,248	3,120
Income from operating affiliates	(12,083 )	(13,580 )
Foreign exchange losses included in net income	16,549	10,841
Amortization of premium on fixed maturities	17,866	11,922
Change in:		
Premiums receivable	(357,285 )	(241,175 )
Deferred acquisition costs	(63,770 )	(52,008 )
Prepaid reinsurance premiums	(43,564 )	(26,558 )
Loss reserves recoverable	(9,111 )	70,444
Paid losses recoverable	16,408	17,245
Income taxes recoverable	(16,088 )	—
Deferred tax asset	1,390	—
Accrued investment income	1,059	3,431
Other assets	38,400	30,125
Reserve for losses and loss expenses	(55,889 )	(271,063 )
Unearned premiums	290,755	333,933
Reinsurance balances payable	(35,457 )	(12,836 )
Deferred tax liability	3,323	(7,385 )
Accounts payable and accrued expenses	(74,227 )	(70,809 )
Net cash provided by operating activities	51,878	148,851
Cash flows provided by (used in) investing activities		
Proceeds on sales of investments	2,888,919	3,585,728
Proceeds on maturities of investments	260,179	466,872
Purchases of fixed maturities	(3,164,787 )	(3,160,512 )
Purchases of short-term investments, net	(639,211 )	(933,148 )
Purchases of other investments, net	(26,648 )	(47,752 )
Increase in securities lending collateral	(5,991 )	(5,664 )
Investment in operating affiliates	(10,400 )	—
Redemption from operating affiliates	57,402	58,547

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Investment in investment affiliates	(19,086	) —
Decrease (increase) in restricted cash	99,001	(7,856 )
Proceeds on sale of subsidiary, net of cash	—	16,459
Net cash used in investing activities	(560,622	) (27,326 )
Cash flows provided by (used in) financing activities		
Proceeds on issuance of notes payable to AlphaCat investors	1,307,789	645,243
Repayments on notes payable to AlphaCat investors	(709,059	) (602,068 )
Issuance (redemption) of common shares, net	16,735	(3,689 )
Purchases of common shares under share repurchase program	(203,917	) (286,526 )
Dividends paid	(86,423	) (89,719 )
Increase in securities lending payable	5,991	5,664
Third party investment in redeemable noncontrolling interest	55,700	61,200
Third party redemption of redeemable noncontrolling interest	(19,395	) (10,496 )
Net cash provided by (used in) financing activities	367,421	(280,391 )
Effect of foreign currency rate changes on cash and cash equivalents	(27,432	) (11,293 )
Net decrease in cash	(168,755	) (170,159 )
Cash and cash equivalents - beginning of period	\$577,240	\$734,148
Cash and cash equivalents - end of period	\$408,485	\$563,989
Taxes paid during the period	\$14,959	\$7,286
Interest paid during the period	\$46,847	\$46,421
The accompanying notes are an integral part of these Consolidated Financial Statements (unaudited).		

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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") include Validus Holdings, Ltd. and its wholly and majority owned subsidiaries (together the "Company") and 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, 2014, as filed with the U.S. Securities and Exchange Commission (the "SEC").

In the opinion of management, these Consolidated Financial Statements reflect all adjustments (including normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position and results of operations as at the end of and for the periods presented. The Consolidated Statement of Cash Flows for the nine months ended September 30, 2014 includes a revision to decrease net cash used in investing activities by \$42,440. There are no changes to the sub-totals of net cash used in operating activities, financing activities or the effect of foreign currency rate changes on cash and cash equivalents. This revision resulted in an increase in net cash of \$42,440 for the nine months ended September 30, 2014.

The effect of this revision does not impact any per-share amounts or other components of equity or net assets in the statement of financial position in the prior period presented. The Company does not believe this revision is material to the prior period. The Company has revised these prior period amounts to provide comparability with current period cash flows. 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 U.S. Financial Accounting Standards Board ("FASB").

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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

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. The original effective date for the amendments in this Update was for interim and 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 2015, the FASB issued Accounting Standard Update 2015-02, "Consolidation (Topic 810) Amendments to the Consolidation Analysis" (ASU 2015-02). The amendments in this Update modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities. The amendment also eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The amendment also provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact of this guidance and it may have a material impact on the Company's Consolidated Financial Statements.

In April 2015, the FASB issued Accounting Standard Update 2015-03, "Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs" (ASU 2015-03). The amendments in this Update simplify the presentation of debt issuance costs and require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2015. 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 May 2015, the FASB issued Accounting Standard Update 2015-07, "Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" (ASU 2015-07). The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2015. Earlier application 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 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 are effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. Early application 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, but will require changes to disclosures.

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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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

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 are effective for interim and annual periods beginning after December 15, 2015. The Company has evaluated the impact of this guidance and it will not have a material impact on the Company's Consolidated Financial Statements.

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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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

## 3. Investments

## (a) Fixed maturity, short-term and other investments

The Company's investments in fixed maturities, short-term investments and other investments are classified as trading and carried at fair value, with related changes in net unrealized gains or losses included in earnings.

The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments as at September 30, 2015 were as follows:

	Amortized Cost (or Cost)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and government agency	\$ 868,750	\$3,787	\$(609)	) \$871,928
Non-U.S. government and government agency	224,288	1,205	(2,529)	) 222,964
U.S. states, municipalities and political subdivisions	316,868	3,097	(439)	) 319,526
Agency residential mortgage-backed securities	488,827	9,503	(1,060)	) 497,270
Non-agency residential mortgage-backed securities	27,054	400	(400)	) 27,054
U.S. corporate	1,530,344	4,387	(8,837)	) 1,525,894
Non-U.S. corporate	472,736	1,628	(6,544)	) 467,820
Bank loans	517,129	642	(8,298)	) 509,473
Catastrophe bonds	160,835	908	(1,767)	) 159,976
Asset-backed securities	624,444	2,038	(1,234)	) 625,248
Commercial mortgage-backed securities	350,571	2,045	(913)	) 351,703
Total fixed maturities	5,581,846	29,640	(32,630)	) 5,578,856
Total short-term investments (a)	1,661,705	49	(67)	) 1,661,687
Other investments				
Fund of hedge funds	2,378	—	(938)	) 1,440
Hedge funds (b)	559,737	43,541	(99,653)	) 503,625
Private equity investments	51,037	8,891	(2,305)	) 57,623
Investment funds	247,104	577	—	) 247,681
Mutual funds	4,395	2,610	—	) 7,005
Total other investments	864,651	55,619	(102,896)	) 817,374
Total investments including assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$ 8,108,202	\$85,308	\$(135,593)	) \$8,057,917
Assets managed on behalf of AlphaCat investors (a)	(1,364,692)	) —	—	(1,364,692)
Catastrophe bonds	(160,835)	) (908)	) 1,767	(159,976)
Noncontrolling interest (b)	(491,204)	) (32,920)	) 89,688	(434,436)
Total investments, excluding assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$ 6,091,471	\$51,480	\$(44,138)	) \$6,098,813

(a) Included in the short-term investments balance are assets managed in support of AlphaCat's fully collateralized reinsurance transactions.

Included in the hedge funds balance are investments held by PaCRE in which the Company has an equity interest (b) of 10%. The remaining 90% interest is held by third party investors and included in the Consolidated Balance Sheets as noncontrolling interest.





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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, 2014 were as follows:

	Amortized Cost (or Cost)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and government agency	\$ 759,232	\$1,755	\$(901)	) \$760,086
Non-U.S. government and government agency	279,493	1,215	(1,980)	) 278,728
U.S. states, municipalities and political subdivisions	448,668	1,780	(825)	) 449,623
Agency residential mortgage-backed securities	520,685	9,697	(1,151)	) 529,231
Non-agency residential mortgage-backed securities	37,954	369	(516)	) 37,807
U.S. corporate	1,500,963	3,960	(5,217)	) 1,499,706
Non-U.S. corporate	564,386	2,765	(3,989)	) 563,162
Bank loans	457,537	200	(8,733)	) 449,004
Catastrophe bonds	75,822	768	(926)	) 75,664
Asset-backed securities	647,422	1,250	(1,190)	) 647,482
Commercial mortgage-backed securities	242,332	598	(692)	) 242,238
Total fixed maturities	5,534,494	24,357	(26,120)	) 5,532,731
Total short-term investments (a)	1,051,222	13	(161)	) 1,051,074
Other investments				
Fund of hedge funds	2,570	125	(920)	) 1,775
Preferred stock	6,535	—	(201)	) 6,334
Hedge funds (b)	570,371	60,792	(134,203)	) 496,960
Private equity investments	48,995	4,987	(611)	) 53,371
Investment funds	244,506	437	(111)	) 244,832
Mutual funds	6,199	3,540	—	) 9,739
Total other investments	879,176	69,881	(136,046)	) 813,011
Total investments including assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$ 7,464,892	\$94,251	\$(162,327)	) \$7,396,816
Assets managed on behalf of AlphaCat investors (a)	(696,924)	) —	—	(696,924)
Catastrophe bonds	(75,822)	) (768)	) 926	(75,664)
Noncontrolling interest (b)	(502,830)	) (48,446)	) 120,782	(430,494)
Total investments, excluding assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$ 6,189,316	\$45,037	\$(40,619)	) \$6,193,734

Included in the short-term investments balance are assets managed in support of AlphaCat's fully collateralized reinsurance transactions. Also, included in the short-term investments balance are investments held by one (a) AlphaCat ILS fund which was consolidated by the Company through May 31, 2015, but in which the Company had an equity interest of less than 100%. The remaining interests are held by third party investors and included in the Consolidated Balance Sheets as redeemable noncontrolling interest.

Included in the hedge funds balance are investments held by PaCRe in which the Company has an equity interest (b) of 10%. The remaining 90% interest is held by third party investors and included in the Consolidated Balance Sheets as noncontrolling interest.



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The following table sets forth certain information regarding the investment ratings of the Company's fixed maturities portfolio as at September 30, 2015 and December 31, 2014.

	September 30, 2015		December 31, 2014		
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total	
AAA	\$2,454,181	44.0	% \$2,494,239	45.1	%
AA	530,473	9.5	% 848,226	15.4	%
A	1,145,331	20.5	% 1,086,091	19.6	%
BBB	674,489	12.1	% 505,208	9.1	%
Total investment-grade fixed maturities	4,804,474	86.1	% 4,933,764	89.2	%
BB	316,602	5.7	% 362,972	6.6	%
B	216,544	4.0	% 145,240	2.6	%
CCC	4,374	0.0	% 12,733	0.2	%
CC	1,002	0.0	% 3,926	0.1	%
C	—	0.0	% 1,344	0.0	%
D/NR	235,860	4.2	% 72,752	1.3	%
Total non-investment grade fixed maturities	774,382	13.9	% 598,967	10.8	%
Total fixed maturities	\$5,578,856	100.0	% \$5,532,731	100.0	%

The amortized cost and estimated fair value amounts for fixed maturities held at September 30, 2015 and December 31, 2014 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.

	September 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$342,554	\$343,201	\$312,843	\$313,248
Due after one year through five years	2,996,003	2,991,774	3,163,225	3,159,200
Due after five years through ten years	566,908	560,971	497,175	491,870
Due after ten years	185,485	181,635	112,858	111,655
	4,090,950	4,077,581	4,086,101	4,075,973
Asset-backed and mortgage-backed securities	1,490,896	1,501,275	1,448,393	1,456,758
Total fixed maturities	\$5,581,846	\$5,578,856	\$5,534,494	\$5,532,731

## (b) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Fixed maturities and short-term investments	\$28,117	\$22,544	\$88,519	\$68,048
Other investments	5,086	2,879	12,288	2,879
Restricted cash and cash and cash equivalents	373	1,581	1,259	4,534
Securities lending income	4	1	13	5
Total gross investment income	33,580	27,005	102,079	75,466
Investment expenses	(2,056)	(1,744)	(5,926)	(5,557)

Total net investment income	\$31,524	\$25,261	\$96,153	\$69,909
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Net investment income from other investments includes distributed and undistributed net income from certain investment funds.

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

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Fixed maturities, short-term and other investments				
Gross realized gains	\$1,872	\$8,075	\$14,450	\$23,184
Gross realized (losses)	(43,778)	(3,480)	(49,943)	(6,991)
Net realized (losses) gains on investments (a)	(41,906)	4,595	(35,493)	16,193
Change in net unrealized (losses) gains on investments (a)	(34,908)	(84,974)	19,766	16,146
Total net realized and change in net unrealized (losses) gains on investments including assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	(76,814)	(80,379)	(15,727)	32,339
Assets managed on behalf of AlphaCat investors	—	—	—	—
Catastrophe bonds	(2,208)	(201)	701	1,787
Noncontrolling interest (a)	71,589	52,595	21,078	(22,613)
Total net realized and change in net unrealized (losses) gains on investments excluding assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$(7,433)	\$(27,985)	\$6,052	\$11,513

Includes the net realized (losses) gains and change in net unrealized (losses) gains on investments held by PaCRE in which the Company has an equity interest of 10%. The remaining 90% interest is held by third party investors and (a) is included in the Consolidated Statements of Comprehensive Income as net loss (income) attributable to noncontrolling interest.

(d) 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 12: "Debt and financing arrangements."

Description	September 30, 2015		
	Commitment	Issued and Outstanding	Investments and cash pledged as collateral
\$400,000 syndicated unsecured letter of credit facility	\$400,000	\$—	\$—
\$525,000 syndicated secured letter of credit facility	525,000	244,358	385,279
\$30,000 secured bi-lateral letter of credit facility	30,000	10,172	47,471
Talbot FAL facility	25,000	25,000	31,318
AlphaCat Re secured letter of credit facility	30,000	30,000	30,134
IPC bi-lateral facility	25,000	10,782	—
\$230,000 Flagstone bi-lateral facility	230,000	205,593	381,302
Total	\$1,265,000	\$525,905	\$875,504

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Validus Holdings, Ltd.

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Description	December 31, 2014		
	Commitment	Issued and Outstanding	Investments and cash pledged as collateral
\$400,000 syndicated unsecured letter of credit facility	\$400,000	\$—	\$—
\$525,000 syndicated secured letter of credit facility	525,000	276,455	395,750
\$200,000 secured bi-lateral letter of credit facility	200,000	15,649	35,645
Talbot FAL facility	25,000	25,000	31,048
PaCRe senior secured letter of credit facility	10,000	294	—
AlphaCat Re secured letter of credit facility	30,000	30,000	30,078
IPC bi-lateral facility	40,000	15,897	99,437
\$375,000 Flagstone bi-lateral facility	375,000	198,389	430,782
Total	\$1,605,000	\$561,684	\$1,022,740

In addition, \$3,856,717 of cash and cash equivalents, restricted cash, short-term investments and fixed maturities were pledged during the normal course of business as at September 30, 2015 (December 31, 2014: \$3,150,295). Of those, \$3,809,087 were held in trust (December 31, 2014: \$3,122,074). 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 Talbot as an alien insurer/reinsurer by certain regulators.

## 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.

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.

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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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At September 30, 2015, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Total
U.S. government and government agency	\$—	\$871,928	\$—	\$871,928
Non-U.S. government and government agency	—	222,964	—	222,964
U.S. states, municipalities and political subdivisions	—	319,526	—	319,526
Agency residential mortgage-backed securities	—	497,270	—	497,270
Non-agency residential mortgage-backed securities	—	27,054	—	27,054
U.S. corporate	—	1,525,894	—	1,525,894
Non-U.S. corporate	—	467,820	—	467,820
Bank loans	—	347,637	161,836	509,473
Catastrophe bonds	—	158,976	1,000	159,976
Asset-backed securities	—	625,248	—	625,248
Commercial mortgage-backed securities	—	351,703	—	351,703
Total fixed maturities	—	5,416,020	162,836	5,578,856
Total short-term investments (a)	1,652,981	8,706	—	1,661,687
Other investments				
Fund of hedge funds	—	—	1,440	1,440
Hedge funds (b)	—	—	503,625	503,625
Private equity investments	—	—	57,623	57,623
Investment funds	—	80,470	167,211	247,681
Mutual funds	—	7,005	—	7,005
Total other investments	—	87,475	729,899	817,374
Total investments including assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$1,652,981	\$5,512,201	\$892,735	\$8,057,917
Assets managed on behalf of AlphaCat investors (a)	(1,364,692 )	—	—	(1,364,692 )
Catastrophe bonds	—	(158,976 )	(1,000 )	(159,976 )
Noncontrolling interest (b)	—	—	(434,436 )	(434,436 )
Total investments, excluding assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$288,289	\$5,353,225	\$457,299	\$6,098,813

(a) Included in the short-term investments balance are assets managed in support of AlphaCat's fully collateralized reinsurance transactions.

Included in the hedge funds balance are investments held by PaCRe in which the Company has an equity interest (b) of 10%. The remaining 90% interest is held by third party investors and included in the Consolidated Balance Sheets as noncontrolling interest.



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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, 2014, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Total
U.S. government and government agency	\$—	\$760,086	\$—	\$760,086
Non-U.S. government and government agency	—	278,728	—	278,728
U.S. states, municipalities and political subdivisions	—	449,623	—	449,623
Agency residential mortgage-backed securities	—	529,231	—	529,231
Non-agency residential mortgage-backed securities	—	37,807	—	37,807
U.S. corporate	—	1,499,706	—	1,499,706
Non-U.S. corporate	—	563,162	—	563,162
Bank loans	—	416,256	32,748	449,004
Catastrophe bonds	—	70,664	5,000	75,664
Asset-backed securities	—	647,482	—	647,482
Commercial mortgage-backed securities	—	242,238	—	242,238
Total fixed maturities	—	5,494,983	37,748	5,532,731
Total short-term investments (a)	942,716	108,358	—	1,051,074
Other investments				
Fund of hedge funds	—	—	1,775	1,775
Preferred stock	—	6,334	—	6,334
Hedge funds (b)	—	—	496,960	496,960
Private equity investments	—	—	53,371	53,371
Investment fund	—	140,045	104,787	244,832
Mutual funds	—	9,739	—	9,739
Total other investments	—	156,118	656,893	813,011
Total investments including assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$942,716	\$5,759,459	\$694,641	\$7,396,816
Assets managed on behalf of AlphaCat investors (a)	(696,924 )	—	—	(696,924 )
Catastrophe bonds	—	(70,664 )	(5,000 )	(75,664 )
Noncontrolling interest (b)	—	—	(430,494 )	(430,494 )
Total investments, excluding assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$245,792	\$5,688,795	\$259,147	\$6,193,734

Included in the short-term investments balance are assets managed in support of AlphaCat's fully collateralized reinsurance transactions. Also, included in the short-term investments balance are investments held by one (a) AlphaCat ILS fund which was consolidated by the Company through May 31, 2015, but in which the Company had an equity interest of less than 100%. The remaining interests are held by third party investors and included in the Consolidated Balance Sheets as redeemable noncontrolling interest.

Included in the hedge funds balance are investments held by PaCRE in which the Company has an equity interest (b) of 10%. The remaining 90% interest is held by third party investors and included in the Consolidated Balance Sheets as noncontrolling interest.

At September 30, 2015, Level 3 investments excluding the catastrophe bonds and noncontrolling interests totaled \$457,299 (December 31, 2014: \$259,147), representing 7.5% (December 31, 2014: 4.2%) of total investments, excluding assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interests, measured at fair value on a recurring basis.



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(b) Level 1 assets measured at fair value

Short term investments

Short term investments categorized as Level 1 consist primarily of highly liquid securities, all with maturities less than one year from the date of purchase. The fair value of the Company's portfolio of short term investments are generally determined using amortized cost which approximates fair value. The Company has determined that certain of its short-term investments, held in highly liquid money market-type funds, should be included in Level 1 as their fair values are based on quoted market prices in active markets.

(c) Level 2 assets measured at fair value

Fixed maturity investments

Fixed maturity investments included in Level 2 include U.S. government and government agency, non-U.S. government and government agency, U.S. states, municipalities and political subdivisions, agency residential mortgage-backed securities, non-agency residential mortgage-backed securities, U.S. corporate, non-U.S. corporate, bank loans, catastrophe bonds, asset-backed securities and commercial mortgage-backed securities.

In general, valuation of the Company's fixed maturity investment portfolios 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.

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.

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.

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.

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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.

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.

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.

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.

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.

Catastrophe bonds

Catastrophe bonds are based on broker or underwriter bid indications. To the extent that these indications are based on significant unobservable inputs, the relevant bonds will be classified as a Level 3 asset.

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.

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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 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.

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 Company's portfolio of short term investments is generally determined using amortized cost which approximates fair value. The Company has determined that, other than highly liquid money market-type funds, the majority of the remaining securities are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their amortized cost approximates fair value. To the extent that these valuations are based on significant unobservable inputs, the relevant short term investments will be classified as a Level 3 asset.

Preferred stock

The Company's preferred stock portfolio contains preferred term securities typically sold by non-public financial services companies, through a collateralized debt obligation product and are classified as Level 2 assets. The fair value of these investments is determined based on quoted market prices in active markets.

Investment funds

Investment funds classified as Level 2 assets includes one pooled investment which is invested in fixed income securities with high credit ratings. The investment fund is only open to Lloyd's Trust Fund participants. The fair value of units in the investment fund is based on the net asset value of the fund as reported by Lloyd's Treasury & Investment Management.

Also included within investment funds is the Company's share of a portfolio of Lloyd's overseas deposits, which is also classified as a Level 2 asset. The underlying 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.

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 is based on the net asset value of the fund as reported by the fund manager.

(d)Level 3 assets measured at fair value

Level 3 includes financial instruments that are valued using market approach and income approach valuation techniques. These models incorporate both observable and unobservable inputs. The Company's hedge funds, a fund of hedge funds, private equity investments, certain bank loans, an investment fund and certain catastrophe bonds are the only financial instruments in this category as at September 30, 2015. For each respective hedge fund investment, the Company obtains and reviews the valuation methodology used by the fund administrators and investment managers to ensure that the hedge fund investments are following fair value principles consistent with U.S. GAAP in determining the net asset value ("NAV").

Within the hedge fund industry, there is a general lack of transparency necessary to facilitate a detailed independent assessment of the values placed on the securities underlying the NAV provided by the fund manager or fund administrator. To address this, on a quarterly basis, we perform a number of monitoring procedures designed to assist us in the assessment of the quality of the information provided by managers and administrators. These procedures

include, but are not limited to, regular review and discussion of each fund's performance with its manager and regular evaluation of fund performance against applicable benchmarks.



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Bank loans

Included in the bank loans portfolio is a collection of loan participations held through an intermediary. These investments are classified as Level 3 assets. 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.

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 one month delay in its valuation which was used as a basis for fair value measurement in the Company's September 30, 2015 Consolidated Balance Sheet. The fund manager has provided an estimate of the fund NAV at September 30, 2015 based on the estimated performance provided from the underlying funds. To determine the reasonableness of the estimated NAV, the Company compares the one month delayed 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. As this valuation technique incorporates both observable and significant unobservable inputs, the fund of hedge funds is classified as a Level 3 asset.

Hedge funds

The hedge funds were valued at \$503,625 at September 30, 2015 (December 31, 2014: \$496,960). The hedge funds consist of investments in five Paulson & Co. managed funds (the "Paulson hedge funds") and one hedge fund assumed in the acquisition of Flagstone Reinsurance Holdings, S.A. (the "Flagstone Acquisition") (the "Flagstone hedge fund").

The Paulson hedge funds' administrator provides monthly reported NAVs with a one month delay in its valuation which was used as a partial basis for fair value measurement in the Company's September 30, 2015 Consolidated Balance Sheet. The fund manager provides an estimate of the NAV as at September 30, 2015 based on estimated performance. The Company adjusts fair value to the fund manager's estimated NAV that incorporates relevant valuation sources on a timely basis. To determine the reasonableness of the estimated NAV, the Company assesses the variance between the fund manager's estimated NAV and the fund administrator's NAV. Material variances are recorded in the current reporting period while immaterial variances are recorded in the following reporting period. Historically, the Company's valuation estimates have not materially differed from the subsequent NAVs.

The Flagstone hedge fund's administrator provides quarterly NAVs with a three-month delay in valuation which was used as a basis for fair value measurement in the Company's September 30, 2015 Consolidated Balance Sheet.

As these valuation techniques incorporate both observable and significant unobservable inputs, both the Paulson hedge funds and the Flagstone hedge fund are classified as Level 3 assets. The Paulson hedge funds are subject to quarterly liquidity.

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 in the Company's September 30, 2015 Consolidated Balance Sheet.

These private equity investments vary in investment strategies and are not actively traded in any open markets. As this valuation technique can incorporate significant unobservable inputs, the private equity investments are classified as Level 3 assets.

Investment funds

Investment funds classified as Level 3 assets consists of one structured securities fund that invests across asset backed securities, residential mortgage backed securities and commercial mortgage backed securities. The fair value of units in the investment fund is based on the NAV of the fund as reported by the independent fund administrator. The fund's

administrator provides a monthly reported NAV with a one-month delay in its valuation which was used as a basis for fair value measurement in the Company's September 30, 2015 Consolidated Balance Sheet. As this valuation technique incorporates both observable and significant unobservable inputs, the investment fund investment is classified as a Level 3 asset.

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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 three and nine months ended September 30, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Level 3 investments - Beginning of period	\$931,649	\$746,396	\$694,641	\$576,871
Purchases	127,350	25,784	326,949	125,784
Sales	(73,105)	(24,175)	(86,143)	(49,508)
Settlements	(13,815)	—	(22,013)	(1,500)
Net realized (losses) gains	(40,721)	2,554	(40,732)	8,198
Change in net unrealized (losses) gains	(38,623)	(57,776)	20,033	26,235
Transfers into Level 3	—	—	—	6,703
Level 3 investments - End of period	\$892,735	\$692,783	\$892,735	\$692,783
Catastrophe Bonds	(1,000)	—	(1,000)	—
Noncontrolling interest (a)	(434,436)	(495,365)	(434,436)	(495,365)
Level 3 investments - End of period excluding catastrophe bonds and noncontrolling interest	\$457,299	\$197,418	\$457,299	\$197,418

Includes Level 3 investments held by PaCRE in which the Company has an equity interest of 10%. The remaining (a) 90% interest is held by third party investors and included in the Consolidated Balance Sheets as noncontrolling interest.

There have not been any transfers into or out of Level 3 during the three months ended September 30, 2015 and 2014 or the nine months ended September 30, 2015. During the nine months ended September 30, 2014 there was a transfer of investments from Level 2 into Level 3 of the fair value hierarchy. This transfer was due to a reassessment of the extent of unobservable inputs used in establishing the fair value of certain catastrophe bonds.

## 5. Investments in affiliates

The following table presents the Company's investments in affiliates as at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Investment affiliates	\$88,134	\$63,506
Operating affiliates	259,828	197,977
Investments in affiliates	\$347,962	\$261,483

## (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 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.

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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 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.

The following table presents a reconciliation of the beginning and ending investment in the Company's investment affiliates balance for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Investment affiliates, beginning of period	\$89,681	\$40,627	\$63,506	\$34,500
Net capital (distributions) contributions	(4,029)	—	19,086	—
Income from investment affiliate	2,482	1,754	5,542	7,881
Investment affiliates, end of period	\$88,134	\$42,381	\$88,134	\$42,381

The following table presents the Company's investment in the Partnerships as at September 30, 2015:

	Investment in investment affiliate			
	Investment at cost	Voting ownership %	Equity Ownership %	Carrying Value
Aquiline Financial Services Fund II L.P.	\$55,098	—	% 8.1	% \$74,341
Aquiline Financial Services Fund III L.P.	\$13,890	—	% 13.7	% \$13,793
Total	\$68,988			\$88,134

The following table presents the Company's investment in the Partnership as at December 31, 2014:

	Investment in investment affiliate			
	Investment at cost	Voting ownership %	Equity Ownership %	Carrying Value
Aquiline Financial Services Fund II L.P.	\$51,001	—	% 8.1	% \$63,506

(b) Operating affiliates

AlphaCat Re 2011 Ltd.

On May 25, 2011, the Company joined with other investors in capitalizing AlphaCat Re 2011 Ltd. ("AlphaCat Re 2011"), a special purpose reinsurer formed for the purpose of writing collateralized reinsurance and retrocessional reinsurance. AlphaCat Re 2011 was a market facing entity and the Company's investment in AlphaCat Re 2011 has been treated as an equity method investment.

AlphaCat Re 2011 is now considered "off-risk" as the risk periods for all reinsurance contracts written have expired. As a result, partial returns of investment have been made to the investors of AlphaCat Re 2011. The Company's portion of the returns made during the three and nine months ended September 30, 2015 and 2014 are included in the tables below.



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Validus Holdings, Ltd.

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AlphaCat Re 2012 Ltd.

On May 29, 2012, the Company joined with other investors in capitalizing AlphaCat Re 2012 Ltd. ("AlphaCat Re 2012"), a special purpose reinsurer formed for the purpose of writing collateralized reinsurance with a particular focus on windstorm risks for Florida domiciled insurance companies. AlphaCat Re 2012 was a market facing entity and the Company's investment in AlphaCat Re 2012 has been treated as an equity method investment.

AlphaCat Re 2012 is now considered "off-risk" as the risk periods for all reinsurance contracts written have expired. As a result, partial returns of investment have been made to the investors of AlphaCat Re 2012. The Company's portion of the returns made during the three and nine months ended September 30, 2015 and 2014 are included in the tables below.

AlphaCat 2013, Ltd.

On December 17, 2012, the Company joined with other investors in capitalizing AlphaCat 2013, Ltd. ("AlphaCat 2013"), an entity formed for the purpose of investing in collateralized reinsurance and retrocession on a worldwide basis. AlphaCat 2013 deployed its capital through transactions entered into by AlphaCat Reinsurance Ltd. ("AlphaCat Re") and the Company's investment in AlphaCat 2013 has been treated as an equity method investment.

AlphaCat 2013 is now considered "off-risk" as the risk periods for all risk-linked instruments have expired. As a result, partial returns of investment have been made to the investors of AlphaCat 2013. The Company's portion of the returns made during the three and nine months ended September 30, 2015 and 2014 are included in the tables below.

AlphaCat 2014, Ltd.

On December 20, 2013, the Company joined with other investors in capitalizing AlphaCat 2014, Ltd. ("AlphaCat 2014"), an entity formed for the purpose of investing in collateralized reinsurance and retrocessional contracts for the January 1, 2014 renewal season. AlphaCat 2014 deploys its capital through transactions entered into by AlphaCat Re and the Company's investment in AlphaCat 2014 has been treated as an equity method investment.

AlphaCat 2014 is now considered "off-risk" as the risk periods for all risk-linked instruments have expired. As a result, partial returns of investment have been made to the investors of AlphaCat 2014. The Company's portion of the returns made during the three and nine months ended September 30, 2015 and 2014 are included in the table below.

AlphaCat 2015, Ltd.

On December 29, 2014, the Company joined with other investors in capitalizing AlphaCat 2015, Ltd. ("AlphaCat 2015"), an entity formed for the purpose of investing in collateralized reinsurance and retrocessional contracts for the January 1, 2015 renewal season. AlphaCat 2015 deploys its capital through transactions entered into by AlphaCat Re and the Company's investment in AlphaCat 2015 has been treated as an equity method investment.

AlphaCat ILS funds

The AlphaCat ILS funds invest in instruments with returns linked to property catastrophe reinsurance, retrocession and insurance linked securities ("ILS") contracts. AlphaCat ILS funds primarily deploy their capital through the AlphaCat Master Fund Ltd. (the "AlphaCat Master Fund") and AlphaCat Re. All of the funds are variable interest entities and are accounted for as equity method investments because the Company holds an equity interest of less than 50% and has significant influence. Two of these funds had been consolidated by the Company as the primary beneficiary from formation through to December 31, 2013 and May 31, 2015, respectively. However, on January 1, 2014 and June 1, 2015 the funds received \$35,000 and \$40,000 in additional third party subscriptions, respectively, resulting in a reduction of the Company's equity interest below 50%. Therefore, these funds were deconsolidated and accounted for as an equity method investments from January 1, 2014 and June 1, 2015, respectively, since the Company retained significant influence. The fair value of the retained interest, based on the fair value of the underlying instruments in AlphaCat Master Fund and AlphaCat Re, amounted to \$113,455 and \$96,770 as at January 1, 2014 and June 1, 2015, respectively. The deconsolidations resulted in a gain of \$1,372 and a loss of \$1,777 which is included in the Consolidated Statements of Comprehensive Income as other insurance related income for the nine

months ended September 30, 2014 and the nine months ended September 30, 2015, respectively. The Company's maximum exposure to any of the funds is the amount of capital invested at any given time.



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AlphaCat Master Fund Ltd. and AlphaCat Reinsurance Ltd.

The Company utilizes AlphaCat Master Fund and AlphaCat Re for the purpose of investing in capital market products and writing collateralized reinsurance, respectively, on behalf of certain entities within the AlphaCat operating segment and other third party investors. AlphaCat Master Fund and AlphaCat Re are market facing entities which enter into transactions on behalf of AlphaCat 2014, AlphaCat 2015, the AlphaCat ILS funds and other third party investors ("AlphaCat direct"). The Company owns all of the voting equity interest in AlphaCat Master Fund and AlphaCat Re and, as a result, their financial statements are included in the Consolidated Financial Statements of the Company.

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 and issued under Rule 144A of the Securities Act of 1933, following a passive buy-and-hold investment strategy. One of the funds is a variable interest entity and is consolidated by the Company as the primary beneficiary. The remaining fund is consolidated by the Company as it owns all of the voting equity interest. The Company's maximum exposure to either of the funds is the amount of capital invested at any given time. As at September 30, 2015, no third party subscriptions had been received.

The following tables present a reconciliation of the beginning and ending investment in operating affiliates for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015						
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	Total
As at June 30, 2015	\$4,601	\$707	\$1,043	\$723	\$30,598	\$246,768	\$284,440
Gain on redemption of shares	—	—	—	—	—	(6,761 )	(6,761 )
Return of investment	—	—	—	—	—	(23,377 )	(23,377 )
Income (loss) from operating affiliates	396	(8 )	(8 )	(12 )	1,077	4,081	5,526
As at September 30, 2015	\$4,997	\$699	\$1,035	\$711	\$31,675	\$220,711	\$259,828
	Three Months Ended September 30, 2014						
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat 2014	AlphaCat ILS funds	Total
As at June 30, 2014	\$4,172	\$2,204	\$2,580	\$25,014	\$139,022	\$172,992	\$172,992
Return of investment	—	(1,516 )	(6 )	—	—	—	(1,522 )
(Loss) income from operating affiliates	(5 )	(9 )	7	1,367	2,401	3,761	3,761
As at September 30, 2014	\$4,167	\$679	\$2,581	\$26,381	\$141,423	\$175,231	\$175,231

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Validus Holdings, Ltd.

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	Nine Months Ended September 30, 2015						Total
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	
As at December 31, 2014	\$4,606	\$735	\$1,068	\$28,085	\$25,600	\$137,883	\$197,977
Purchase of shares	—	—	—	—	2,400	8,000	10,400
Gain on redemption of shares	—	—	—	—	—	(6,761 )	(6,761 )
Return of investment	—	—	—	(27,264 )	—	(23,377 )	(50,641 )
Fair value of retained interest on deconsolidation of AlphaCat ILS fund	—	—	—	—	—	96,770	96,770
Income (loss) from operating affiliates	391	(36 )	(33 )	(110 )	3,675	8,196	12,083
As at September 30, 2015	\$4,997	\$699	\$1,035	\$711	\$31,675	\$220,711	\$259,828

	Nine Months Ended September 30, 2014						Total
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat 2014	AlphaCat ILS funds	
As at December 31, 2013	\$9,809	\$1,313	\$51,744	\$21,982	\$21,982	\$21,895	\$106,743
Return of investment	(5,825 )	(1,516 )	(51,206 )	—	—	—	(58,547 )
Fair value of retained interest on deconsolidation of AlphaCat ILS fund	—	—	—	—	—	113,455	113,455
Income from operating affiliates	183	882	2,043	4,399	6,073	6,073	13,580
As at September 30, 2014	\$4,167	\$679	\$2,581	\$26,381	\$26,381	\$141,423	\$175,231

The following table presents the Company's investments in AlphaCat Re 2011, AlphaCat Re 2012, AlphaCat 2013, AlphaCat 2014, AlphaCat 2015 and the AlphaCat ILS funds in the Consolidated Financial Statements as at September 30, 2015:

	Investment in operating affiliates			
	Cost	Voting ownership %	Equity ownership %	Carrying value
AlphaCat Re 2011	\$4,997	43.7 %	22.3 %	\$4,997
AlphaCat Re 2012	699	49.0 %	37.9 %	699
AlphaCat 2013	1,035	40.9 %	19.7 %	1,035
AlphaCat 2014	711	42.3 %	19.6 %	711
AlphaCat 2015	28,000	40.0 %	20.0 %	31,675
AlphaCat ILS funds	214,484	n/a	(a)	220,711
Total	\$249,926			\$259,828

(a)Equity ownership in the funds was 7.6%, 19.4%, 9.1% and 32.5% as at September 30, 2015.

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The following table presents the Company's investments in AlphaCat Re 2011, AlphaCat Re 2012, AlphaCat 2013, AlphaCat 2014, AlphaCat 2015 and the AlphaCat ILS funds in the Consolidated Financial Statements as at December 31, 2014:

	Investment in operating affiliates			
	Cost	Voting ownership %	Equity ownership %	Carrying value
AlphaCat Re 2011	\$4,606	43.7	% 22.3	% \$4,606
AlphaCat Re 2012	735	49.0	% 37.9	% 735
AlphaCat 2013	1,068	40.9	% 19.7	% 1,068
AlphaCat 2014	22,000	42.3	% 19.6	% 28,085
AlphaCat 2015	25,600	40.0	% 20.0	% 25,600
AlphaCat ILS funds	133,091	n/a	(a)	137,883
Total	\$187,100			\$197,977

(a) Equity ownership in the funds was 7.9%, 39.7% and 9.1% as at December 31, 2014.

(c) Notes payable and (income) attributable to AlphaCat investors

Notes are issued during the course of a year by AlphaCat Master Fund and AlphaCat Re to AlphaCat 2014, AlphaCat 2015, the AlphaCat ILS funds (collectively the "feeder funds") and AlphaCat direct in order to fund the purchase of capital market products and to write collateralized reinsurance on their behalf. The underlying capital market products and collateralized reinsurance typically have at least a twelve month duration; however, they do not have a stated maturity date. Since repayment is dependent on the settlement of the underlying transactions, the notes are subsequently redeemed as the underlying transactions are settled. 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 these notes to AlphaCat Master Fund and AlphaCat Re, which are consolidated in the Company's Consolidated Financial Statements. The effective economic interest in AlphaCat Master Fund and AlphaCat Re that results from these transactions is represented on the Consolidated Balance Sheet as notes payable to AlphaCat investors. The subsequent income or loss generated by the relevant capital market products or collateralized reinsurance is transferred to the operating affiliates and other third party investors as (income) loss attributable to AlphaCat investors in the Company's Consolidated Statements of Comprehensive Income. The notes do not have any principal amount, since the final amount payable is dependent on the income or loss. To the extent that the (income) loss attributable to AlphaCat investors has not been returned to investors, it is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

The following tables present a reconciliation of the beginning and ending notes payable to AlphaCat investors for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015				
	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	AlphaCat direct	Total
As at June 30, 2015	\$—	\$145,985	\$1,235,328	\$—	\$1,381,313
Issuance of notes payable to AlphaCat investors	—	8,491	68,244	75,770	152,505
Redemption of notes payable to AlphaCat investors	—	—	(87,615 )	—	(87,615 )
Foreign exchange gain	—	(143 )	(2,698 )	(164 )	(3,005 )
As at September 30, 2015	\$—	\$154,333	\$1,213,259	\$75,606	\$1,443,198



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	Three Months Ended September 30, 2014				
	AlphaCat 2014	AlphaCat ILS funds			Total
As at June 30, 2014	\$157,992	\$464,958			\$622,950
Issuance of notes payable to AlphaCat investors	—	53,498			53,498
Redemption of notes payable to AlphaCat investors	—	(13,990)		(13,990)	)
Foreign exchange gain	(410)	(6,072)		(6,482)	)
As at September 30, 2014	\$157,582	\$498,394			\$655,976
	Nine Months Ended September 30, 2015				
	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	AlphaCat direct	Total
As at December 31, 2014	\$157,384	\$—	\$514,081	\$—	\$671,465
Notes payable to AlphaCat investors recognized on deconsolidation of AlphaCat ILS fund	—	—	179,316	—	179,316
Issuance of notes payable to AlphaCat investors	—	154,358	1,077,661	75,770	1,307,789
Redemption of notes payable to AlphaCat investors	(157,074)	—	(551,985)	—	(709,059)
Foreign exchange gain	(310)	(25)	(5,814)	(164)	(6,313)
As at September 30, 2015	\$—	\$154,333	\$1,213,259	\$75,606	\$1,443,198
	Nine Months Ended September 30, 2014				
	AlphaCat 2013	AlphaCat 2014	AlphaCat ILS funds		Total
As at December 31, 2013	\$223,809	\$—	\$215,463		\$439,272
Notes payable to AlphaCat investors recognized on deconsolidation of AlphaCat ILS fund	—	—	178,837		178,837
Issuance of notes payable to AlphaCat investors	—	157,914	487,329		645,243
Redemption of notes payable to AlphaCat investors	(223,512)	—	(378,556)		(602,068)
Foreign exchange gain	(297)	(332)	(4,679)		(5,308)
As at September 30, 2014	\$—	\$157,582	\$498,394		\$655,976

The portion of notes payable to AlphaCat investors that was due to the Company, as an investor in the operating affiliates, and third party investors as at September 30, 2015 amounted to \$234,751 and \$1,208,447, respectively (December 31, 2014: \$148,264 and \$523,201).

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The following table presents the (income) attributable to AlphaCat investors for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
AlphaCat 2013	\$—	\$(98 )	\$—	\$(14,218 )
AlphaCat 2014	—	(11,309 )	(255 )	(32,990 )
AlphaCat 2015	(8,862 )	—	(27,446 )	—
AlphaCat ILS funds	(29,956 )	(14,400 )	(65,202 )	(35,625 )
AlphaCat direct	(1,438 )	—	(1,438 )	—
(Income) attributable to AlphaCat investors	\$(40,256 )	\$(25,807 )	\$(94,341 )	\$(82,833 )

The portion of income attributable to AlphaCat investors that was due to the Company, as an investor in the operating affiliates, and third party investors for the three months ended September 30, 2015 amounted to \$6,623 and \$33,633, respectively (2014: \$4,993 and \$20,814). The portion of income attributable to AlphaCat investors that was due to the Company, as an investor in the operating affiliates, and third party investors for the nine months ended September 30, 2015 amounted to \$15,031 and \$79,310, respectively (2014: \$16,552 and \$66,281).

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## 6. Noncontrolling interest

On April 2, 2012, the Company joined with other investors in capitalizing PaCRE Ltd. ("PaCRE"), a Class 4 Bermuda reinsurer formed for the purpose of writing high excess property catastrophe reinsurance. The Company has an equity interest of 10% and the remaining 90% interest is held by third party investors. The Company has a majority voting equity interest in PaCRE and as a result, the financial statements of PaCRE are included in the Consolidated Financial Statements of the Company. The portion of PaCRE's earnings attributable to third party investors is recorded in the Consolidated Statements of Comprehensive Income as net (income) attributable to noncontrolling interest. PaCRE's shareholder rights do not include redemption features within the control of the third party shareholders. The third party equity is recorded in the Company's Consolidated Balance Sheets as noncontrolling interest.

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. On June 1, 2015, the one remaining consolidated AlphaCat ILS fund was deconsolidated and accounted for as an equity method investment. Therefore, the portion of earnings attributable to third party investors from that fund is recorded in the Consolidated Statements of Comprehensive Income as net (income) attributable to noncontrolling interest through May 31, 2015.

The following tables present a reconciliation of the beginning and ending balances of redeemable noncontrolling interest and noncontrolling interest for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended September 30, 2015		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at June 30, 2015	\$—	\$510,090	\$510,090
Loss attributable to noncontrolling interest	—	(71,663 )	(71,663 )
As at September 30, 2015	\$—	\$438,427	\$438,427
	Three Months Ended September 30, 2014		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at June 30, 2014	\$66,282	\$575,347	\$641,629
Issuance of shares	4,200	—	4,200
Loss attributable to noncontrolling interest	(9 )	(53,060 )	(53,069 )
As at September 30, 2014	\$70,473	\$522,287	\$592,760
	Nine Months Ended September 30, 2015		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at December 31, 2014	\$79,956	\$458,595	\$538,551
Issuance of shares	55,700	—	55,700
Income (loss) attributable to noncontrolling interest	5,126	(20,168 )	(15,042 )
Adjustment to noncontrolling interest as a result of deconsolidation	(121,387 )	—	(121,387 )
Redemption of shares	(19,395 )	—	(19,395 )
As at September 30, 2015	\$—	\$438,427	\$438,427





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	Nine Months Ended September 30, 2014		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at December 31, 2013	\$86,512	\$497,657	\$584,169
Issuance of shares	61,200	—	61,200
Income attributable to noncontrolling interest	1,115	24,630	25,745
Adjustment to noncontrolling interest as a result of deconsolidation	(78,354)	—	(78,354)
As at September 30, 2014	\$70,473	\$522,287	\$592,760

## 7. 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 September 30, 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. As at September 30, 2015, 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 September 30, 2015, the Company held one foreign currency forward contract to mitigate the risk of fluctuations in the U.S. dollar against the Euro that was not designated as a hedging instrument.

The following table summarizes information on the classification and amount of the fair value of derivatives not designated as hedging instruments on the Consolidated Balance Sheets at September 30, 2015 and December 31, 2014:

	As at September 30, 2015			As at December 31, 2014		
Derivatives not designated as hedging instruments:	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Foreign currency forward contracts	\$23,346	\$174	\$—	\$26,755	\$1,685	\$—

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 during the three and nine months (a) ended September 30, 2015, recognized in income within other income, relating to the foreign currency forward contract that was not designated as a hedging instrument was (\$184) and (\$311), respectively (2014: \$nil and \$nil).

The following table summarizes information on the classification and amount of the fair value of derivatives designated as hedging instruments on the Consolidated Balance Sheets at September 30, 2015 and December 31, 2014:

	As at September 30, 2015			As at December 31, 2014		
Derivatives designated as hedging instruments:	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Foreign currency forward contracts	\$188,691	\$1,390	\$4,918	\$189,026	\$401	\$3,136
	\$552,263	\$21	\$1,444	\$552,263	\$25	\$1,169

Interest rate swap  
contracts

(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.

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## (b) Derivative instruments designated as a fair value hedge

The Company designates certain foreign currency derivative instruments as fair value hedges 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 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 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 along with the impact of the related hedged items for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Foreign currency forward contracts				
Amount of loss recognized in income on derivative	\$ (4,175 )	\$ (14,817 )	\$ (21,965 )	\$ (9,979 )
Amount of gain on hedged item recognized in income attributable to risk being hedged	\$ 4,175	\$ 14,817	\$ 21,965	\$ 9,979
Amount of gain (loss) 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 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 and nine months ended September 30, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Interest rate swap contracts				
Amount of effective portion recognized in other comprehensive income	\$ 3,178	\$ 3,302	\$ 10,064	\$ 9,762
Amount of effective portion subsequently reclassified to earnings	\$ (3,253 )	\$ (3,302 )	\$ (9,728 )	\$ (9,762 )
Amount of ineffective portion excluded from effectiveness testing	\$ 75	\$ —	\$ (336 )	\$ —

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 September 30, 2015 or December 31, 2014.

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.

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## 8. 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 and nine months ended September 30, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Reserve for losses and loss expenses, beginning of period	\$3,187,177	\$2,867,307	\$3,234,394	\$3,030,399
Losses and loss expenses recoverable	(376,665 )	(338,734 )	(377,466 )	(370,154 )
Net reserves for losses and loss expenses, beginning of period	2,810,512	2,528,573	2,856,928	2,660,245
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:				
Current year	349,759	279,690	1,011,111	713,177
Prior years (a)	(91,501 )	(55,565 )	(245,778 )	(167,636 )
Total incurred losses and loss expenses (a)	258,258	224,125	765,333	545,541
Less net losses and loss expenses paid in respect of losses occurring in:				
Current year	(63,151 )	(74,618 )	(105,216 )	(99,326 )
Prior years	(207,514 )	(183,697 )	(700,507 )	(633,048 )
Total net paid losses	(270,665 )	(258,315 )	(805,723 )	(732,374 )
Foreign exchange gain	(13,983 )	(40,717 )	(32,416 )	(19,746 )
Net reserve for losses and loss expenses, end of period	2,784,122	2,453,666	2,784,122	2,453,666
Losses and loss expenses recoverable	385,212	298,502	385,212	298,502
Reserve for losses and loss expenses, end of period	\$3,169,334	\$2,752,168	\$3,169,334	\$2,752,168
Incurred losses and loss expenses comprise:				
	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Gross losses and loss expenses (a)	\$285,871	\$222,356	\$854,438	\$587,111
Reinsurance recoverable	(27,613 )	1,769	(89,105 )	(41,570 )
Net incurred losses and loss expenses (a)	\$258,258	\$224,125	\$765,333	\$545,541
(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 \$2,524 and \$8,639 during the three and nine months ended September 30, 2015, respectively. The remaining fair value adjustment of \$2,340 will be amortized during the remainder of 2015.

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The September 30, 2015 gross reserves balances comprise reserves for reported claims of \$1,295,473 (December 31, 2014: \$1,495,323) and reserves for claims incurred but not reported of \$1,873,861 (December 31, 2014: \$1,739,071). The net favorable development on prior years by segment and line of business for the three and nine months ended September 30, 2015 and 2014 is as follows:

	Three Months Ended September 30, 2015				
	Property	Marine	Specialty	Liability	Total (a)
Validus Re	\$(27,613 )	\$(13,556 )	\$(9,306 )	\$—	\$(50,475 )
Talbot	(9,706 )	(14,854 )	(11,412 )	—	(35,972 )
Western World (b)	(1,054 )	—	—	(4,000 )	(5,054 )
Net favorable development (b)	\$(38,373 )	\$(28,410 )	\$(20,718 )	\$(4,000 )	\$(91,501 )

(a) AlphaCat has not had any development on prior accident years.

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 (b) \$2,524 during the three months ended September 30, 2015. The remaining fair value adjustment of \$2,340 will be amortized during the remainder of 2015.

The Validus Re segment experienced favorable development on prior years primarily due to favorable development on events, including Superstorm Sandy, Hurricane Ike and the 2010 Chilean earthquake, along with favorable development on attritional losses. The Talbot segment experienced favorable development on prior years primarily due to favorable development on attritional losses. 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.

	Three Months Ended September 30, 2014				
	Property	Marine	Specialty	Total (a)	
Validus Re	\$(16,384 )	\$(2,843 )	\$(913 )	\$(20,140 )	
Talbot	(13,285 )	(11,922 )	(10,218 )	(35,425 )	
Net favorable development	\$(29,669 )	\$(14,765 )	\$(11,131 )	\$(55,565 )	

(a) AlphaCat has not had any development on prior accident years.

The Validus Re and Talbot segments experienced favorable development on prior years primarily due to favorable development on attritional losses.

	Nine Months Ended September 30, 2015				
	Property	Marine	Specialty	Liability	Total
Validus Re	\$(58,437 )	\$(29,225 )	\$(18,388 )	\$—	\$(106,050 )
AlphaCat	(844 )	—	—	—	(844 )
Talbot	(47,141 )	(51,178 )	(24,926 )	—	(123,245 )
Western World (a)	(4,648 )	—	—	(10,991 )	(15,639 )
Net favorable development (a)	\$(111,070 )	\$(80,403 )	\$(43,314 )	\$(10,991 )	\$(245,778 )

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 (a) \$8,639 during the nine months ended September 30, 2015. The remaining fair value adjustment of \$2,340 will be amortized during the remainder of 2015.

The Validus Re segment experienced favorable development on prior years primarily due to favorable development on events and attritional losses. 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.

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	Nine Months Ended September 30, 2014			
	Property	Marine	Specialty	Total
Validus Re	\$(50,598 )	\$(5,213 )	\$(1,025 )	\$(56,836 )
AlphaCat	(11,608 )	—	—	(11,608 )
Talbot	(43,905 )	(18,191 )	(37,096 )	(99,192 )
Net favorable development	\$(106,111 )	\$(23,404 )	\$(38,121 )	\$(167,636 )

The Validus Re segment experienced favorable development on prior years primarily due to favorable development on attritional losses, partially offset by an increase in the loss estimate on agriculture losses. The AlphaCat segment experienced favorable development on prior years primarily due to the partial release of a 2013 aggregate excess of loss contract. The Talbot segment experienced favorable development on prior years primarily due to a combination of favorable development on attritional losses and notable loss events, primarily the Tohoku earthquake.

**9. 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 September 30, 2015, 98.7% (December 31, 2014: 98.0%) of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses and \$241,283 of total IBNR recoverable (December 31, 2014: \$231,129)) were fully collateralized or from reinsurers rated A- or better.

Reinsurance recoverables by reinsurer as at September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015		December 31, 2014		
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total	
Top 10 reinsurers	\$330,550	81.2	% \$312,205	75.1	%
Other reinsurers' balances > \$1 million	67,209	16.5	% 94,247	22.7	%
Other reinsurers' balances < \$1 million	9,134	2.3	% 9,092	2.2	%
Total	\$406,893	100.0	% \$415,544	100.0	%

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	September 30, 2015			
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Swiss Re	AA-	\$78,548	19.3	%
Lloyd's Syndicates	A+	71,085	17.5	%
Everest Re	A+	47,395	11.6	%
Hannover Re	AA-	42,706	10.5	%
Fully Collateralized	NR	27,604	6.8	%
Munich Re	AA-	19,063	4.7	%
Hamilton Re	A-	12,613	3.1	%
Transatlantic Re	A+	11,921	2.9	%
National Indemnity Company	AA+	10,293	2.5	%
XL Re	A+	9,322	2.3	%
Total		\$330,550	81.2	%
NR: Not rated				

	December 31, 2014			
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Swiss Re	AA-	\$70,848	17.0	%
Lloyd's Syndicates	A+	62,318	15.0	%
Everest Re	A+	51,425	12.4	%
Hannover Re	AA-	40,927	9.8	%
Fully Collateralized	NR	23,315	5.6	%
Munich Re	AA-	19,384	4.7	%
Transatlantic Re	A+	12,418	3.0	%
XL Re	A+	11,114	2.7	%
Berkshire Hathaway Homestate	AA+	10,372	2.5	%
Merrimack Mutual Fire Insurance	A+	10,084	2.4	%
Total		\$312,205	75.1	%
NR: Not rated				

At September 30, 2015 and December 31, 2014, the provision for uncollectible reinsurance relating to reinsurance recoverables was \$5,069 and \$4,755, respectively. To estimate the 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.

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## 10. 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 74,797,775 common shares for an aggregate purchase price of \$2,435,218 from the inception of its share repurchase program to September 30, 2015. The Company had \$589,183 remaining under its authorized share repurchase program as of September 30, 2015.

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, 2014	155,554,224
Restricted share awards vested, net of shares withheld	610,714
Restricted share units vested, net of shares withheld	13,260
Options exercised	782,465
Warrants exercised	1,461,715
Direct issuance of common stock	639
Performance share awards vested, net of shares withheld	11,524
Common shares issued, September 30, 2015	158,434,541
Treasury shares, September 30, 2015	(76,436,650 )
Common shares outstanding, September 30, 2015	81,997,891
	Common Shares
Common shares issued, December 31, 2013	154,488,497
Restricted share awards vested, net of shares withheld	594,582
Restricted share units vested, net of shares withheld	10,265
Options exercised	133,385
Direct issuance of common stock	1,060
Performance share awards vested, net of shares withheld	25,767
Common shares issued, September 30, 2014	155,253,556
Treasury shares, September 30, 2014	(66,141,285 )
Common shares outstanding, September 30, 2014	89,112,271

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## (b) Warrants

During the nine months ended September 30, 2015, 1,796,793 warrants were exercised, which resulted in the issuance of 1,461,715 common shares. During the nine months ended September 30, 2014, no warrants were exercised.

Holders of the outstanding warrants are entitled to exercise the warrants in whole or in part at any time until the expiration date. All outstanding warrants are due to expire on December 12, 2015. The total outstanding warrants at September 30, 2015 were 3,377,320 (December 31, 2014: 5,174,114). No further warrants are anticipated to be issued.

## (c) Dividends

On August 5, 2015, the Company announced a quarterly cash dividend of \$0.32 (2014: \$0.30) per common share and \$0.32 per common share equivalent for which each outstanding warrant is exercisable. This dividend was paid on September 30, 2015 to holders of record on September 15, 2015.

On May 7, 2015, the Company announced a quarterly cash dividend of \$0.32 (2014: \$0.30) per common share and \$0.32 per common share equivalent for which each outstanding warrant is exercisable. This dividend was paid on June 30, 2015 to holders of record on June 15, 2015.

On February 3, 2015, the Company announced a quarterly cash dividend of \$0.32 (2014: \$0.30) per common share and \$0.32 per common share equivalent for which each outstanding warrant is exercisable. This dividend was paid on March 31, 2015 to holders of record on March 13, 2015.

## 11. Stock plans

## (a) Long Term Incentive Plan and Short 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. In addition, the Company may issue restricted share awards or restricted share units in connection with awards issued under its annual Short Term Incentive Plan ("STIP"). The total number of shares reserved for issuance under the LTIP and STIP are 14,976,896 shares of which 1,988,523 shares remain available for issuance at September 30, 2015. The LTIP and STIP are 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. 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 options since September 4, 2009.

There were no share compensation expenses in respect of options recognized for the three and nine months ended September 30, 2015 and 2014.

Activity with respect to options for the nine months ended September 30, 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	(1,094,656)	7.09	17.60
Options outstanding, September 30, 2015	65,401	\$7.74	\$20.17



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Activity with respect to options for the nine months ended September 30, 2014 was as follows:

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2013	1,572,713	\$6.66	\$18.88
Options exercised	(133,385	) 3.81	25.10
Options outstanding, September 30, 2014	1,439,328	\$6.93	\$18.30

At September 30, 2015 and December 31, 2014, there were no unrecognized share compensation expenses in respect of options.

## ii. Restricted share awards

Restricted shares granted under the LTIP and STIP 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 and nine months ended September 30, 2015 of \$9,081 (2014: \$8,180) and \$26,213 (2014: \$23,101), respectively. 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 awards for the nine months ended September 30, 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 granted	706,341	43.58
Restricted share awards vested	(783,704	) 34.40
Restricted share awards forfeited	(52,642	) 38.03
Restricted share awards outstanding, September 30, 2015	2,728,706	\$38.19

Activity with respect to unvested restricted share awards for the nine months ended September 30, 2014 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2013	2,684,745	\$33.74
Restricted share awards granted	925,610	37.33
Restricted share awards vested	(769,971	) 31.47
Restricted share awards forfeited	(69,117	) 36.28
Restricted share awards outstanding, September 30, 2014	2,771,267	\$35.50

At September 30, 2015, there were \$77,222 (December 31, 2014: \$74,670) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 2.6 years (December 31, 2014: 2.7 years).

## iii. Restricted share units

Restricted share units under the LTIP and STIP 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 and nine months ended September 30, 2015 of \$310 (2014: \$269) and \$851 (2014: \$602), respectively. The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.



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Activity with respect to unvested restricted share units for the nine months ended September 30, 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 granted	28,057	42.91
Restricted share units vested	(19,455	) 34.58
Restricted share units issued in lieu of cash dividends	2,337	37.21
Restricted share units forfeited	(892	) 35.42
Restricted share units outstanding, September 30, 2015	113,531	\$38.47

Activity with respect to unvested restricted share units for the nine months ended September 30, 2014 was as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2013	66,518	\$33.74
Restricted share units granted	53,025	38.10
Restricted share units vested	(18,325	) 30.71
Restricted share units issued in lieu of cash dividends	1,479	34.19
Restricted share units outstanding, September 30, 2014	102,697	\$36.54

At September 30, 2015, there were \$3,085 (December 31, 2014: \$2,774) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 2.8 years (December 31, 2014: 3.1 years).

## 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 and nine months ended September 30, 2015 of \$592 (2014: \$315) and \$1,215 (2014: \$549), respectively.

Activity with respect to unvested performance share awards for the nine months ended September 30, 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 granted	81,569	45.03
Performance share awards vested	(15,344	) 31.38
Performance share awards outstanding, September 30, 2015	172,594	\$40.70





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Activity with respect to unvested performance share awards for the nine months ended September 30, 2014 was as follows:

	Performance Share Awards	Weighted Average Grant Date Fair Value
Performance share awards outstanding, December 31, 2013	101,820	\$33.56
Performance share awards granted	52,639	37.33
Performance share awards vested	(32,746	) 32.62
Performance share awards conversion adjustment	(15,344	) \$31.38
Performance share awards outstanding, September 30, 2014	106,369	\$36.03

At September 30, 2015, there were \$4,559 (December 31, 2014: \$2,232) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 2.3 years (December 31, 2014: 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		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Restricted share awards	\$9,081	\$8,180	26,213	23,101
Restricted share units	310	269	851	602
Performance share awards	592	315	1,215	549
Total	\$9,983	\$8,764	\$28,279	\$24,252

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## 12. Debt and financing arrangements

## (a) Financing structure

The financing structure at September 30, 2015 was:

	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	134,504	134,504	134,504
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	598,254	538,054	538,054
2010 Senior Notes due 2040	250,000	250,000	247,387
Total debentures and senior notes payable	848,254	788,054	785,441
\$400,000 syndicated unsecured letter of credit facility	400,000	—	—
\$525,000 syndicated secured letter of credit facility	525,000	244,358	—
\$30,000 secured bi-lateral letter of credit facility	30,000	10,172	—
Talbot FAL facility	25,000	25,000	—
AlphaCat Re secured letter of credit facility	30,000	30,000	—
IPC bi-lateral facility	25,000	10,782	—
\$230,000 Flagstone bi-lateral facility	230,000	205,593	—
Total credit and other facilities	1,265,000	525,905	—
Total debt and financing arrangements	\$2,113,254	\$ 1,313,959	\$ 785,441

The financing structure at December 31, 2014 was:

	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	135,727	135,727	135,727
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	599,477	539,277	539,277
2010 Senior Notes due 2040	250,000	250,000	247,306
Total debentures and senior notes payable	849,477	789,277	786,583
\$400,000 syndicated unsecured letter of credit facility	400,000	—	—
\$525,000 syndicated secured letter of credit facility	525,000	276,455	—
\$200,000 secured bi-lateral letter of credit facility	200,000	15,649	—
Talbot FAL facility	25,000	25,000	—
PaCRe senior secured letter of credit facility	10,000	294	—
AlphaCat Re secured letter of credit facility	30,000	30,000	—
IPC bi-lateral facility	40,000	15,897	—
\$375,000 Flagstone bi-lateral facility	375,000	198,389	—
Total credit and other facilities	1,605,000	561,684	—
Total debt and financing arrangements	\$2,454,477	\$ 1,350,961	\$ 786,583

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



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(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 as at the issuance date for each placement.

Description	Issuance date	Commitment	Maturity date	Fixed/Spread	Interest payments due
2006 Junior Subordinated Deferrable Debentures	June 15, 2006	\$ 150,000	June 15, 2036	9.069 % (a)	Quarterly
Flagstone 2006 Junior Subordinated Deferrable Debentures	August 23, 2006	\$ 134,504	September 15, 2036	3.540 % (b)	Quarterly
2007 Junior Subordinated Deferrable Debentures	June 21, 2007	\$ 200,000	June 15, 2037	8.480 % (a)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	June 8, 2007	\$ 88,750	July 30, 2037	3.000 % (b)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 20, 2007	\$ 25,000	September 15, 2037	3.100 % (b)	Quarterly
2010 Senior Notes due 2040	January 26, 2010	\$ 250,000	January 26, 2040	8.875 % (a)	Semi-annually in arrears

(a) Fixed interest rate.

(b) Variable interest rate is the three-month LIBOR, reset quarterly, plus spread as noted in the table.

The following table summarizes the key terms of the Company's senior notes and junior subordinated deferrable debentures as at September 30, 2015:

Description	Issuance date	Commitment	Maturity date	Fixed/Spread	Interest payments due
2006 Junior Subordinated Deferrable Debentures	June 15, 2006	\$ 150,000	June 15, 2036	5.831 % (b)	Quarterly
Flagstone 2006 Junior Subordinated Deferrable Debentures	August 23, 2006	\$ 134,482	September 15, 2036	6.463 % (b)	Quarterly
2007 Junior Subordinated Deferrable Debentures	June 21, 2007	\$ 200,000	June 15, 2037	5.180 % (b)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	June 8, 2007	\$ 88,750	July 30, 2037	5.900 % (b)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 20, 2007	\$ 25,000	September 15, 2037	5.983 % (b)	Quarterly
	January 26, 2010	\$ 250,000	January 26, 2040	8.875 % (a)	

2010 Senior Notes due  
2040

Semi-annually in  
arrears

(a) Fixed interest rate.

(b) Interest rate has been fixed as a result of interest rate swap contracts entered into by the Company.

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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 were deferred as an asset and are amortized over the life of the 2010 Senior Notes. There were no redemptions made during the three and nine months ended September 30, 2015 and 2014.

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 2020.

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 deferred as an asset and 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 and nine months ended September 30, 2015 and 2014. 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 and nine months ended September 30, 2015 and 2014.

Future payments of principal of \$538,054 on the debentures discussed above are all expected to be after 2020.

(c) Credit facilities

i. \$400,000 syndicated unsecured letter of credit facility and \$525,000 syndicated secured letter of credit facility  
On March 9, 2012, the Company entered into a \$400,000 four-year unsecured credit facility with various counter parties as co-documentation agents and the lenders party thereto, which provides for letter of credit and revolving credit availability for the Company (the “Four Year Unsecured Facility”) (the full \$400,000 of which is available for letters of credit and/or revolving loans). The Four Year Unsecured Facility was provided by a syndicate of commercial banks. Letters of credit under the Four Year Unsecured Facility are available to support obligations in connection with the insurance business of the Company and its subsidiaries. Loans under the Four 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 Four 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 Four Year Unsecured Facility do not exceed \$500,000.

Also on March 9, 2012, the Company entered into a \$525,000 four-year secured credit facility, with the same parties, which provides for letter of credit availability for the Company (the “Four Year Secured Facility” and together with the Four Year Unsecured Facility, the “Credit Facilities”). The Four Year Secured Facility was also provided by a syndicate of commercial banks. Letters of credit under the Four Year Secured Facility will be available to support obligations in connection with the insurance business of the Company. The Company may request that existing lenders under the

Four 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 Four Year Secured Facility do not exceed \$700,000. The obligations of the Company under the Four 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.



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As of September 30, 2015, there were \$244,358 in outstanding letters of credit under the Four Year Secured Facility (December 31, 2014: \$276,455) and \$nil (December 31, 2014: \$nil) outstanding under the Four Year Unsecured 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 March 31, 2012, to be increased quarterly by an amount equal to 50.0% 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 September 30, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Credit Facilities.

ii. \$25,000 Talbot FAL facility

On November 19, 2013, Validus Holdings, Ltd. ("Validus Holdings"), as Guarantor, and its wholly-owned subsidiary, Talbot Holdings Ltd. ("Talbot Holdings"), as Borrower, entered into an Amendment and Restatement Agreement relating to its \$25,000 Funds-at-Lloyd's Standby Letter of Credit Facility (the "Facility") which amends the Facility to support underwriting capacity provided to Talbot 2002 Underwriting Ltd through Syndicate 1183 at Lloyd's of London for the 2015 and prior underwriting years of account (the "Restated Facility"). The Restated Facility was provided and arranged by Lloyds Bank plc and ING Bank N.V., London Branch. The Restated Facility provides for the issuance of up to \$25,000 (denominated in US Dollars or Pound Sterling) of secured letters of credit to be issued for the benefit of Lloyd's of London.

The Restated Facility contains affirmative covenants that include, among other things, (i) the requirement that Validus Holdings and its subsidiaries initially maintain a minimum level of consolidated net worth of at least \$3,225,727, and commencing with the fiscal quarter ending September 30, 2013, to be increased quarterly by an amount equal to 50% of our consolidated net income (if positive) for such quarter plus 50% of the aggregate increases in our consolidated shareholder's equity interests by reason of issuance and sale of Validus Holdings' common equity interests including upon any conversion of Validus Holdings' debt securities into equity interests during such quarter and (ii) the requirement that Validus Holdings and its subsidiaries maintain at all times a consolidated total debt to consolidated total capitalization ratio not greater than 0.35:1.00. The Restated Facility defines net worth to include preferred and preference securities and "hybrid" securities (which includes Validus Holdings' and its Flagstone subsidiaries' Junior Subordinated Deferrable Debentures). The Restated Facility also requires that Talbot Holdings maintain at least \$300,000 of its own Funds at Lloyd's, and to obtain a letter of comfort from Lloyd's of London confirming that Lloyd's of London will take into account a requested order of drawdown to drawdown Talbot Holdings' own Funds at Lloyd's ahead of letters of credit issued under the Facility.

The Restated Facility also contains restrictions on Validus Holdings' ability to pay dividends and other payments in respect of equity interests at any time that it is otherwise in default under the Facility (with certain exceptions for

dividends in respect of preferred securities and hybrid securities, which are only limited during the continuance of certain specified defaults), incur debt at its subsidiaries level, transact with affiliates, incur liens, sell assets and merge or consolidate with others and other restrictions customary for transactions of this type, in each case subject to agreed exceptions.

Secured letter of credit availability under the Restated Facility is subject to a borrowing base limitation comprised of (a) the aggregate amount of cash and eligible securities owned by Validus Reinsurance, Ltd. and placed in a collateral account subject to a customary account control agreement in favor of the lenders and agents under the Restated Facility multiplied by (b) an agreed upon advance rate applicable for each category of cash and eligible securities. Obligations in respect of secured letters of credit under the Restated Facility are secured by a first-priority security interest on the cash and eligible securities comprising the borrowing base in favor of the trustee under the Restated Facility.

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The Restated Facility contains representations and warranties customary for facilities of this type. The Restated Facility also contains customary events of default including without limitation, with agreed grace periods and thresholds, failure to make payments due under the Restated Facility, material inaccuracy of representations and warranties, breach of covenants, cross defaults to material indebtedness, bankruptcy defaults, judgments defaults, and failure to maintain certain material insurance licenses.

As of September 30, 2015, the Company had \$25,000 (December 31, 2014: \$25,000) in outstanding letters of credit under the Talbot FAL facility.

As of September 30, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Talbot FAL facility.

iii. \$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 September 30, 2015, there were \$10,782 outstanding letters of credit issued under the IPC bi-lateral facility (December 31, 2014: \$15,897). As of September 30, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the IPC bi-lateral facility.

iv. \$30,000 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 September 30, 2015, \$10,172 (December 31, 2014: \$15,649) 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 September 30, 2015, and throughout the reporting periods presented, the Company is in compliance with all terms and covenants thereof. During the period ended March 31, 2015 the size of the facility was decreased to \$30,000 from \$200,000.

v. \$10,000 PaCRe senior secured letter of credit facility

On May 11, 2012, PaCRe and its subsidiary, PaCRe Investments, Ltd. entered into a secured evergreen credit and letter of credit facility with JPMorgan Chase Bank, N.A. This facility provides for revolving borrowings by PaCRe and for letters of credit issued by PaCRe to be used to support its reinsurance obligations. This facility was terminated on May 29, 2015; therefore, as of September 30, 2015, \$nil (December 31, 2014: \$294) letters of credit were outstanding under this facility. PaCRe was in compliance with all covenants and restrictions thereof through the termination date.

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

In 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 in the aggregate amount of \$24,800. During the period ended March 31, 2014 the size of the facility was increased to \$30,000 from \$24,800. As of September 30, 2015, \$30,000 (December 31, 2014: \$30,000) of letters of credit were outstanding under this facility. As of September 30, 2015, and throughout the reporting periods presented, AlphaCat Re was in compliance with all covenants and restrictions thereof.

vii. \$230,000 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"). At September 30, 2015, the Flagstone Bi-Lateral Facility had \$205,593 (December 31, 2014: \$198,389) letters of credit issued and outstanding. As of September 30, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Flagstone Bi-Lateral Facility. During the period ended March 31, 2015 the size of the facility was decreased to \$230,000 from \$375,000.



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## (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, AlphaCat financing fees and Talbot FAL costs as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
2006 Junior Subordinated Deferrable Debentures	\$2,235	\$ 2,235	\$6,633	\$ 6,633
2007 Junior Subordinated Deferrable Debentures	1,848	1,848	5,492	5,492
Flagstone 2006 Junior Subordinated Deferrable Debentures	2,274	2,269	6,735	6,736
Flagstone 2007 Junior Subordinated Deferrable Debentures	1,807	1,807	5,335	5,335
2010 Senior Notes due 2040	5,597	5,597	16,791	16,791
Credit facilities	1,293	1,295	4,193	4,225
Bank charges	76	88	337	303
AlphaCat fees (a)	2,348	384	9,456	2,030
Talbot FAL Facility	20	(169 )	113	(165 )
Total finance expenses	\$17,498	\$ 15,354	\$55,085	\$ 47,380

(a) Includes finance expenses incurred by AlphaCat Managers, Ltd. in relation to fund raising for AlphaCat direct, the AlphaCat ILS funds, AlphaCat 2015 and AlphaCat 2014.

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## 13. Accumulated other comprehensive loss

The changes in accumulated other comprehensive loss, by component for the three and nine months ended September 30, 2015 and 2014 is as follows:

Three Months Ended September 30, 2015	Foreign currency translation adjustment	Minimum pension liability	Cash flow hedge	Total
Balance beginning of period, net of tax	\$(8,374 )	\$(53 )	\$(639 )	\$(9,066 )
Net current period other comprehensive (loss) income, net of tax	(1,850 )	(28 )	75 )	(1,803 )
Balance end of period, net of tax	\$(10,224 )	\$(81 )	\$(564 )	\$(10,869 )
Three Months Ended September 30, 2014			Foreign currency translation adjustment	Total
Balance beginning of period, net of tax			\$2,460	\$2,460
Net current period other comprehensive loss, net of tax			(5,198 )	(5,198 )
Balance end of period, net of tax			\$(2,738 )	\$(2,738 )
Nine Months Ended September 30, 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) income, net of tax	(2,106 )	129 )	(336 )	(2,313 )
Balance end of period, net of tax	\$(10,224 )	\$(81 )	\$(564 )	\$(10,869 )
Nine Months Ended September 30, 2014			Foreign currency translation adjustment	Total
Balance beginning of period, net of tax			\$(617 )	\$(617 )
Net current period other comprehensive loss, net of tax			(2,121 )	(2,121 )
Balance end of period, net of tax			\$(2,738 )	\$(2,738 )

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## 14. Commitments and contingencies

## (a) Concentrations of credit risk

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+. In addition, the portfolio limits the amount of "risk assets," such as non-investment grade debt and equity securities, to a maximum of 35% of shareholders' equity. The Company also limits its exposure to any single issuer to 3.75% or less of total cash and investments, excluding government and agency securities, depending on the credit rating of the issuer. With the exception of the Company's non-investment grade bank loan portfolio, which represents 7.7% of total managed cash and investments as at September 30, 2015, and certain capital securities issued by investment grade corporations, the minimum credit rating of any security purchased is Baa3/BBB-. Managed cash and investments consist of total cash and investments less restricted cash, assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interests. In total, investments in below investment grade securities are limited to no more than 15% of the Company's managed cash and investment portfolio. As at September 30, 2015, 9.5% of the Company's total managed cash and investment portfolio was below investment grade. The Company did not have an aggregate exposure to any single issuer of more than 0.7% of total cash and investments, other than with respect to government and agency securities as at September 30, 2015.

## (b) Funds at Lloyd's

The amounts provided under the Talbot FAL Facility would become a liability of the Company in the event of Syndicate 1183 declaring a loss at a level which would call on this arrangement.

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, investments and undrawn letters of credit provided by various banks.

The amounts of cash, investments and letters of credit provided for each year of account as follows:

	2015	2014
	Underwriting	Underwriting
	Year	Year
Talbot FAL facility	\$25,000	\$25,000
Group funds	570,100	450,000
Total	\$595,100	\$475,000

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 (d) for investments pledged as collateral.

## (c) 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 2015 estimated premium income at Lloyd's of £625,000, at the September 30, 2015 exchange rate of £1 equals \$1.51 and assuming the maximum 3% assessment, the Company would be assessed approximately \$28,313.

## (d) Investment in affiliate commitments

As discussed in Note 5 "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. This interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of January 9, 2013. The Company's remaining commitment at September 30, 2015 was \$4,085 (December 31, 2014: \$7,500).



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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. This interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of January 9, 2013. The Company's remaining capital commitment at September 30, 2015 was \$817 (December 31, 2014: \$1,499).

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 Limited Partnership Interests are governed by the terms of the Aquiline III Limited Partnership Agreement dated November 7, 2014. The Company's remaining commitment at September 30, 2015 was \$86,110 (December 31, 2014: \$100,000).

On December 29, 2014, the Company entered into an agreement with AlphaCat 2015 pursuant to which it assumed total capital commitments of \$28,000. The Company's remaining commitment at September 30, 2015 was \$nil (December 31, 2014: \$2,400).

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. The Company's remaining commitment at September 30, 2015 was \$nil (December 31, 2014: \$8,000).

(e) Fixed maturity commitment

As at September 30, 2015, 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 September 30, 2015 was \$28,831 (December 31, 2014: \$7,539).

(f) Other investment commitments

As at September 30, 2015, the Company had capital commitments in private equity investments of \$153,000 (December 31, 2014: \$153,000). The Company's remaining commitment to these investments at September 30, 2015 was \$76,519 (December 31, 2014: \$83,712).

(g) Multi-Beneficiary Reinsurance Trust ("MBRT")

In December 2014, the Company established an MBRT to collateralize its (re)insurance liabilities associated with and for the benefit of U.S. domiciled cedants, and was approved as a trustee reinsurer in the State of New Jersey. As at September 30, 2015, the Company was approved in a total of 46 jurisdictions. As a result, cedants domiciled in those jurisdictions will receive automatic credit in their regulatory filings for reinsurance provided by the Company.

(h) Income tax examinations

The Company has open examinations by the U.K. HM Revenue and Customs for the tax years 2011 to 2013 and the Company believes that these examinations will be concluded within the next 12 months.

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

## 15. 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 hold warrants to purchase 2,756,088 shares, and have two employees on the Company's Board of Directors who do not receive compensation from the Company, 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 and nine months ended September 30, 2015 of \$322 (2014: \$246) and \$2,718 (2014: \$2,190), respectively with \$1,484 included in premiums receivable at September 30, 2015 (December 31, 2014: \$335). The Company also recognized reinsurance premiums ceded during the three and nine months ended September 30, 2015 of \$23 (2014: \$127) and \$24 (2014: \$127) and had reinsurance balances payable of \$4 at September 30, 2015 (December 31, 2014: \$4). The Company recorded \$815 of loss reserves recoverable at September 30, 2015 (December 31, 2014: \$1,063). Earned premium adjustments of \$870 (2014: \$694) and \$2,187 (2014: \$1,653) were recorded during the three and nine months ended September 30, 2015.

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 and nine months ended September 30, 2015 were \$436 and \$841, respectively. Investment management fees earned by Conning for the three and nine months ended September 30, 2014 were (\$7) and \$219 respectively, with \$515 included in accounts payable and accrued expenses at December 31, 2014.

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 and nine months ended September 30, 2015, the Company incurred \$155 (2014: \$nil) and \$1,092 (2014: \$nil) in partnership fees and made net capital (distributions) contributions of (\$3,684) (2014: \$nil) and \$5,293 (2014: \$nil), with \$nil included in accounts payable and accrued expenses at September 30, 2015 (December 31, 2014: \$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 September 30, 2015, the Company incurred partnership fees of \$nil and made net capital distributions of (\$345). For the nine months ended September 30, 2015, the Company incurred partnership fees of \$nil and made net capital contributions of \$13,793,

with \$nil included in accounts payable and accrued expenses at September 30, 2015 (December 31, 2014: \$nil). 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.

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

## 16. Earnings per share

The following table sets forth the computation of basic and earnings per diluted share for the three and nine months ended September 30, 2015 and 2014:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Basic earnings per share				
Net (loss) income	\$ (5,013	) \$ (13,397	) \$ 289,032	\$ 381,172
Loss (income) attributable to noncontrolling interest	71,663	53,069	15,042	(25,745 )
Net income available to Validus	66,650	39,672	304,074	355,427
Less: Dividends and distributions declared on outstanding warrants	(1,080	) (1,552	) (3,566	) (4,656 )
Income available to common shareholders	\$ 65,570	\$ 38,120	\$ 300,508	\$ 350,771
Weighted average number of common shares outstanding	82,635,316	90,593,329	83,296,703	91,665,950
Basic earnings per share available to common shareholders	\$ 0.79	\$ 0.42	\$ 3.61	\$ 3.83
Earnings per diluted share				
Net (loss) income	\$ (5,013	) \$ (13,397	) \$ 289,032	\$ 381,172
Loss (income) attributable to noncontrolling interest	71,663	53,069	15,042	(25,745 )
Net income available to Validus	66,650	39,672	304,074	355,427
Less: Dividends and distributions declared on outstanding warrants	—	(1,552	) —	—
Income available to common shareholders	\$ 66,650	\$ 38,120	\$ 304,074	\$ 355,427
Weighted average number of common shares outstanding	82,635,316	90,593,329	83,296,703	91,665,950
Share equivalents:				
Warrants	2,054,378	—	2,290,892	2,747,399
Stock options	47,702	760,267	190,429	752,145
Unvested restricted shares	892,098	586,014	1,063,903	772,147
Weighted average number of diluted common shares outstanding	85,629,494	91,939,610	86,841,927	95,937,641
Earnings per diluted share available to common shareholders	\$ 0.78	\$ 0.41	\$ 3.50	\$ 3.70

Share equivalents that would result in the issuance of 25,237 common shares (2014: 4,712) were outstanding for the nine months ended September 30, 2015, but were not included in the computation of earnings per diluted share because the effect would be antidilutive.



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Validus Holdings, Ltd.

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17. 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, AlphaCat, Talbot and Western World. 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.

Validus Re Segment

The Validus Re segment is focused on short-tail lines of 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, motor, technical lines, composite and trade credit.

AlphaCat Segment

The AlphaCat segment manages strategic relationships that leverage the Company's underwriting and investment expertise and earns management, performance and underwriting fees primarily from the Company's operating affiliates and other third party investors, AlphaCat Re 2011, AlphaCat Re 2012, AlphaCat 2013, AlphaCat 2014 and AlphaCat 2015, as well as PaCRe, the AlphaCat ILS funds, the BetaCat ILS funds and AlphaCat direct.

Talbot Segment

The Talbot segment focuses on a wide range of marine and energy, war, political violence, 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.

Corporate and eliminations

The Company has a corporate function ("Corporate"), which includes the activities of the parent company, and which carries out certain functions for the group. Corporate includes 'non-core' underwriting expenses, predominantly general and administrative and stock compensation 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 inter segment revenues and expenses and unusual items that are not allocated to segments.

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(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":

Three Months Ended September 30, 2015	Validus Re Segment	AlphaCat Segment	Talbot Segment	Western World Segment	Corporate & Eliminations	Total
Underwriting income						
Gross premiums written	\$ 102,913	\$ 9,448	\$ 226,025	\$ 70,871	\$(7,576 )	\$ 401,681
Reinsurance premiums ceded	(15,462 )	—	(35,823 )	(4,716 )	7,576	(48,425 )
Net premiums written	87,451	9,448	190,202	66,155	—	353,256
Change in unearned premiums	153,210	35,276	15,942	(2,225 )	—	202,203
Net premiums earned	240,661	44,724	206,144	63,930	—	555,459
Underwriting deductions						
Losses and loss expenses	120,958	2,076	94,414	40,810	—	258,258
Policy acquisition costs	42,989	4,658	44,575	13,214	(345 )	105,091
General and administrative expenses	19,964	4,674	43,292	9,587	18,482	95,999
Share compensation expenses	2,691	141	3,214	554	3,383	9,983
Total underwriting deductions	186,602	11,549	185,495	64,165	21,520	469,331
Underwriting income (loss)	\$ 54,059	\$ 33,175	\$ 20,649	\$(235 )	\$(21,520 )	\$ 86,128
Net investment income	18,362	1,533	6,457	5,634	(462 )	31,524
Other insurance related income (loss)	2,569	7,522	470	248	(652 )	10,157
Finance expenses	(3,624 )	(2,355 )	(57 )	—	(11,462 )	(17,498 )
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to AlphaCat investors	71,366	39,875	27,519	5,647	(34,096 )	110,311
Tax benefit (expense)	851	—	(1,141 )	(2,431 )	703	(2,018 )
Income from operating affiliates	—	5,526	—	—	—	5,526
(Income) attributable to AlphaCat investors	—	(40,256 )	—	—	—	(40,256 )
Net operating income (loss)	\$ 72,217	\$ 5,145	\$ 26,378	\$ 3,216	\$(33,393 )	\$ 73,563
Net realized (losses) gains on investments	(1,512 )	(40,673 )	199	80	—	(41,906 )
Change in net unrealized (losses) gains on	(6,257 )	(36,673 )	1,263	6,406	353	(34,908 )

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investments							
Income from investment affiliate	1,842	—	—	640	—	2,482	
Foreign exchange (losses) gains	(441 )	57	(3,682 )	—	1,792	(2,274 )	
Other loss	(1,970 )	—	—	—	—	(1,970 )	
Net income (loss)	\$63,879	\$(72,144 )	\$24,158	\$10,342	\$(31,248 )	\$(5,013 )	
Net loss attributable to noncontrolling interest	—	71,663	—	—	—	71,663	
Net income (loss) available (attributable) to Validus	\$63,879	\$(481 )	\$24,158	\$10,342	\$(31,248 )	\$66,650	
Selected ratios (a):							
Net premiums written / Gross premiums written	85.0	% 100.0	% 84.2	% 93.3	%	87.9	%
Losses and loss expenses	50.3	% 4.6	% 45.8	% 63.8	%	46.5	%
Policy acquisition costs	17.9	% 10.4	% 21.6	% 20.7	%	18.9	%
General and administrative expenses (b)	9.4	% 10.8	% 22.6	% 15.9	%	19.1	%
Expense ratio	27.3	% 21.2	% 44.2	% 36.6	%	38.0	%
Combined ratio	77.6	% 25.8	% 90.0	% 100.4	%	84.5	%
Total assets	\$4,441,212	\$2,313,667	\$2,923,237	\$1,475,881	\$81,966	\$11,235,963	

(a) Ratios are based on net premiums earned.

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



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Validus Holdings, Ltd.

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

Three Months Ended September 30, 2014	Validus Re Segment (c)	AlphaCat Segment	Talbot Segment	Corporate & Eliminations (c)	Total
Underwriting income					
Gross premiums written	\$ 114,380	\$ 6,936	\$ 245,685	\$(8,027 )	\$ 358,974
Reinsurance premiums ceded	(10,382 )	(648 )	(27,134 )	8,027	(30,137 )
Net premiums written	103,998	6,288	218,551	—	328,837
Change in unearned premiums	122,712	28,850	14,297	—	165,859
Net premiums earned	226,710	35,138	232,848	—	494,696
Underwriting deductions					
Losses and loss expenses	102,005	3,738	118,382	—	224,125
Policy acquisition costs	36,177	3,378	47,862	(1,013 )	86,404
General and administrative expenses	18,522	7,719	37,709	19,369	83,319
Share compensation expenses	2,582	179	2,990	3,013	8,764
Total underwriting deductions	159,286	15,014	206,943	21,369	402,612
Underwriting income (loss)	\$ 67,424	\$ 20,124	\$ 25,905	\$(21,369 )	\$ 92,084
Net investment income	20,270	837	4,965	(811 )	25,261
Other insurance related income (loss)	863	5,980	109	(3,342 )	3,610
Finance expenses	(3,622 )	(385 )	162	(11,509 )	(15,354 )
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to AlphaCat investors	84,935	26,556	31,141	(37,031 )	105,601
Tax benefit (expense)	1,058	—	332	(437 )	953
Income from operating affiliates (Income) attributable to AlphaCat investors	—	3,761	—	—	3,761
	—	(25,807 )	—	—	(25,807 )
Net operating income (loss)	\$ 85,993	\$ 4,510	\$ 31,473	\$(37,468 )	\$ 84,508
Net realized gains on investments	1,641	2,563	391	—	4,595
Change in net unrealized losses on investments	(21,624 )	(60,253 )	(3,097 )	—	(84,974 )
Income from investment affiliate	1,754	—	—	—	1,754
Foreign exchange (losses) gains	(6,056 )	(51 )	(7,114 )	1,780	(11,441 )
Other loss	(7,690 )	—	—	—	(7,690 )
Transaction expenses (d)	—	—	—	(149 )	(149 )
Net income (loss)	\$ 54,018	\$(53,231 )	\$ 21,653	\$(35,837 )	\$(13,397 )
Net loss attributable to noncontrolling interest	—	53,069	—	—	53,069
Net income (loss) available (attributable) to Validus	\$ 54,018	\$(162 )	\$ 21,653	\$(35,837 )	\$ 39,672

## Selected ratios (a):

Net premiums written / Gross premiums written	90.9	%	90.7	%	89.0	%	91.6	%
Losses and loss expenses	45.0	%	10.6	%	50.8	%	45.3	%
Policy acquisition costs	16.0	%	9.6	%	20.6	%	17.5	%
General and administrative expenses (b)	9.3	%	22.5	%	17.5	%	18.6	%
Expense ratio	25.3	%	32.1	%	38.1	%	36.1	%
Combined ratio	70.3	%	42.7	%	88.9	%	81.4	%
Total assets	\$4,740,003		\$1,688,191		\$2,901,264		\$749,678	
							\$10,079,136	

(a) Ratios are based on net premiums earned.

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

Beginning in the first quarter of 2015, certain intercompany reinsurance transactions were presented on a net basis for segmental reporting purposes. As a result, gross premiums written and reinsurance premiums ceded for the

(c) Validus Re segment and Corporate & Eliminations were reduced by \$517 for the three months ended September 30, 2014 for comparative purposes. There was no impact to total gross premiums written and reinsurance premiums ceded on a consolidated basis.

The transaction expenses relate to costs incurred in connection with the acquisition of Western World, which was completed on October 2, 2014. Western World results have not been included in the Company's consolidated

(d) results for the three months ended September 30, 2014. Transaction expenses are primarily comprised of legal, financial advisory and audit related services.

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

Nine Months Ended September 30, 2015	Validus Re Segment	AlphaCat Segment	Talbot Segment	Western World Segment	Corporate & Eliminations	Total
Underwriting income						
Gross premiums written	\$ 1,111,020	\$ 176,129	\$ 789,148	\$ 207,372	\$(35,522 )	\$ 2,248,147
Reinsurance premiums ceded	(147,611 )	(4,538 )	(164,144 )	(13,390 )	35,522	(294,161 )
Net premiums written	963,409	171,591	625,004	193,982	—	1,953,986
Change in unearned premiums	(205,110 )	(54,196 )	9,167	2,948	—	(247,191 )
Net premiums earned	758,299	117,395	634,171	196,930	—	1,706,795
Underwriting deductions						
Losses and loss expenses	357,491	1,232	268,512	138,098	—	765,333
Policy acquisition costs	128,909	12,162	141,338	27,110	(1,367 )	308,152
General and administrative expenses	58,254	12,202	115,341	29,137	49,056	263,990
Share compensation expenses	7,665	440	9,195	1,525	9,454	28,279
Total underwriting deductions	552,319	26,036	534,386	195,870	57,143	1,365,754
Underwriting income (loss)	\$ 205,980	\$ 91,359	\$ 99,785	\$ 1,060	\$(57,143 )	\$ 341,041
Net investment income	56,694	4,872	19,168	16,660	(1,241 )	96,153
Other insurance related income (loss)	3,318	17,048	564	787	(3,580 )	18,137
Finance expenses	(11,068 )	(9,462 )	(231 )	—	(34,324 )	(55,085 )
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to AlphaCat investors	254,924	103,817	119,286	18,507	(96,288 )	400,246
Tax expense	(14 )	—	(4,286 )	(2,420 )	(412 )	(7,132 )
Income from operating affiliates	—	12,083	—	—	—	12,083
(Income) attributable to AlphaCat investors	—	(94,341 )	—	—	—	(94,341 )
Net operating income (loss)	\$ 254,910	\$ 21,559	\$ 115,000	\$ 16,087	\$(96,700 )	\$ 310,856
Net realized gains (losses) on investments	717	(40,544 )	2,140	2,194	—	(35,493 )
Change in net unrealized gains (losses) on investments	76	17,258	163	2,340	(71 )	19,766

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Income from investment affiliate	4,204	—	—	1,338	—	5,542	
Foreign exchange (losses) gains	(6,571 )	(37 )	(4,949 )	—	2,496	(9,061 )	
Other loss	(2,578 )	—	—	—	—	(2,578 )	
Net income (loss)	\$250,758	\$(1,764 )	\$112,354	\$21,959	\$(94,275 )	\$289,032	
Net loss attributable to noncontrolling interest	—	15,042	—	—	—	15,042	
Net income (loss) available (attributable) to Validus	\$250,758	\$13,278	\$112,354	\$21,959	\$(94,275 )	\$304,074	
Selected ratios (a):							
Net premiums written / Gross premiums written	86.7	% 97.4	% 79.2	% 93.5	%	86.9	%
Losses and loss expenses	47.1	% 1.0	% 42.4	% 70.1	%	44.8	%
Policy acquisition costs	17.0	% 10.4	% 22.3	% 13.8	%	18.1	%
General and administrative expenses (b)	8.7	% 10.8	% 19.6	% 15.6	%	17.1	%
Expense ratio	25.7	% 21.2	% 41.9	% 29.4	%	35.2	%
Combined ratio	72.8	% 22.2	% 84.3	% 99.5	%	80.0	%
Total assets	\$4,441,212	\$2,313,667	\$2,923,237	\$1,475,881	\$81,966	\$11,235,963	

(a) Ratios are based on net premiums earned.

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

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Nine Months Ended September 30, 2014	Validus Re Segment (c)	AlphaCat Segment	Talbot Segment	Corporate & Eliminations (c)	Total
Underwriting income					
Gross premiums written	\$1,081,816	\$135,073	\$854,324	\$(44,574 )	\$2,026,639
Reinsurance premiums ceded	(161,721 )	(4,348 )	(154,115 )	44,574	(275,610 )
Net premiums written	920,095	130,725	700,209	—	1,751,029
Change in unearned premiums	(233,271 )	(32,444 )	(41,658 )	—	(307,373 )
Net premiums earned	686,824	98,281	658,551	—	1,443,656
Underwriting deductions					
Losses and loss expenses	247,848	(7,155 )	304,848	—	545,541
Policy acquisition costs	106,547	9,414	138,383	(3,338 )	251,006
General and administrative expenses	53,757	15,627	107,031	55,191	231,606
Share compensation expenses	7,126	330	8,434	8,362	24,252
Total underwriting deductions	415,278	18,216	558,696	60,215	1,052,405
Underwriting income (loss)	\$271,546	\$80,065	\$99,855	\$(60,215 )	\$391,251
Net investment income	54,810	2,546	14,322	(1,769 )	69,909
Other insurance related income (loss)	2,385	21,482	384	(7,793 )	16,458
Finance expenses	(11,131 )	(2,039 )	68	(34,278 )	(47,380 )
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to AlphaCat investors	317,610	102,054	114,629	(104,055 )	430,238
Tax benefit (expense)	1,176	—	(902 )	(672 )	(398 )
Income from operating affiliates (Income) attributable to AlphaCat investors	—	13,580	—	—	13,580
	—	(82,833 )	—	—	(82,833 )
Net operating income (loss)	\$318,786	\$32,801	\$113,727	\$(104,727 )	\$360,587
Net realized gains on investments	5,411	10,230	552	—	16,193
Change in net unrealized (losses) gains on investments	(1,719 )	15,706	2,159	—	16,146
Income from investment affiliate	7,881	—	—	—	7,881
Foreign exchange (losses) gains	(9,384 )	(204 )	(5,897 )	724	(14,761 )
Other loss	(1,473 )	—	—	—	(1,473 )
Transaction expenses (d)	—	—	—	(3,401 )	(3,401 )
Net income (loss)	\$319,502	\$58,533	\$110,541	\$(107,404 )	\$381,172
Net (income) attributable to noncontrolling interest	—	(25,745 )	—	—	(25,745 )
Net income (loss) available (attributable) to Validus	\$319,502	\$32,788	\$110,541	\$(107,404 )	\$355,427

## Selected ratios (a):

Net premiums written / Gross premiums written	85.1	%	96.8	%	82.0	%	86.4	%
Losses and loss expenses	36.1	%	(7.3)	)%	46.3	%	37.8	%
Policy acquisition costs	15.5	%	9.6	%	21.0	%	17.4	%
General and administrative expenses (b)	8.9	%	16.2	%	17.5	%	17.7	%
Expense ratio	24.4	%	25.8	%	38.5	%	35.1	%
Combined ratio	60.5	%	18.5	%	84.8	%	72.9	%
Total assets	\$4,740,003		\$1,688,191		\$2,901,264		\$749,678	
							\$10,079,136	

(a) Ratios are based on net premiums earned.

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

Beginning in the first quarter of 2015, certain intercompany reinsurance transactions were presented on a net basis for segmental reporting purposes. As a result, gross premiums written and reinsurance premiums ceded for the

(c) Validus Re segment and Corporate & Eliminations were reduced by \$22,353 for the nine months ended September 30, 2014 for comparative purposes. There was no impact to total gross premiums written and reinsurance premiums ceded on a consolidated basis.

The transaction expenses relate to costs incurred in connection with the acquisition of Western World, which was completed on October 2, 2014. Western World results have not been included in the Company's consolidated

(d) results for the nine months ended September 30, 2014. Transaction expenses are primarily comprised of legal, financial advisory and audit related services.

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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:

## Three Months Ended September 30, 2015

## Gross Premiums Written

	Validus Re	AlphaCat	Talbot	Western World	Eliminations	Total	%	
United States	\$34,578	\$3,615	\$21,886	\$70,871	\$(296)	\$130,654	32.5	%
Worldwide excluding United States (a)	5,409	100	30,721	—	(139)	36,091	9.0	%
Australia and New Zealand	480	—	3,520	—	(92)	3,908	1.0	%
Europe	6,142	22	7,839	—	(78)	13,925	3.5	%
Latin America and Caribbean	18,771	—	27,249	—	(3,717)	42,303	10.5	%
Japan	—	—	1,149	—	(94)	1,055	0.3	%
Canada	319	(30)	1,455	—	(76)	1,668	0.4	%
Rest of the world (b)	2,621	—	28,380	—	(499)	30,502	7.6	%
Sub-total, non United States	33,742	92	100,313	—	(4,695)	129,452	32.3	%
Worldwide including United States (a)	8,057	4,949	20,296	—	(2,593)	30,709	7.6	%
Other location non-specific (c)	26,536	792	83,530	—	8	110,866	27.6	%
Total	\$102,913	\$9,448	\$226,025	\$70,871	\$(7,576)	\$401,681	100.0	%

## Three Months Ended September 30, 2014

## Gross Premiums Written

	Validus Re (d)	AlphaCat	Talbot	Eliminations (d)	Total	%	
United States	\$27,394	\$2,206	\$17,003	\$363	\$46,966	13.1	%
Worldwide excluding United States (a)	9,167	(81)	29,781	498	39,365	10.9	%
Australia and New Zealand	494	—	3,312	(23)	3,783	1.1	%
Europe	7,540	312	9,821	708	18,381	5.1	%
Latin America and Caribbean	15,394	—	24,740	(3,268)	36,866	10.3	%
Japan	1,635	22	1,274	(45)	2,886	0.8	%
Canada	179	—	2,430	(71)	2,538	0.7	%
Rest of the world (b)	(138)	—	27,145	592	27,599	7.7	%
Sub-total, non United States	34,271	253	98,503	(1,609)	131,418	36.6	%
Worldwide including United States (a)	22,647	4,477	18,611	5,540	51,275	14.3	%
Other location non-specific (c)	30,068	—	111,568	(12,321)	129,315	36.0	%
Total	\$114,380	\$6,936	\$245,685	\$(8,027)	\$358,974	100.0	%





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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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

	Nine Months Ended September 30, 2015							
	Gross Premiums Written							
	Validus Re	AlphaCat	Talbot	Western World	Eliminations	Total	%	
United States	\$544,239	\$42,200	\$89,980	\$207,372	\$ (2,417 )	\$881,374	39.2	%
Worldwide excluding United States (a)	52,808	8,057	95,894	—	(1,183 )	155,576	6.9	%
Australia and New Zealand	12,002	624	6,569	—	(233 )	18,962	0.8	%
Europe	47,018	2,863	31,637	—	(1,093 )	80,425	3.6	%
Latin America and Caribbean	34,086	—	78,634	—	(9,913 )	102,807	4.6	%
Japan	39,191	1,671	4,746	—	(159 )	45,449	2.0	%
Canada	3,117	458	5,452	—	(216 )	8,811	0.4	%
Rest of the world (b)	24,615	—	76,368	—	(3,355 )	97,628	4.3	%
Sub-total, non United States	212,837	13,673	299,300	—	(16,152 )	509,658	22.6	%
Worldwide including United States (a)	131,405	115,414	74,794	—	(16,946 )	304,667	13.6	%
Other location non-specific (c)	222,539	4,842	325,074	—	(7 )	552,448	24.6	%
Total	\$1,111,020	\$176,129	\$789,148	\$207,372	\$ (35,522 )	\$2,248,147	100.0	%
	Nine Months Ended September 30, 2014							
	Gross Premiums Written							
	Validus Re (d)	AlphaCat	Talbot		Eliminations (d)	Total	%	
United States	\$444,325	\$31,160	\$85,465		\$ (2,554 )	\$558,396	27.5	%
Worldwide excluding United States (a)	74,516	7,331	105,397		(586 )	186,658	9.2	%
Australia and New Zealand	19,879	1,019	7,615		(245 )	28,268	1.4	%
Europe	54,263	3,005	36,110		(536 )	92,842	4.6	%
Latin America and Caribbean	35,965	—	86,111		(18,216 )	103,860	5.1	%
Japan	40,456	608	3,404		(103 )	44,365	2.2	%
Canada	3,174	215	8,325		(307 )	11,407	0.6	%
Rest of the world (b)	22,541	—	70,702		(2,298 )	90,945	4.5	%
Sub-total, non United States	250,794	12,178	317,664		(22,291 )	558,345	27.6	%
Worldwide including United States (a)	161,366	91,735	71,147		(4,394 )	319,854	15.8	%
Other location non-specific (c)	225,331	—	380,048		(15,335 )	590,044	29.1	%
Total	\$1,081,816	\$135,073	\$854,324		\$ (44,574 )	\$2,026,639	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.

During the first quarter of 2015, certain intercompany reinsurance transactions were presented on a net basis for segmental reporting purposes. As a result, gross premiums written for the Validus Re segment and Corporate & (d)Eliminations were reduced by \$517 and \$22,353 for the three and nine months ended September 30, 2014, respectively, for comparative purposes. There was no impact to total gross premiums written on a consolidated basis.

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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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

18. Condensed consolidating financial information

The following tables present condensed consolidating balance sheets as at September 30, 2015 and December 31, 2014, condensed consolidating statements of comprehensive income for the three and nine months ended September 30, 2015 and 2014, and condensed consolidating statements of cash flows for the nine months ended September 30, 2015 and 2014, for Validus Holdings, Ltd. (the “Parent Guarantor”), Validus Holdings (UK) plc (the “Subsidiary Issuer”) and the non-guarantor subsidiaries of Validus Holdings, Ltd. The Subsidiary Issuer is a 100%-owned subsidiary of the Parent Guarantor. Investments in subsidiaries are accounted for under the equity method for purposes of the supplemental consolidating presentation and earnings of subsidiaries are reflected in the investment accounts and earnings. The Subsidiary Issuer is only allowed to issue senior notes that are fully and unconditionally guaranteed by the Parent Guarantor.

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Validus Holdings, Ltd.

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

Condensed Consolidating Balance Sheet As at September 30, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
<b>Assets</b>					
Fixed maturities, at fair value	\$28,757	\$—	\$5,610,299	\$(60,200)	) \$5,578,856
Short-term investments, at fair value	—	—	1,661,687	—	1,661,687
Other investments, at fair value	—	—	891,238	(73,864)	) 817,374
Cash and cash equivalents	10,789	20	397,676	—	408,485
Restricted cash	—	—	74,002	—	74,002
Total investments and cash	39,546	20	8,634,902	(134,064)	) 8,540,404
Investment in affiliates	—	—	347,962	—	347,962
Investment in subsidiaries on an equity basis	4,173,423	697,014	—	(4,870,437)	) —
Premiums receivable	—	—	1,062,654	—	1,062,654
Deferred acquisition costs	—	—	225,065	—	225,065
Prepaid reinsurance premiums	—	—	125,547	—	125,547
Securities lending collateral	—	—	6,461	—	6,461
Loss reserves recoverable	—	—	385,212	—	385,212
Paid losses recoverable	—	—	21,681	—	21,681
Income taxes recoverable	—	—	15,870	—	15,870
Deferred tax asset	—	—	22,352	—	22,352
Receivable for investments sold	—	—	15,055	—	15,055
Intangible assets	—	—	122,676	—	122,676
Goodwill	—	—	196,758	—	196,758
Accrued investment income	115	—	23,640	—	23,755
Intercompany receivable	45,270	—	158	(45,428)	) —
Other assets	3,294	—	121,217	—	124,511
Total assets	\$4,261,648	\$697,034	\$11,327,210	\$(5,049,929)	) \$11,235,963
<b>Liabilities</b>					
Reserve for losses and loss expenses	\$—	\$—	\$3,169,334	\$—	\$3,169,334
Unearned premiums	—	—	1,281,319	—	1,281,319
Reinsurance balances payable	—	—	90,838	—	90,838
Securities lending payable	—	—	6,927	—	6,927
Deferred tax liability	—	—	8,921	—	8,921
Payable for investments purchased	—	—	118,164	—	118,164

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Accounts payable and accrued expenses	19,701	—	229,133	—	248,834
Intercompany payable	—	158	45,270	(45,428)	) —
Notes payable to AlphaCat investors	—	—	1,443,198	—	1,443,198
Senior notes payable	247,387	—	—	—	247,387
Debentures payable	350,000	—	248,254	(60,200)	) 538,054
Total liabilities	\$617,088	\$158	\$6,641,358	\$(105,628)	) \$7,152,976
Total shareholders' equity available to Validus	3,644,560	696,876	4,247,425	(4,944,301)	) 3,644,560
Noncontrolling interest	—	—	438,427	—	438,427
Total liabilities, noncontrolling interests and shareholders' equity	\$4,261,648	\$697,034	\$11,327,210	\$(5,049,929)	) \$11,235,963

(a) Amounts include an aggregation of the non-guarantor subsidiaries and include consolidating adjustments between these subsidiaries.

(b) Amounts include consolidating adjustments between the Parent Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries.

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Validus Holdings, Ltd.

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

Condensed Consolidating Balance Sheet As at December 31, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
<b>Assets</b>					
Fixed maturities, at fair value	\$—	\$—	\$5,592,931	\$(60,200)	) \$5,532,731
Short-term investments, at fair value	—	—	1,051,074	—	) \$1,051,074
Other investments, at fair value	—	—	881,123	(68,112)	) \$813,011
Cash and cash equivalents	29,798	81	547,361	—	) \$577,240
Restricted cash	—	—	173,003	—	) 173,003
Total investments and cash	29,798	81	8,245,492	(128,312)	) 8,147,059
Investment in affiliates	—	—	261,483	—	) 261,483
Investment in subsidiaries on an equity basis	4,140,770	656,738	—	(4,797,508)	) —
Premiums receivable	—	—	707,647	—	) 707,647
Deferred acquisition costs	—	—	161,295	—	) 161,295
Prepaid reinsurance premiums	—	—	81,983	—	) 81,983
Securities lending collateral	—	—	470	—	) 470
Loss reserves recoverable	—	—	377,466	—	) 377,466
Paid losses recoverable	—	—	38,078	—	) 38,078
Deferred tax asset	—	—	23,821	—	) 23,821
Receivable for investments sold	—	—	18,318	—	) 18,318
Intangible assets	—	—	126,924	—	) 126,924
Goodwill	—	—	195,897	—	) 195,897
Accrued investment income	—	—	24,865	—	) 24,865
Intercompany receivable	41,078	—	20	(41,098)	) —
Other assets	3,239	—	161,394	—	) 164,633
Total assets	\$4,214,885	\$656,819	\$10,425,153	\$(4,966,918)	) \$10,329,939
<b>Liabilities</b>					
Reserve for losses and loss expenses	\$—	\$—	\$3,234,394	\$—	) \$3,234,394
Unearned premiums	—	—	990,564	—	) 990,564
Reinsurance balances payable	—	—	127,128	—	) 127,128
Securities lending payable	—	—	936	—	) 936
Deferred tax liability	—	—	5,541	—	) 5,541
Payable for investments purchased	—	—	68,574	—	) 68,574
	29,621	96	288,528	—	) 318,245

Accounts payable and accrued expenses					
Intercompany payable	—	20	41,078	(41,098)	) —
Notes payable to AlphaCat investors	—	—	671,465	—	671,465
Senior notes payable	247,306	—	—	—	247,306
Debentures payable	350,000	—	249,477	(60,200)	) 539,277
Total liabilities	\$626,927	\$116	\$5,677,685	\$(101,298)	) \$6,203,430
Redeemable noncontrolling interest	—	—	79,956	—	79,956
Total shareholders' equity available to Validus	3,587,958	656,703	4,208,917	(4,865,620)	) 3,587,958
Noncontrolling interest	—	—	458,595	—	458,595
Total liabilities, noncontrolling interests and shareholders' equity	\$4,214,885	\$656,819	\$10,425,153	\$(4,966,918)	) \$10,329,939

(a) Amounts include an aggregation of the non-guarantor subsidiaries and include consolidating adjustments between these subsidiaries.

(b) Amounts include consolidating adjustments between the Parent Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries.

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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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

Condensed Consolidating Statement of Comprehensive Income For the Three Months Ended September 30, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	\$—	\$—	\$ 555,459	\$—	\$ 555,459
Net investment income	86	—	32,462	(1,024 )	31,524
Net realized (losses) on investments	—	—	(41,906 )	—	(41,906 )
Change in net unrealized gains (losses) on investments	353	—	(33,491 )	(1,770 )	(34,908 )
Income from investment affiliate	—	—	2,482	—	2,482
Other insurance related income and other (loss)	—	—	22,319	(14,132 )	8,187
Foreign exchange gains (losses)	562	—	(2,836 )	—	(2,274 )
Total revenues	\$1,001	\$—	\$ 534,489	\$ (16,926 )	\$ 518,564
Expenses					
Losses and loss expenses	—	—	258,258	—	258,258
Policy acquisition costs	—	—	105,091	—	105,091
General and administrative expenses	19,526	—	90,605	(14,132 )	95,999
Share compensation expenses	1,834	—	8,149	—	9,983
Finance expenses	11,985	—	6,013	(500 )	17,498
Total expenses	\$33,345	\$—	\$ 468,116	\$ (14,632 )	\$ 486,829
(Loss) income before taxes, income from operating affiliates, (income) attributable to AlphaCat investors and equity in net earnings (losses) of subsidiaries	(32,344 )	—	66,373	(2,294 )	31,735
Tax expense	—	—	(2,018 )	—	(2,018 )
Income from operating affiliates	—	—	5,526	—	5,526
(Income) attributable to AlphaCat investors	—	—	(40,256 )	—	(40,256 )
Equity in net earnings (losses) of subsidiaries	98,994	14,139	(170,000 )	56,867	—
Net income (loss)	\$66,650	\$14,139	\$ (140,375 )	\$ 54,573	\$ (5,013 )
Net loss attributable to noncontrolling interest	—	—	71,663	—	71,663
Net income (loss) available (attributable) to Validus	\$66,650	\$14,139	\$ (68,712 )	\$ 54,573	\$ 66,650
Other comprehensive (loss) income	(1,803 )	—	(1,878 )	1,878	(1,803 )
Comprehensive income (loss) available (attributable) to Validus	\$64,847	\$14,139	\$ (70,590 )	\$ 56,451	\$ 64,847

(a) Amounts include an aggregation of the non-guarantor subsidiaries and include consolidating adjustments between these subsidiaries.

(b)



Amounts include consolidating adjustments between the Parent Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries.

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

Condensed Consolidating Statement of Comprehensive Income For the Three Months Ended September 30, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	\$—	\$—	\$ 494,696	\$—	\$ 494,696
Net investment income	4	—	26,238	(981 )	25,261
Net realized gains on investments	—	—	4,595	—	4,595
Change in net unrealized losses on investments	—	—	(83,499 )	(1,475 )	(84,974 )
Income from investment affiliate	—	—	1,754	—	1,754
Other insurance related income and other (loss)	—	—	13,161	(17,241 )	(4,080 )
Foreign exchange gains (losses)	819	1	(12,261 )	—	(11,441 )
Total revenues	\$823	\$1	\$ 444,684	\$(19,697 )	\$ 425,811
Expenses					
Losses and loss expenses	—	—	224,125	—	224,125
Policy acquisition costs	—	—	86,404	—	86,404
General and administrative expenses	22,347	—	78,213	(17,241 )	83,319
Share compensation expenses	1,650	—	7,114	—	8,764
Finance expenses	11,979	—	3,864	(489 )	15,354
Transaction expenses	—	—	149	—	149
Total expenses	\$35,976	\$—	\$ 399,869	\$(17,730 )	\$ 418,115
(Loss) income before taxes, income from operating affiliates, (income) attributable to AlphaCat investors and equity in net earnings (losses) of subsidiaries	(35,153 )	1	44,815	(1,967 )	7,696
Tax benefit	—	—	953	—	953
Income from operating affiliates	—	—	3,761	—	3,761
(Income) attributable to AlphaCat investors	—	—	(25,807 )	—	(25,807 )
Equity in net earnings (losses) of subsidiaries	74,825	(951 )	—	(73,874 )	—
Net income (loss)	\$39,672	\$(950 )	\$ 23,722	\$(75,841 )	\$(13,397 )
Net loss attributable to noncontrolling interest	—	—	53,069	—	53,069
Net income (loss) available (attributable) to Validus	\$39,672	\$(950 )	\$ 76,791	\$(75,841 )	\$ 39,672
Other comprehensive (loss) income	(5,198 )	—	(5,198 )	5,198	(5,198 )
Comprehensive income (loss) available (attributable) to Validus	\$34,474	\$(950 )	\$ 71,593	\$(70,643 )	\$ 34,474

(a) Amounts include an aggregation of the non-guarantor subsidiaries and include consolidating adjustments between these subsidiaries.

(b) Amounts include consolidating adjustments between the Parent Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries.

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Validus Holdings, Ltd.

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

Condensed Consolidating Statement of Comprehensive Income For the Nine Months Ended September 30, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	\$—	\$—	\$ 1,706,795	\$—	\$ 1,706,795
Net investment income	230	—	98,967	(3,044)	96,153
Net realized (losses) on investments	—	—	(35,493)	—	(35,493)
Change in net unrealized (losses) gains on investments	(71)	—	25,589	(5,752)	19,766
Income from investment affiliate	—	—	5,542	—	5,542
Other insurance related income and other (loss)	—	—	61,428	(45,869)	15,559
Foreign exchange gains (losses)	325	(1)	(9,385)	—	(9,061)
Total revenues	\$484	\$(1)	\$ 1,853,443	\$ (54,665)	\$ 1,799,261
Expenses					
Losses and loss expenses	—	—	765,333	—	765,333
Policy acquisition costs	—	—	308,152	—	308,152
General and administrative expenses	55,933	2	253,924	(45,869)	263,990
Share compensation expenses	5,385	—	22,894	—	28,279
Finance expenses	35,757	—	20,799	(1,471)	55,085
Total expenses	\$97,075	\$2	\$ 1,371,102	\$ (47,340)	\$ 1,420,839
(Loss) income before taxes, income from operating affiliates, (income) attributable to AlphaCat investors and equity in net earnings (losses) of subsidiaries	(96,591)	(3)	482,341	(7,325)	378,422
Tax expense	—	—	(7,132)	—	(7,132)
Income from operating affiliates	—	—	12,083	—	12,083
(Income) attributable to AlphaCat investors	—	—	(94,341)	—	(94,341)
Equity in net earnings (losses) of subsidiaries	400,665	36,248	(170,000)	(266,913)	—
Net income (loss)	\$304,074	\$36,245	\$ 222,951	\$ (274,238)	\$ 289,032
Net loss attributable to noncontrolling interest	—	—	15,042	—	15,042
Net income (loss) available (attributable) to Validus	\$304,074	\$36,245	\$ 237,993	\$ (274,238)	\$ 304,074
Other comprehensive (loss) income	(2,313)	—	(1,977)	1,977	(2,313)
Comprehensive income (loss) available (attributable) to Validus	\$301,761	\$36,245	\$ 236,016	\$ (272,261)	\$ 301,761

(a) Amounts include an aggregation of the non-guarantor subsidiaries and include consolidating adjustments between these subsidiaries.

(b) Amounts include consolidating adjustments between the Parent Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries.

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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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

Condensed Consolidating Statement of Comprehensive Income For the Nine Months Ended September 30, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	\$—	\$—	\$ 1,443,656	\$—	\$ 1,443,656
Net investment income	11	—	72,827	(2,929 )	69,909
Net realized gains on investments	—	—	16,193	—	16,193
Change in net unrealized gains on investments	—	—	14,261	1,885	16,146
Income from investment affiliate	—	—	7,881	—	7,881
Other insurance related income and other (loss)	—	—	66,630	(51,645 )	14,985
Foreign exchange gains (losses)	106	1	(14,868 )	—	(14,761 )
Total revenues	\$ 117	\$ 1	\$ 1,606,580	\$ (52,689 )	\$ 1,554,009
Expenses					
Losses and loss expenses	—	—	545,541	—	545,541
Policy acquisition costs	—	—	251,006	—	251,006
General and administrative expenses	66,425	21	216,805	(51,645 )	231,606
Share compensation expenses	4,769	—	19,483	—	24,252
Finance expenses	35,697	—	13,137	(1,454 )	47,380
Transaction expenses	—	—	3,401	—	3,401
Total expenses	\$ 106,891	\$ 21	\$ 1,049,373	\$ (53,099 )	\$ 1,103,186
(Loss) income before taxes, income from operating affiliates, (income) attributable to AlphaCat investors and equity in net earnings (losses) of subsidiaries	(106,774 )	(20 )	557,207	410	450,823
Tax expense	—	—	(398 )	—	(398 )
Income from operating affiliates (Income) attributable to AlphaCat investors	—	—	13,580	—	13,580
Equity in net earnings (losses) of subsidiaries	462,201	(2,617 )	—	(459,584 )	—
Net income (loss)	\$ 355,427	\$ (2,637 )	\$ 487,556	\$ (459,174 )	\$ 381,172
Net (income) attributable to noncontrolling interest	—	—	(25,745 )	—	(25,745 )
Net income (loss) available (attributable) to Validus	\$ 355,427	\$ (2,637 )	\$ 461,811	\$ (459,174 )	\$ 355,427
Other comprehensive (loss) income	(2,121 )	—	(2,121 )	2,121	(2,121 )
Comprehensive income (loss) available (attributable) to Validus	\$ 353,306	\$ (2,637 )	\$ 459,690	\$ (457,053 )	\$ 353,306

(a)

Amounts include an aggregation of the non-guarantor subsidiaries and include consolidating adjustments between these subsidiaries.

- (b) Amounts include consolidating adjustments between the Parent Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries.

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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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

Condensed Consolidating Statement of Cash Flows For The Nine Months Ended September 30, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Net cash (used in) provided by operating activities	\$ (21,503 )	\$ (61 )	\$ 158,442	\$ (85,000 )	\$ 51,878
Cash flows provided by (used in) investing activities					
Proceeds on sales of investments	—	—	2,888,919	—	2,888,919
Proceeds on maturities of investments	—	—	260,179	—	260,179
Purchases of fixed maturities	(28,901 )	—	(3,135,886 )	—	(3,164,787 )
Purchases of short-term investments, net	—	—	(639,211 )	—	(639,211 )
Purchases of other investments, net	—	—	(26,648 )	—	(26,648 )
Increase in securities lending collateral	—	—	(5,991 )	—	(5,991 )
Investment in operating affiliates	—	—	(10,400 )	—	(10,400 )
Redemption from operating affiliates	—	—	57,402	—	57,402
Investment in investment affiliates	—	—	(19,086 )	—	(19,086 )
Decrease in restricted cash	—	—	99,001	—	99,001
Return of capital from subsidiaries	305,000	—	—	(305,000 )	—
Net cash provided by (used in) investing activities	276,099	—	(531,721 )	(305,000 )	(560,622 )
Cash flows provided by (used in) financing activities					
Proceeds on issuance of notes payable to AlphaCat investors	—	—	1,307,789	—	1,307,789
Repayments on notes payable to AlphaCat investors	—	—	(709,059 )	—	(709,059 )
Issuance of common shares, net	16,735	—	—	—	16,735
Purchases of common shares under share repurchase program	(203,917 )	—	—	—	(203,917 )
Dividends paid	(86,423 )	—	(85,000 )	85,000	(86,423 )
Increase in securities lending payable	—	—	5,991	—	5,991
Third party investment in redeemable noncontrolling interest	—	—	55,700	—	55,700
Third party redemption of redeemable noncontrolling interest	—	—	(19,395 )	—	(19,395 )
Return of capital to parent	—	—	(305,000 )	305,000	—
Net cash (used in) provided by financing activities	(273,605 )	—	251,026	390,000	367,421
Effect of foreign currency rate changes on cash and cash equivalents	—	—	(27,432 )	—	(27,432 )



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Net decrease in cash	(19,009	) (61	) (149,685	) —	(168,755	)
Cash and cash equivalents, beginning of period	29,798	81	547,361	—	577,240	
Cash and cash equivalents, end of period	\$10,789	\$20	\$ 397,676	\$—	\$ 408,485	

(a) Amounts include an aggregation of the non-guarantor subsidiaries and include consolidating adjustments between these subsidiaries.

(b) Amounts include consolidating adjustments between the Parent Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries.

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Validus Holdings, Ltd.

Notes to Consolidated Financial Statements (unaudited)

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

Condensed Consolidating Statement of Cash Flows For The Nine Months Ended September 30, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Net cash provided by (used in) operating activities	\$ 12,557	\$ —	\$ 236,294	\$ (100,000 )	\$ 148,851
Cash flows provided by (used in) investing activities					
Proceeds on sales of investments	—	—	3,585,728	—	3,585,728
Proceeds on maturities of investments	—	—	466,872	—	466,872
Purchases of fixed maturities	—	—	(3,160,512 )	—	(3,160,512 )
Purchases of short-term investments, net	—	—	(933,148 )	—	(933,148 )
Purchases of other investments, net	—	—	(47,752 )	—	(47,752 )
Increase in securities lending collateral	—	—	(5,664 )	—	(5,664 )
Redemption from operating affiliates	—	—	58,547	—	58,547
Increase in restricted cash	—	—	(7,856 )	—	(7,856 )
Proceeds on sale of subsidiary, net of cash	—	—	16,459	—	16,459
Return of capital from subsidiaries	373,966	—	—	(373,966 )	—
Net cash provided by (used in) investing activities	373,966	—	(27,326 )	(373,966 )	(27,326 )
Cash flows provided by (used in) financing activities					
Proceeds on issuance of notes payable to AlphaCat investors	—	—	645,243	—	645,243
Repayments on notes payable to AlphaCat investors	—	—	(602,068 )	—	(602,068 )
Redemption of common shares, net	(3,689 )	—	—	—	(3,689 )
Purchases of common shares under share repurchase program	(286,526 )	—	—	—	(286,526 )
Dividends paid	(89,719 )	—	(100,000 )	100,000	(89,719 )
Increase in securities lending payable	—	—	5,664	—	5,664
Return of capital to parent	—	—	(373,966 )	373,966	—
Third party investment in redeemable noncontrolling interest	—	—	61,200	—	61,200
Third party redemption of redeemable noncontrolling interest	—	—	(10,496 )	—	(10,496 )
Net cash (used in) provided by financing activities	(379,934 )	—	(374,423 )	473,966	(280,391 )
Effect of foreign currency rate changes on cash and cash equivalents	—	—	(11,293 )	—	(11,293 )
Net increase (decrease) in cash	6,589	—	(176,748 )	—	(170,159 )

Cash and cash equivalents, beginning of period	20,385	—	713,763	—	734,148
Cash and cash equivalents, end of period	\$26,974	\$—	\$ 537,015	\$—	\$ 563,989

(a) Amounts include an aggregation of the non-guarantor subsidiaries and include consolidating adjustments between these subsidiaries.

(b) Amounts include consolidating adjustments between the Parent Guarantor, the Subsidiary Issuer and the non-guarantor subsidiaries.

19. Subsequent events

Quarterly Dividend

On November 4, 2015, the Company announced a quarterly cash dividend of \$0.32 per each common share and \$0.32 per common share equivalent for which each outstanding warrant is exercisable, payable on December 31, 2015 to holders of record on December 15, 2015.

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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 and nine months ended September 30, 2015 and 2014 and the Company's consolidated financial condition, liquidity and capital resources as at September 30, 2015 and December 31, 2014. 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, 2014, 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, 2014.

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, 2014 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, AlphaCat, Talbot and Western World. Validus Re is a Bermuda-based reinsurance segment focused on short-tail lines of reinsurance. AlphaCat is a Bermuda-based investment adviser, managing capital from third parties and the Company in insurance linked securities and other investments in the property catastrophe reinsurance space. 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.

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. 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.

On October 2, 2014, the Company acquired all of the outstanding shares of Western World. The acquisition provided the Company with enhanced access to the specialty U.S. commercial insurance market, the world's largest short-tail market, complementing the Company's existing market positions in both Bermuda reinsurance and the Lloyd's marketplace and increasing the Company's ability to leverage operational strengths in short-tail classes of business. In addition, the acquisition improves the Company's ability to manage (re)insurance cycles.

On December 29, 2014, the Company joined with other investors in capitalizing AlphaCat 2015, a special purpose vehicle formed for the purpose of investing in collateralized reinsurance and retrocessional contracts. The Company has an equity interest and voting rights in AlphaCat 2015 which are below 50%, therefore the investment in AlphaCat 2015 is included as an equity method investment in the Consolidated Financial Statements of the Company.

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## 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. At the same time, management believes that there is a heightened awareness of exposure to natural catastrophes on the part of cedants, rating agencies and catastrophe modeling firms, resulting in an increase in the demand for reinsurance protection. 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. During 2010 and 2011, there was an increased level of catastrophe activity, principally the Chilean earthquake, Deepwater Horizon, Tohoku and New Zealand earthquake events, but the Company continues to see increased competition and decreased premium rates in most classes of business.

During the January 2014 renewal season, the Validus Re and AlphaCat segments underwrote \$575.2 million in gross premiums written (excluding U.S. agriculture premiums and net of intercompany eliminations between Validus Re and AlphaCat), a decrease of 3.2% from the prior period. This decrease was primarily driven by a challenging rate environment in the Company's U.S. property catastrophe business, which experienced a reduction in rates of approximately 12.5%. During the mid-year 2014 renewal period, the Validus Re segment experienced rate softening across U.S. and international property lines. In particular, although limits placed from the Florida market increased, the availability of capacity resulted in overall pricing reductions for Florida property catastrophe business. The Talbot segment experienced a whole account rate decrease of 3.8% through December 31, 2014.

During the January 2015 renewal season, the Validus Re and AlphaCat segments underwrote \$540.9 million in gross premiums written (excluding U.S. agriculture premiums and net of intercompany eliminations between Validus Re and AlphaCat), a decrease of 6.0% from the prior period. This decrease was primarily driven by a challenging rate environment in the Company's U.S. and European property catastrophe business, which experienced a reduction in rates of approximately 10-15%. During the mid-year 2015 renewal period, the Validus Re segment experienced a meaningful increase in demand for U.S. wind capacity which resulted in the moderation of U.S. property market rate declines to mid-single digits. However, the rate environment in the international property market proved to be more challenging with rate declines closer to 10%. The Talbot segment experienced a whole account rate decrease of approximately 6.4% driven primarily by rate decreases from the high-single digits to the mid-teens in the energy, aviation and property classes. The Western World segment experienced a whole account rate increase of approximately 3.5% through September 30, 2015.

## 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:

As at, or for the

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	Three Months Ended September 30,		Nine Months Ended September 30,		Year Ended December 31, 2014
	2015	2014	2015	2014	
Book value per diluted common share plus accumulated dividends	\$51.73	\$47.28	\$51.73	\$47.28	\$48.54
Book value per diluted common share	41.89	38.70	41.89	38.70	39.66
Underwriting income	86,128	92,084	341,041	391,251	526,934
Net operating income available to Validus	73,626	84,946	304,809	357,427	486,464
Annualized return on average equity	7.3%	4.2%	11.1%	12.8%	13.1%

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 \$3.19, or 6.6%, from \$48.54 at December 31, 2014 to \$51.73 at September 30, 2015. Cash dividends per common share are an

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integral part of the value created for shareholders. The Company paid quarterly cash dividends of \$0.32 per common share and common share equivalent during the three and nine months ended September 30, 2015. On November 4, 2015, the Company announced a quarterly cash dividend of \$0.32 per common share and \$0.32 per common share equivalent for which each outstanding warrant is exercisable, payable on December 31, 2015 to holders of record on December 15, 2015. 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, as described in more detail 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 \$2.23, or 5.6%, from \$39.66 at December 31, 2014 to \$41.89 at September 30, 2015. Growth in book value per diluted common share inclusive of dividends was 1.9% and 1.2% for the three months ended September 30, 2015 and 2014, respectively, and for the nine months ended September 30, 2015 and 2014 was 8.0% and 9.3%, respectively. Book value per diluted common share is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures." Underwriting income measures the performance of the Company's core underwriting function, excluding revenues and expenses such as net investment income, other insurance related income, finance expenses, tax (expense) benefit, income from operating affiliates, (income) attributable to AlphaCat investors, net realized and change in net unrealized gains (losses) on investments, income 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 September 30, 2015 and 2014 was \$86.1 million and \$92.1 million, respectively, a decrease of \$6.0 million or 6.5%. Underwriting income for the nine months ended September 30, 2015 and 2014 was \$341.0 million and \$391.3 million, respectively, a decrease of \$50.2 million or 12.8%. Underwriting income is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

Net operating income available to Validus is defined as net income excluding net realized and change in net unrealized gains (losses) on investments, income from investment affiliate, foreign exchange gains (losses), other income (loss), non-recurring items and net (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 and non-recurring items. Net operating income available to Validus for the three months ended September 30, 2015 and 2014 was \$73.6 million and \$84.9 million, respectively, and for the nine months ended September 30, 2015 and 2014 was \$304.8 million and \$357.4 million, respectively. Net operating income is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

Annualized return on average equity represents the return generated on common shareholders' capital during the period. 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 rewards shareholders for the risks assumed. The annualized return on average equity for the three months ended September 30, 2015 and 2014 was 7.3% and 4.2%, respectively, and for the nine months ended September 30, 2015 and 2014 was 11.1% and 12.8%, respectively.





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## Third Quarter 2015 Summarized Consolidated Results of Operations

- Gross premiums written for the three months ended September 30, 2015 were \$401.7 million compared to \$359.0 million for the three months ended September 30, 2014, an increase of \$42.7 million, or 11.9%.
- Net premiums earned for the three months ended September 30, 2015 were \$555.5 million compared to \$494.7 million for the three months ended September 30, 2014, an increase of \$60.8 million, or 12.3%.
- Underwriting income for the three months ended September 30, 2015 was \$86.1 million compared to \$92.1 million for the three months ended September 30, 2014, a decrease of \$6.0 million, or 6.5%.

Combined ratio for the three months ended September 30, 2015 of 84.5% which included \$91.5 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 16.5 percentage points compared to a combined ratio for the three months ended September 30, 2014 of 81.4% which included \$55.6 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 11.2 percentage points. The favorable development of \$91.5 million for the three months ended September 30, 2015 was primarily from non-event reserves in the amount of \$60.8 million. Favorable development on prior years from event specific reserves was \$30.7 million. Loss ratio for the three months ended September 30, 2015 was 46.5% compared to 45.3% for the three months ended September 30, 2014, an increase of 1.2 percentage points. Incurred losses for the three months ended September 30, 2015 were \$258.3 million, compared to \$224.1 million for the three months ended September 30, 2014, an increase of \$34.1 million or 15.2%.

Loss ratios by line of business are as follows:

	Three Months Ended September 30,		
	2015	2014	Change
Property (a)	35.4	% 19.0	% 16.4
Marine	53.8	% 36.2	% 17.6
Specialty	49.7	% 86.8	% (37.1)
Liability (a)	66.6	% 0.0	% 66.6
All lines	46.5	% 45.3	% 1.2

(a) The results of Western World have been included in the Company's consolidated results from the October 2, 2014 date of acquisition.

Losses and loss expenses from notable loss events, including development on these events, for the three months ended September 30, 2015 were \$49.0 million compared to \$28.1 million for the three months ended September 30, 2014. Notable loss events are defined as consolidated losses from a single event which aggregate to a threshold greater than or equal to \$30.0 million. The notable loss event for the three months ended September 30, 2015 was the August 12th port explosion in Tianjin, China which resulted in an estimated loss to the Company of \$47.8 million or 8.6 percentage points of the loss ratio. Net of \$3.9 million of reinstatement premiums, the net loss was \$43.9 million. During the three months ended September 30, 2014, the Company incurred a loss of \$28.1 million or 5.7 percentage points of the loss ratio, related to Tripoli airport which subsequently developed into a notable loss event during the three months ended December 31, 2014.

Losses and loss expenses from non-notable loss events, including development on these events, for the three months ended September 30, 2015 were \$22.2 million compared to \$3.2 million for the three months ended September 30, 2014. Non-notable loss events are defined as consolidated losses from a single event which aggregate to a threshold greater than or equal to \$15.0 million but less than \$30.0 million. The non-notable loss event for the three months ended September 30, 2015 was the Chilean earthquake, which resulted in an estimated loss to the Company of \$22.2 million or 4.0 percentage points of the loss ratio. Net of \$2.2 million of reinstatement premiums, the net loss was \$20.0 million.

Net investment income for the three months ended September 30, 2015 was \$31.5 million compared to \$25.3 million for the three months ended September 30, 2014, an increase of \$6.3 million, or 24.8%.

Investment yield for the three months ended September 30, 2015 was 1.92% compared to 1.53% for the three months ended September 30, 2014.

Net operating income available to Validus for the three months ended September 30, 2015 was \$73.6 million compared to \$84.9 million for the three months ended September 30, 2014, a decrease of \$11.3 million, or 13.3%.

Net income available to Validus for the three months ended September 30, 2015 was \$66.7 million, or \$0.78 per diluted common share compared to \$39.7 million or \$0.41 per diluted common share for the three months ended September 30, 2014.

Annualized return on average equity and annualized net operating return on average equity for the three months ended September 30, 2015 were 7.3% and 8.1%, respectively, compared to 4.2% and 9.1% for the three months ended September 30, 2014.

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Overview of the Results of Operations for the Three Months Ended September 30, 2015 compared to the Three Months Ended September 30, 2014.

The change in net operating income available to Validus for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 is described in the following table:

(Dollars in thousands)	Increase (decrease) to net operating income available to Validus over the three months ended September 30, 2015 compared to 2014		
	Validus Holdings, Ltd. Consolidated	Western World Segment	Validus Holdings, Ltd. Consolidated excluding the Western World Segment
Net premiums earned	\$60,763	\$63,930	\$(3,167)
Notable loss events (a)	(20,842)	)—	(20,842)
Non-notable loss events (b)	(18,999)	)—	(18,999)
Incurred current year losses, excluding notable and non-notable loss events	(30,228)	) (45,864	) 15,636
Prior period loss development	35,936	5,054	30,882
Other underwriting deductions (c)	(32,586)	) (23,355	) (9,231)
Underwriting income (d)	(5,956)	) (235	) (5,721)
(Income) attributable to AlphaCat investors	(14,449)	)—	(14,449)
Other operating expenses and income, net (e)	9,460	3,451	6,009
Net operating income (d)	(10,945)	) 3,216	(14,161)
Net operating (income) attributable to noncontrolling interest	(375)	)—	(375)
Net operating income available to Validus (d)	\$(11,320)	) \$3,216	\$(14,536)

(a) Losses and loss expenses from notable loss events for the three months ended September 30, 2015 were \$49.0 million compared to \$28.1 million for the three months ended September 30, 2014.

(b) Losses and loss expenses from non-notable loss events for the three months ended September 30, 2015 were \$22.2 million compared to \$3.2 million for the three months ended September 30, 2014.

(c) Other underwriting deductions consist of policy acquisition costs, general & administrative expenses and share compensation expenses.

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income and operating income that is not calculated under standards or rules that comprise

(d) 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."

(e) Other operating expenses and income, net, consists of net investment income, other insurance related income, finance expenses, taxes and income (loss) from operating affiliates.

Net operating income available to Validus for the three months ended September 30, 2015 was \$73.6 million compared to \$84.9 million for the three months ended September 30, 2014, a decrease of \$11.3 million or 13.3%. The Company acquired Western World on October 2, 2014, therefore, the results of Western World have been included in the Company's consolidated results from the date of acquisition. As a result, there are no comparatives for the third quarter of 2014. Net operating income available to Validus excluding the Western World segment for the three months ended September 30, 2015 was \$70.4 million compared to \$84.9 million for the three months ended September 30, 2014, a decrease of \$14.5 million or 17.1%.

The primary factors driving the decrease in net operating income available to Validus excluding the Western World segment were:

- An increase in (income) attributable to AlphaCat investors of \$14.4 million; and
- An increase in other underwriting deductions of \$9.2 million; offset by,
- A decrease in losses and loss expenses of \$6.7 million, comprised of:
  - an increase in favorable prior period development of \$30.9 million; and
  - a decrease in incurred current year losses, excluding notable and non-notable losses of \$15.6 million; offset by,
  - an increase in losses and loss expenses from notable and non-notable loss events of \$20.8 million and \$19.0 million, respectively.

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## Segment Reporting

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

## Third Quarter 2015 Results of Operations - Validus Re Segment

The following table presents results of operations for the three months ended September 30, 2015 and 2014:

(Dollars in thousands)	Three Months Ended September 30,		
	2015	2014	Change
Underwriting income			
Gross premiums written	\$ 102,913	\$ 114,380	\$(11,467 )
Reinsurance premiums ceded	(15,462 )	(10,382 )	(5,080 )
Net premiums written	87,451	103,998	(16,547 )
Change in unearned premiums	153,210	122,712	30,498
Net premiums earned	240,661	226,710	13,951
Underwriting deductions			
Losses and loss expenses	120,958	102,005	18,953
Policy acquisition costs	42,989	36,177	6,812
General and administrative expenses	19,964	18,522	1,442
Share compensation expenses	2,691	2,582	109
Total underwriting deductions	186,602	159,286	27,316
Underwriting income (a)	54,059	67,424	(13,365 )
Net investment income	18,362	20,270	(1,908 )
Other insurance related income	2,569	863	1,706
Finance expenses	(3,624 )	(3,622 )	(2 )
Operating income before taxes	71,366	84,935	(13,569 )
Tax benefit	851	1,058	(207 )
Net operating income (a)	\$72,217	\$85,993	\$(13,776 )
Selected ratios:			
Net premiums written / Gross premiums written	85.0	% 90.9	% (5.9 )
Losses and loss expenses	50.3	% 45.0	% 5.3
Policy acquisition costs	17.9	% 16.0	% 1.9
General and administrative expenses (b)	9.4	% 9.3	% 0.1
Expense ratio	27.3	% 25.3	% 2.0
Combined ratio	77.6	% 70.3	% 7.3

Non-GAAP Financial Measures: In presenting the Company's results, management has included and discussed underwriting income and net operating income that are not calculated under standards or rules that comprise U.S.

(a) 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.

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The change in net operating income for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 is described in the following table:

	Increase (decrease) to net operating income over the three months ended September 30, 2015 compared to 2014
(Dollars in thousands)	
Net premiums earned	\$13,951
Notable loss events (a)	(21,334 )
Non-notable loss events (b)	(14,324 )
Incurred current year losses, excluding notable and non-notable loss events	(13,630 )
Prior period loss development	30,335
Other underwriting deductions (c)	(8,363 )
Underwriting income (d)	(13,365 )
Other operating income and expenses, net (e)	(411 )
Net operating income (d)	\$(13,776 )

(a) Losses and loss expenses from notable loss events for the three months ended September 30, 2015 were \$37.0 million compared to \$15.7 million for the three months ended September 30, 2014.

(b) Losses and loss expenses from non-notable loss events for the three months ended September 30, 2015 were \$17.5 million compared to \$3.2 million for the three months ended September 30, 2014.

(c) Other underwriting deductions consist of policy acquisition costs, general & administrative expenses and share compensation expenses.

(d) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting 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."

(e) Other operating income and expenses, net, consists of net investment income, other insurance related income, finance expenses and taxes.

## Gross Premiums Written

	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written					
	2015		2014		Change	
(Dollars in thousands)	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$65,010	63.2	% \$70,078	61.2	% \$(5,068 )	2.0
Marine	13,406	13.0	% 22,960	20.1	% (9,554 )	(7.1 )
Specialty	24,497	23.8	% 21,342	18.7	% 3,155	5.1
Total	\$102,913	100.0	% \$114,380	100.0	% \$(11,467 )	0.0

The decrease in gross premiums written in the property lines of \$5.1 million was primarily due to reduced property catastrophe excess of loss business of \$6.7 million, driven by adjustments to premiums on existing business as well as non-renewals of various programs during the current quarter. The decrease in gross premiums written in the marine

lines of \$9.6 million was primarily due to the reduction in proportional business following the renewal of a significant program in the first quarter of 2015 compared to the third quarter of 2014.

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## Reinsurance Premiums Ceded

(Dollars in thousands)	Reinsurance Premiums Ceded Three Months Ended September 30,		
	2015	2014	Change
Property	\$5,730	\$2,988	\$2,742
Marine	10,431	7,070	3,361
Specialty	(699	) 324	(1,023
Total	\$15,462	\$10,382	\$5,080

Reinsurance premiums ceded in the property lines increased by \$2.7 million primarily as a result of a new multi-pillared aggregate excess of loss cover purchased during the current quarter. The increase in reinsurance premiums ceded in the marine lines of \$3.4 million was primarily due to the reclassification of composite business previously reported in the specialty lines.

## Net Premiums Written

(Dollars in thousands)	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Three Months Ended September 30,						
	2015		2014		Change		
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	
Property	\$59,280	91.2	% \$67,090	95.7	% \$(7,810	) (4.5	
Marine	2,975	22.2	% 15,890	69.2	% (12,915	) (47.0	
Specialty	25,196	102.9	% 21,018	98.5	% 4,178	4.4	
Total	\$87,451	85.0	% \$103,998	90.9	% \$(16,547	) (5.9	

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.

## Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Three Months Ended September 30,		
	2015	2014	Change
Property	\$106,086	\$114,414	\$(8,328)
Marine	30,592	35,826	(5,234)
Specialty	103,983	76,470	27,513
Total	\$240,661	\$226,710	\$13,951

The decrease in property lines net premiums earned of \$8.3 million was as a result of lower gross premiums written during the year. This was offset by the earned impact of the reduction in the reinsurance premiums ceded. The decrease in marine lines net premiums earned of \$5.2 million was due to lower gross premiums written during the year, offset by the earned impact of the reduction in the reinsurance premiums ceded. The increase in specialty lines net premiums earned of \$27.5 million was primarily due to the increase in gross premiums written in the first quarter of 2015.

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## Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Three Months Ended September 30,		
	2015	2014	Change
All lines—current period excluding items below	48.6	% 45.6	% 3.0
All lines—current period—notable loss events	15.4	% 6.9	% 8.5
All lines—current period—non-notable loss events	7.3	% 1.4	% 5.9
All lines—change in prior accident years	(21.0	)% (8.9	)% (12.1
All lines—loss ratio	50.3	% 45.0	% 5.3
	Losses and Loss Expenses - All Lines Three Months Ended September 30,		
(Dollars in thousands)	2015	2014	Change
All lines—current period excluding items below	\$116,940	\$103,310	\$13,630
All lines—current period—notable loss events	36,993	15,659	21,334
All lines—current period—non-notable loss events	17,500	3,176	14,324
All lines—change in prior accident years	(50,475	) (20,140	) (30,335
All lines—losses and loss expenses	\$120,958	\$102,005	\$18,953

## Notable Loss Events

Losses and loss expenses from notable loss events were \$37.0 million for the three months ended September 30, 2015, which represented 15.4 percentage points of the loss ratio. Losses and loss expenses from Tianjin, a current quarter notable loss event, were \$35.8 million. Net of \$3.1 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$32.7 million. Losses and loss expenses from Pemex, a second quarter notable loss event, were \$1.2 million for the three months ended September 30, 2015. Losses and loss expenses from a single notable loss event, Tripoli Airport, were \$15.7 million for the three months ended September 30, 2014, which represented 6.9 percentage points of the loss ratio. Net of \$2.1 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$13.5 million.

## Non-notable Loss Events

Losses and loss expenses from non-notable loss events for the three months ended September 30, 2015 were \$17.5 million, compared to \$3.2 million for the three months ended September 30, 2014. The non-notable loss event for the three months ended September 30, 2015 was the Chilean earthquake.

## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	22.9	% 23.4	% (0.5
Property—current period—notable loss events	22.0	% 0.0	% 22.0
Property—current period—non-notable loss events	16.4	% 2.8	% 13.6
Property—change in prior accident years	(26.0)	% (14.3)	% (11.7
Property—loss ratio	35.3	% 11.9	% 23.4

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(Dollars in thousands)	Losses and Loss Expenses - Property Lines Three Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	\$24,398	\$26,758	\$(2,360)
Property—current period—notable loss events	23,298	—	23,298
Property—current period—non-notable loss events	17,384	3,176	14,208
Property—change in prior accident years	(27,613)	(16,384)	(11,229)
Property—losses and loss expenses	\$37,467	\$13,550	\$23,917

During the three months ended September 30, 2015, the property lines incurred \$23.3 million of losses and loss expenses from Tianjin, a notable loss event, which represented 22.0 percentage points of the property lines loss ratio. Net of \$1.8 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$21.5 million. The property lines incurred no losses and loss expenses from notable loss events during the three months ended September 30, 2014.

During the three months ended September 30, 2015, the property lines incurred \$17.4 million of losses and loss expenses from a single non-notable loss event, the Chilean earthquake, which represented 16.4 percentage points of the property lines loss ratio. During the three months ended September 30, 2014, the property lines incurred \$3.2 million of losses and loss expenses from non-notable loss events, which represented 2.8 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, decreased by 0.5 percentage points, representing a decreased level of attritional losses in the current quarter. The favorable development on prior accident years for the three months ended September 30, 2015 of \$27.6 million, included favorable development on prior years from event specific reserves of \$6.0 million on Hurricane Ike, \$5.0 million on Superstorm Sandy and \$4.9 million on the 2010 Chilean earthquake. The remainder was primarily due to favorable development on attritional losses. The favorable development on prior accident years for the three months ended September 30, 2014 of \$16.4 million was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Marine Lines Three Months Ended September 30,		
	2015	2014	Change
Marine—current period excluding items below	51.5	% 48.1	% 3.4
Marine—current period—notable loss events	44.8	% 1.1	% 43.7
Marine—current period—non-notable loss events	0.0	% 0.0	% 0.0
Marine—change in prior accident years	(44.3)	)% (7.9	)% (36.4)
Marine—loss ratio	52.0	% 41.3	% 10.7

(Dollars in thousands)	Losses and Loss Expenses - Marine Lines Three Months Ended September 30,		
	2015	2014	Change
Marine—current period excluding items below	\$15,768	\$17,237	\$(1,469)
Marine—current period—notable loss events	13,695	400	13,295
Marine—current period—non-notable loss events	—	—	—
Marine—change in prior accident years	(13,556)	(2,843)	(10,713)
Marine—losses and loss expenses	\$15,907	\$14,794	\$1,113

During the three months ended September 30, 2015, the marine lines incurred \$12.5 million of losses and loss expenses from Tianjin, a notable loss event, which represented 40.9 percentage points of the marine lines loss ratio. Net of \$1.3 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$11.2 million. In addition, losses and loss expenses from Pemex, a second quarter notable loss event, were \$1.2 million for the three months ended September 30, 2015.



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The marine lines current quarter loss ratio, excluding the impact of notable and non-notable loss events, increased by 3.4 percentage points representing an increased level of attritional losses in the current quarter. The favorable development of \$13.6 million on prior accident years for the three months ended September 30, 2015 included favorable development on prior years from event specific reserves of \$7.0 million on Superstorm Sandy. The remainder was primarily due to favorable development on attritional losses. The favorable development of \$2.8 million on prior accident years for the three months ended September 30, 2014 was primarily due to lower favorable development on attritional losses.

	Losses and Loss Expense Ratio - Specialty Lines		
	Three Months Ended September 30,		
	2015	2014	Change
Specialty—current period excluding items below	73.8	% 77.5	% (3.7 )
Specialty—current period—notable loss events	0.0	% 20.0	% (20.0 )
Specialty—current period—non-notable loss events	0.1	% 0.0	% 0.1
Specialty—change in prior accident years	(8.9	)% (1.2	)% (7.7 )
Specialty—loss ratio	65.0	% 96.3	% (31.3 )

	Losses and Loss Expenses - Specialty Lines		
	Three Months Ended September 30,		
(Dollars in thousands)	2015	2014	Change
Specialty—current period excluding items below	\$76,774	\$59,315	\$17,459
Specialty—current period—notable loss events	—	15,259	(15,259 )
Specialty—current period—non-notable loss events	116	—	116
Specialty—change in prior accident years	(9,306	) (913	) (8,393 )
Specialty—losses and loss expenses	\$67,584	\$73,661	\$(6,077 )

During the three months ended September 30, 2015, the specialty lines incurred no losses and loss expenses from notable loss events. During the three months ended September 30, 2014, the specialty lines incurred \$15.3 million of losses and loss expenses from a single notable loss event, Tripoli Airport, which represented 20.0 percentage points of the specialty lines loss ratio. Net of \$2.1 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$13.1 million.

The specialty lines current quarter loss ratio, excluding the impact of notable and non-notable loss events, decreased by 3.7 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 September 30, 2015 and 2014 of \$9.3 million and \$0.9 million, respectively, was due primarily to favorable development on attritional losses.

## Policy Acquisition Costs

	Three Months Ended September 30,					
	2015		2014		Change	
(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	\$21,378	20.2	% \$19,868	17.4	% \$1,510	2.8
Marine	7,652	25.0	% 5,966	16.7	% 1,686	8.3
Specialty	13,959	13.4	% 10,343	13.5	% 3,616	(0.1 )
Total	\$42,989	17.9	% \$36,177	16.0	% \$6,812	1.9

The acquisition cost ratio for the property lines increased by 2.8 percentage points primarily due to the impact of adjustments to run-off business and profit commissions. The acquisition cost ratio for the marine lines increased by 8.3 percentage points due to the impact of retrocession business which carries lower costs along with adjustments to existing business.



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## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Three Months Ended September 30, 2015		2014		Change	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$19,964	8.3	% \$18,522	8.2	% \$1,442	0.1
Share compensation expenses	2,691	1.1	% 2,582	1.1	% 109	—
Total	\$22,655	9.4	% \$21,104	9.3	% \$1,551	0.1

General and administrative and share compensation expenses were comparable for the three months ended September 30, 2015 and 2014.

## 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 September 30, 2015 and 2014.

	Three Months Ended September 30,		Change
	2015	2014	
Losses and loss expense ratio	50.3	% 45.0	% 5.3
Policy acquisition cost ratio	17.9	% 16.0	% 1.9
General and administrative expense ratio (a)	9.4	% 9.3	% 0.1
Expense ratio	27.3	% 25.3	% 2.0
Combined ratio	77.6	% 70.3	% 7.3

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

The increase in the combined ratio for the three months ended September 30, 2015 of 7.3 percentage points compared to the three months ended September 30, 2014 was due to the movement in the underlying ratios as discussed above.

## Net Investment Income

(Dollars in thousands)	Net Investment Income Three Months Ended September 30,		Change
	2015	2014	
Fixed maturities and short-term investments	\$15,579	\$17,538	\$(1,959)
Other investments	4,082	2,879	1,203
Restricted cash and cash and cash equivalents	(60)	) 1,202	(1,262)
Securities lending income	4	1	3
Total gross investment income	19,605	21,620	(2,015)
Investment expenses	(1,243)	) (1,350)	) 107
Total net investment income	\$18,362	\$20,270	\$(1,908)

The decrease in net investment income for the three months ended September 30, 2015 was \$1.9 million or 9.4% primarily due to a reduction in yield on certain debt funds held. Net investment income from other investments includes distributed and undistributed net income from certain investments.





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## Other Insurance Related Income

(Dollars in thousands)	Other Insurance Related Income Three Months Ended September 30,		
	2015	2014	Change
Other insurance related income	\$2,569	\$863	\$1,706

Other insurance related income for the three months ended September 30, 2015 includes a recoverable for federal excise taxes of \$2.3 million.

## Finance Expenses

(Dollars in thousands)	Finance Expenses Three Months Ended September 30,		
	2015	2014	Change
Finance expenses	\$3,624	\$3,622	\$2

Finance expenses for the three months ended September 30, 2015 and 2014 were comparable.

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## Third Quarter 2015 Results of Operations - AlphaCat Segment

The following table presents results of operations for the three months ended September 30, 2015 and 2014:

(Dollars in thousands)	Three Months Ended September 30,		
	2015	2014	Change
Underwriting income			
Gross premiums written	\$9,448	\$6,936	\$2,512
Reinsurance premiums ceded	—	(648)	) 648
Net premiums written	9,448	6,288	3,160
Change in unearned premiums	35,276	28,850	6,426
Net premiums earned	44,724	35,138	9,586
Underwriting deductions			
Losses and loss expenses	2,076	3,738	(1,662)
Policy acquisition costs	4,658	3,378	1,280
General and administrative expenses	4,674	7,719	(3,045)
Share compensation expenses	141	179	(38)
Total underwriting deductions	11,549	15,014	(3,465)
Underwriting income (a)	33,175	20,124	13,051
Net investment income	1,533	837	696
Other insurance related income	7,522	5,980	1,542
Finance expenses	(2,355)	) (385)	) (1,970)
Operating income before income from operating affiliates and (income) attributable to AlphaCat investors	39,875	26,556	13,319
Income from operating affiliates	5,526	3,761	1,765
(Income) attributable to AlphaCat investors	(40,256)	) (25,807)	) (14,449)
Net operating income (a)	5,145	4,510	635
Net operating loss attributable to noncontrolling interest	63	438	(375)
Net operating income available to Validus (a)	\$5,208	\$4,948	\$260
Selected ratios:			
Net premiums written / Gross premiums written	100.0	% 90.7	% 9.3
Losses and loss expenses	4.6	% 10.6	% (6.0)
Policy acquisition costs	10.4	% 9.6	% 0.8
General and administrative expenses (b)	10.8	% 22.5	% (11.7)
Expense ratio	21.2	% 32.1	% (10.9)
Combined ratio	25.8	% 42.7	% (16.9)

(a) Non-GAAP Financial Measures: In presenting the Company's results, management has included and discussed underwriting income and net 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.

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The change in net operating income available to Validus for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 is described in the following table:

	Increase (decrease) to net operating income available to Validus over the three months ended September 30, 2015 compared to 2014	
(Dollars in thousands)		
Net premiums earned	\$9,586	
Notable and non-notable loss events (a)	—	
Incurred current year losses, excluding notable and non-notable loss events	1,662	
Prior period loss development	—	
Other underwriting deductions (b)	1,803	
Underwriting income (c)	13,051	
(Income) attributable to AlphaCat investors	(14,449	)
Other operating income and expenses, net (d)	2,033	
Net operating income (c)	635	
Net operating (income) attributable to noncontrolling interest	(375	)
Net operating income available to Validus (c)	\$260	

(a) There were no losses and loss expenses from notable or non-notable loss events for either of the three months ended September 30, 2015 and 2014.

(b) Other underwriting deductions consist of policy acquisition costs, general & administrative expenses and share compensation expenses.

(c) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting 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."

(d) Other operating income and expenses, net, consists of net investment income, other insurance related income, finance expenses, and income from operating affiliates.

## Gross Premiums Written

(Dollars in thousands)	Gross Premiums Written		
	Three Months Ended September 30,		
	2015	2014	Change
Property	\$9,448	\$6,936	\$2,512

The increase in gross premiums written in the property lines was primarily due to an increase in assets under management.

## Reinsurance Premiums Ceded

Reinsurance premiums ceded for the three months ended September 30, 2015 were \$nil compared to \$0.6 million for the three months ended September 30, 2014.

## Net Premiums Written

(Dollars in thousands)	Net Premiums Written		
	Three Months Ended September 30,		
	2015	2014	Change
Property	\$9,448	\$6,288	\$3,160

The increase in net premiums written was driven by factors highlighted above in respect of gross premiums written and reinsurance premiums ceded. The ratios of net premiums written to gross premiums written were 100.0% and 90.7% for the three months ended September 30, 2015 and 2014, respectively.

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## Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Three Months Ended September 30,		
	2015	2014	Change
Property	\$44,724	\$35,138	\$9,586

The increase in net premiums earned in the property lines was primarily due to the increase in gross premiums written.

## Losses and Loss Expenses

	Losses and Loss Expense Ratio - Property Lines Three Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	4.6	% 10.6	% (6.0)
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	0.0	% 0.0	% 0.0
Property—loss ratio	4.6	% 10.6	% (6.0)

(Dollars in thousands)	Losses and Loss Expenses - Property Lines Three Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	\$2,076	\$3,738	\$(1,662)
Property—current period—notable loss events	—	—	—
Property—current period—non-notable loss events	—	—	—
Property—change in prior accident years	—	—	—
Property—losses and loss expenses	\$2,076	\$3,738	\$(1,662)

The property lines current quarter loss ratio decreased by 6.0 percentage points, representing a decreased level of attritional losses in the current quarter.

## Notable and Non-notable Loss Events

There were no losses and loss expenses from notable or non-notable loss events for either of the three months ended September 30, 2015 and 2014.

## Policy Acquisition Costs

(Dollars in thousands)	Three Months Ended September 30,					
	2015		2014		Change	
	Policy	% of Net	Policy	% of Net	Policy	% of Net
	Acquisition	Premiums	Acquisition	Premiums	Acquisition	Premiums
	Costs	Earned	Costs	Earned	Costs	Earned
Property	\$4,658	10.4	% \$3,378	9.6	% \$1,280	0.8

The policy acquisition cost ratios for the three months ended September 30, 2015 and 2014 were comparable.

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## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Three Months Ended September 30, 2015		2014		Change	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$4,674	10.5	% \$7,719	22.0	% \$(3,045)	(11.5)
Share compensation expenses	141	0.3	% 179	0.5	% (38)	(0.2)
Total	\$4,815	10.8	% \$7,898	22.5	% \$(3,083)	(11.7)

The decrease in general and administrative expenses of \$3.0 million or 39.4% was primarily due to the deconsolidation of one of the AlphaCat ILS funds on June 1, 2015 and a decrease in professional fees relating to PaCre. The share compensation expenses for the three months ended September 30, 2015 and 2014 were comparable.

## 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 September 30, 2015 and 2014.

	Three Months Ended September 30,		Change
	2015	2014	
Losses and loss expense ratio	4.6	% 10.6	% (6.0)
Policy acquisition cost ratio	10.4	% 9.6	% 0.8
General and administrative expense ratio (a)	10.8	% 22.5	% (11.7)
Expense ratio	21.2	% 32.1	% (10.9)
Combined ratio	25.8	% 42.7	% (16.9)

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

The decrease in the combined ratio for the three months ended September 30, 2015 of 16.9 percentage points compared to the three months ended September 30, 2014 was due to the movement in the underlying ratios as discussed above.

## Net Investment Income

(Dollars in thousands)	Net Investment Income Three Months Ended September 30,		Change
	2015	2014	
Fixed maturities and short-term investments	\$1,496	\$818	\$678
Restricted cash and cash and cash equivalents	37	19	18
Total net investment income	\$1,533	\$837	\$696

The increase in net investment income of \$0.7 million for the three months ended September 30, 2015 compared to 2014 was primarily due to an increase in the size of the catastrophe bond portfolio.

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## Other Insurance Related Income

(Dollars in thousands)	Other Insurance Related Income Three Months Ended September 30,		
	2015	2014	Change
Other insurance related income	\$7,522	\$5,980	\$1,542

Other insurance related income for the AlphaCat segment primarily includes third party and related party management and performance fee income. The increase in other insurance related income of \$1.5 million, or 25.8%, was primarily due to an increase in assets under management.

## Finance Expenses

(Dollars in thousands)	Finance Expenses Three Months Ended September 30,		
	2015	2014	Change
Finance expenses	\$2,355	\$385	\$1,970

The increase in finance expenses of \$2.0 million was due to fees incurred in relation to raising new capital.

## Income From Operating Affiliates

(Dollars in thousands)	Income from Operating Affiliates Three Months Ended September 30,		
	2015	2014	Change
AlphaCat Re 2011	\$396	\$(5)	) \$401
AlphaCat Re 2012	(8)	) (9)	) 1
AlphaCat 2013	(8)	) 7	(15 )
AlphaCat 2014	(12)	) 1,367	(1,379 )
AlphaCat 2015	1,077	—	1,077
AlphaCat ILS funds	4,081	2,401	1,680
Total	\$5,526	\$3,761	\$1,765

For details of voting and equity ownership interests of the above entities, refer to Note 5 to the Consolidated Financial Statements in Part I. The increase in income from operating affiliates of \$1.8 million for the three months ended September 30, 2015 was primarily due to the increase in income from the AlphaCat ILS funds due to the deconsolidation of one of the funds on June 1, 2015.

## (Income) Attributable To AlphaCat Investors

(Dollars in thousands)	(Income) Attributable to AlphaCat Investors Three Months Ended September 30,		
	2015	2014	Change
(Income) attributable to AlphaCat investors	\$(40,256	) \$(25,807	) \$(14,449 )

The increase in (income) attributable to AlphaCat investors of \$14.4 million for the three months ended September 30, 2015, was due primarily to the deconsolidation of one of the AlphaCat ILS funds on June 1, 2015 and the increase in assets under management compared to the prior year quarter.



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Net Operating Loss Attributable to Noncontrolling Interest

(Dollars in thousands)	Net Operating Loss Attributable to Noncontrolling Interest Three Months Ended September 30,		
	2015	2014	Change
Net operating loss attributable to noncontrolling interest	\$63	\$438	\$(375 )

For the three months ended September 30, 2015, net operating loss attributable to noncontrolling interest was \$0.1 million, which was comprised of 90% of the net operating income in PaCRe for the quarter.

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## Third Quarter 2015 Results of Operations - Talbot Segment

The following table presents results of operations for the three months ended September 30, 2015 and 2014:

(Dollars in thousands)	Three Months Ended September 30,		
	2015	2014	Change
Underwriting income			
Gross premiums written	\$226,025	\$245,685	\$(19,660 )
Reinsurance premiums ceded	(35,823 )	(27,134 )	(8,689 )
Net premiums written	190,202	218,551	(28,349 )
Change in unearned premiums	15,942	14,297	1,645
Net premiums earned	206,144	232,848	(26,704 )
Underwriting deductions			
Losses and loss expenses	94,414	118,382	(23,968 )
Policy acquisition costs	44,575	47,862	(3,287 )
General and administrative expenses	43,292	37,709	5,583
Share compensation expenses	3,214	2,990	224
Total underwriting deductions	185,495	206,943	(21,448 )
Underwriting income (a)	20,649	25,905	(5,256 )
Net investment income	6,457	4,965	1,492
Other insurance related income	470	109	361
Finance expenses	(57 )	162	(219 )
Operating income before taxes	27,519	31,141	(3,622 )
Tax (expense) benefit	(1,141 )	332	(1,473 )
Net operating income (a)	\$26,378	\$31,473	\$(5,095 )
Selected ratios:			
Net premiums written / Gross premiums written	84.2	% 89.0	% (4.8 )
Losses and loss expenses	45.8	% 50.8	% (5.0 )
Policy acquisition costs	21.6	% 20.6	% 1.0
General and administrative expenses (b)	22.6	% 17.5	% 5.1
Expense ratio	44.2	% 38.1	% 6.1
Combined ratio	90.0	% 88.9	% 1.1

Non-GAAP Financial Measures: In presenting the Company's results, management has included and discussed underwriting income and net operating income that are not calculated under standards or rules that comprise U.S.

(a) 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.



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The change in net operating income for the three months ended September 30, 2015 compared to the three months ended September 30, 2014 is described in the following table:

	Increase (decrease) to net operating income over the three months ended September 30, 2015 compared to 2014
(Dollars in thousands)	
Net premiums earned	\$(26,704 )
Notable loss events (a)	492
Non-notable loss events (b)	(4,675 )
Incurred current year losses, excluding notable and non-notable loss events	27,604
Prior period loss development	547
Other underwriting deductions (c)	(2,520 )
Underwriting income (d)	(5,256 )
Other operating income and expenses, net (e)	161
Net operating income (d)	\$(5,095 )

(a) Losses and loss expenses from notable loss events for the three months ended September 30, 2015 were \$12.0 million compared to \$12.5 million for the three months ended September 30, 2014.

(b) Losses and loss expenses from non-notable loss events for the three months ended September 30, 2015 were \$4.7 million compared to \$nil for the three months ended September 30, 2014.

(c) Other underwriting deductions consist of policy acquisition costs, general & administrative expenses and share compensation expenses.

(d) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting 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.

(e) Other operating income and expenses, net, consists of net investment income, other insurance related income, finance expenses and taxes.

## Gross Premiums Written

(Dollars in thousands)	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written					
	2015		2014		Change	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$72,717	32.1	% \$67,043	27.2	% \$5,674	4.9
Marine	66,813	29.6	% 90,794	37.0	% (23,981 )	(7.4 )
Specialty	86,495	38.3	% 87,848	35.8	% (1,353 )	2.5
Total	\$226,025	100.0	% \$245,685	100.0	% \$(19,660 )	0.0

Talbot gross premiums written for the three months ended September 30, 2015 translated at 2014 exchange rates would have been \$228.6 million, a decrease of \$17.1 million.

The increase in gross premiums written in the property lines of \$5.7 million was primarily due to increases in the property treaty and construction lines due to the timing of renewed business, new projects and amendments to existing contracts. These increases were partially offset by a decrease in the downstream energy and power lines due to

unfavorable market conditions. The decrease in gross premiums written in the marine lines of \$24.0 million was driven by decreases in a number of classes, but primarily the upstream energy and cargo lines of \$9.7 million and \$7.2 million, respectively, due to ongoing market conditions and economic factors which have reduced business and renewals.

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## Reinsurance Premiums Ceded

(Dollars in thousands)	Reinsurance Premiums Ceded Three Months Ended September 30,		
	2015	2014	Change
Property	\$ 19,143	\$ 17,235	\$ 1,908
Marine	3,488	(1,355)	) 4,843
Specialty	13,192	11,254	1,938
Total	\$ 35,823	\$ 27,134	\$ 8,689

The increase in reinsurance premiums ceded in the marine lines of \$4.8 million was primarily due to reinstatement premiums across a number of classes.

## Net Premiums Written

(Dollars in thousands)	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Three Months Ended September 30,						
	2015		2014		Change		
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	
Property	\$ 53,574	73.7	% \$ 49,808	74.3	% \$ 3,766	(0.6 )	
Marine	63,325	94.8	% 92,149	101.5	% (28,824 )	(6.7 )	
Specialty	73,303	84.7	% 76,594	87.2	% (3,291 )	(2.5 )	
Total	\$ 190,202	84.2	% \$ 218,551	89.0	% \$(28,349 )	(4.8 )	

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.

## Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Three Months Ended September 30,		
	2015	2014	Change
Property	\$ 55,357	\$ 52,130	\$ 3,227
Marine	75,986	99,774	(23,788 )
Specialty	74,801	80,944	(6,143 )
Total	\$ 206,144	\$ 232,848	\$(26,704 )

The changes in net premiums earned were consistent with the pattern of net premiums written influencing the earned premiums for the three months ended September 30, 2015 compared to the three months ended September 30, 2014.

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## Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Three Months Ended September 30,		
	2015	2014	Change
All lines—current period excluding items below	55.1	% 60.6	% (5.5 )
All lines—current period—notable loss events	5.8	% 5.4	% 0.4
All lines—current period—non-notable loss events	2.3	% 0.0	% 2.3
All lines—change in prior accident years	(17.4)	% (15.2)	% (2.2 )
All lines—loss ratio	45.8	% 50.8	% (5.0 )
	Losses and Loss Expenses - All Lines Three Months Ended September 30,		
	2015	2014	Change
(Dollars in thousands)			
All lines—current period excluding items below	\$113,728	\$141,332	\$(27,604 )
All lines—current period—notable loss events	11,983	12,475	(492 )
All lines—current period—non-notable loss events	4,675	—	4,675
All lines—change in prior accident years	(35,972 )	(35,425 )	(547 )
All lines - losses and loss expenses	\$94,414	\$118,382	\$(23,968 )

## Notable Loss Events

Losses and loss expenses from a single notable loss event, Tianjin, were \$12.0 million for the three months ended September 30, 2015, which represented 5.8 percentage points of the loss ratio. Net of reinstatement premiums of \$0.8 million, the effect of this event on net operating income was a reduction of \$11.2 million. Losses and loss expenses from a single notable loss event, Tripoli Airport, were \$12.5 million for the three months ended September 30, 2014, which represented 5.4 percentage points of the loss ratio. Net of reinstatement premiums of \$0.8 million, the effect of this event on net operating income was a reduction of \$11.7 million.

## Non-notable Loss Events

Losses and loss expenses from non-notable loss events for the three months ended September 30, 2015 were \$4.7 million, compared to \$nil for the three months ended September 30, 2014. The non-notable loss event for the three months ended September 30, 2015 was the Chilean earthquake.

## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	61.6	% 65.9	% (4.3 )
Property—current period—notable loss events	5.7	% 0.0	% 5.7
Property—current period—non-notable loss events	7.5	% 0.0	% 7.5
Property—change in prior accident years	(17.5)	% (25.5)	% 8.0
Property—loss ratio	57.3	% 40.4	% 16.9

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(Dollars in thousands)	Losses and Loss Expenses - Property Lines Three Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	\$34,090	\$34,340	\$(250 )
Property—current period—notable loss events	3,166	—	3,166
Property—current period—non-notable loss events	4,175	—	4,175
Property—change in prior accident years	(9,706	) (13,285	) 3,579
Property—losses and loss expenses	\$31,725	\$21,055	\$10,670

During the three months ended September 30, 2015, the property lines incurred \$3.2 million of losses and loss expenses from a single notable loss event, Tianjin, which represented 5.7 percentage points of the property lines loss ratio. The property lines incurred no losses and loss expenses from notable loss events during the three months ended September 30, 2014.

During the three months ended September 30, 2015, the property lines incurred \$4.2 million of losses and loss expenses from a single non-notable loss event, the Chilean earthquake, which represented 7.5 percentage points of the property lines loss ratio. The property lines incurred no losses and loss expenses from non-notable loss events during the three months ended September 30, 2014.

The property lines current quarter loss ratio, excluding the impact of notable and non-notable loss events, decreased by 4.3 percentage points as a result of lower attritional losses in the current quarter. The favorable development of \$9.7 million and \$13.3 million on prior accident years for the three months ended September 30, 2015 and 2014, respectively, was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Marine Lines Three Months Ended September 30,		
	2015	2014	Change
Marine—current period excluding items below	61.8	% 46.2	% 15.6
Marine—current period—notable loss events	11.6	% 0.2	% 11.4
Marine—current period—non-notable loss events	0.7	% 0.0	% 0.7
Marine—change in prior accident years	(19.5	)% (12.0	)% (7.5 )
Marine—loss ratio	54.6	% 34.4	% 20.2

(Dollars in thousands)	Losses and Loss Expenses - Marine Lines Three Months Ended September 30,		
	2015	2014	Change
Marine—current period excluding items below	\$46,995	\$46,087	\$908
Marine—current period—notable loss events	\$8,817	\$191	\$8,626
Marine—current period—non-notable loss events	500	—	500
Marine—change in prior accident years	(14,854	) (11,922	) (2,932 )
Marine—losses and loss expenses	\$41,458	\$34,356	\$7,102

During the three months ended September 30, 2015, the marine lines incurred \$8.8 million of losses and loss expenses from a single notable loss event, Tianjin, which represented 11.6 percentage points of the marine lines loss ratio.

The marine lines current quarter loss ratio, excluding the impact of notable and non-notable loss events, increased by 15.6 percentage points primarily due to higher attritional losses in the current quarter. The favorable development of \$14.9 million and \$11.9 million on prior accident years for the three months ended September 30, 2015 and 2014, respectively, was primarily due to favorable development on attritional losses.



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	Losses and Loss Expense Ratio - Specialty Lines		
	Three Months Ended September 30,		
	2015	2014	Change
Specialty—current period excluding items below	43.7	% 75.2	% (31.5 )
Specialty—current period—notable loss events	0.0	% 15.2	% (15.2 )
Specialty—current period—non-notable loss events	0.0	% 0.0	% 0.0
Specialty—change in prior accident years	(15.3	)% (12.6)	% (2.7 )
Specialty—loss ratio	28.4	% 77.8	% (49.4 )

(Dollars in thousands)	Losses and Loss Expenses - Specialty Lines		
	Three Months Ended September 30,		
	2015	2014	Change
Specialty—current period excluding items below	\$32,643	\$60,905	\$(28,262 )
Specialty—current period—notable loss events	—	12,284	(12,284 )
Specialty—current period—non-notable loss events	—	—	—
Specialty—change in prior accident years	(11,412	) (10,218	) (1,194 )
Specialty—losses and loss expenses	\$21,231	\$62,971	\$(41,740 )

The specialty lines incurred no losses and loss expenses from notable loss events during the three months ended September 30, 2015. During the three months ended September 30, 2014, the specialty lines incurred \$12.3 million of losses and loss expenses from a single notable loss event, Tripoli Airport, which represented 15.2 percentage points of the specialty lines loss ratio. Net of \$0.8 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$11.5 million.

The specialty lines current quarter loss ratio, excluding the impact of notable and non-notable loss events, decreased by 31.5 percentage points primarily due to lower attritional losses in the current quarter. The favorable development of \$11.4 million and \$10.2 million on prior accident years for the three months ended September 30, 2015 and 2014, respectively, was primarily due to favorable development on attritional losses.

## Policy Acquisition Costs

(Dollars in thousands)	Three Months Ended September 30,					
	2015		2014		Change	
	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	\$8,205	14.8	% \$6,930	13.3	% \$1,275	1.5
Marine	18,712	24.6	% 22,846	22.9	% (4,134	) 1.7
Specialty	17,658	23.6	% 18,086	22.3	% (428	) 1.3
Total	\$44,575	21.6	% \$47,862	20.6	% \$(3,287	) 1.0

The marine acquisition cost ratio increased by 1.7 percentage points primarily due to the earned impact of the increase in reinsurance premiums ceded arising from reinstatement premiums.

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## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Three Months Ended September 30, 2015		2014		Change	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	43,292	21.0	% 37,709	16.2	% 5,583	4.8
Share compensation expenses	3,214	1.6	% 2,990	1.3	% 224	0.3
Total	\$46,506	22.6	% \$40,699	17.5	% \$5,807	5.1

General and administrative expenses for the three months ended September 30, 2015 translated at 2014 exchange rates would have been \$45.3 million, an increase of \$7.5 million. This increase was primarily due to an increase in Lloyd's related charges, a greater retention of costs within the segment and an increase in the performance bonus accrual.

Share compensation expense ratios were comparable for the three months ended September 30, 2015 and 2014.

## 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 September 30, 2015 and 2014.

	Three Months Ended September 30,		Change
	2015	2014	
Losses and loss expense ratio	45.8	% 50.8	% (5.0 )
Policy acquisition cost ratio	21.6	% 20.6	% 1.0
General and administrative expense ratio (a)	22.6	% 17.5	% 5.1
Expense ratio	44.2	% 38.1	% 6.1
Combined ratio	90.0	% 88.9	% 1.1

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

The increase in the combined ratio for the three months ended September 30, 2015 of 1.1 percentage points compared to the three months ended September 30, 2014 was due to the movement in the underlying ratios as discussed above.

## Net Investment Income

(Dollars in thousands)	Net Investment Income Three Months Ended September 30,		Change
	2015	2014	
Fixed maturities and short-term investments	\$6,507	\$4,999	\$1,508
Restricted cash and cash and cash equivalents	388	360	28
Total gross investment income	6,895	5,359	1,536
Investment expenses	(438	) (394	) (44 )
Total net investment income	\$6,457	\$4,965	\$1,492

The increase in net investment income of \$1.5 million for the three months ended September 30, 2015 compared to 2014 was primarily due to a change in asset allocation intended to improve yield.

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## Third Quarter 2015 Results of Operations - Western World Segment

The Company acquired Western World on October 2, 2014, therefore, the results of Western World have been included in the Company's consolidated results from the date of acquisition. As a result, there are no comparatives for the third quarter of 2014.

The following table presents results of operations for the three months ended September 30, 2015:

	Three Months Ended September 30, 2015	
(Dollars in thousands)		
Underwriting income		
Gross premiums written	\$70,871	
Reinsurance premiums ceded	(4,716)	)
Net premiums written	66,155	
Change in unearned premiums	(2,225)	)
Net premiums earned	63,930	
Underwriting deductions		
Losses and loss expenses	40,810	
Policy acquisition costs	13,214	
General and administrative expenses	9,587	
Share compensation expenses	554	
Total underwriting deductions	64,165	
Underwriting income (a)	(235)	)
Net investment income	5,634	
Other insurance related income	248	
Operating income before taxes	5,647	
Tax expense	(2,431)	)
Net operating income (a)	\$3,216	
Selected ratios:		
Net premiums written / Gross premiums written	93.3	%
Losses and loss expenses	63.8	%
Policy acquisition costs	20.7	%
General and administrative expense (b)	15.9	%
Expense ratio	36.6	%
Combined ratio	100.4	%

Non-GAAP Financial Measures: In presenting the Company's results, management has included and discussed underwriting income and net 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.

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## Gross Premiums Written

(Dollars in thousands)	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written Three Months Ended September 30, 2015		
	Gross Premiums Written	% of Total	
Property	\$13,862	19.6	%
Liability	57,009	80.4	%
Total	\$70,871	100.0	%

The property lines consist largely of commercial package property and program business. During the three months ended March 31, 2015, Western World began writing brokerage property business. Gross premiums written in the brokerage property class totaled \$2.7 million for the three months ended September 30, 2015. The liability lines consist largely of commercial package liability, program and other liability business.

## Reinsurance Premiums Ceded

(Dollars in thousands)	Reinsurance Premiums Ceded Three Months Ended September 30, 2015
Property	\$1,243
Liability	3,473
Total	\$4,716

The Western World reinsurance program includes various treaties: a binding authority excess of loss, brokerage casualty, brokerage professional, property per risk excess of loss and property catastrophe excess of loss.

## Net Premiums Written

(Dollars in thousands)	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Three Months Ended September 30, 2015		
	Net Premiums Written	% of Gross Premiums Written	
Property	\$12,619	91.0	%
Liability	53,536	93.9	%
Total	\$66,155	93.3	%

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

## Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Three Months Ended September 30, 2015
Property	\$11,083
Liability	52,847
Total	\$63,930

Net premiums earned were driven by the earnings pattern of net premiums written.

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## Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Three Months Ended September 30, 2015	
All lines—current period excluding items below	71.7	%
All lines—current period—notable loss events	0.0	%
All lines—current period—non-notable loss events	0.0	%
All lines—change in prior accident years (a)	(7.9	)%
All lines—loss ratio (a)	63.8	%
	Losses and Loss Expenses - All Lines Three Months Ended September 30, 2015	
(Dollars in thousands)	\$45,864	
All lines—current period excluding items below	—	
All lines—current period—notable loss events	—	
All lines—current period—non-notable loss events	—	
All lines—change in prior accident years (a)	(5,054	)
All lines—losses and loss expenses (a)	\$40,810	

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 \$2,524 during the three months ended September 30, 2015, benefiting the loss ratio by 3.9 percentage points. The remaining fair value adjustment of \$2,340 will be amortized during the remainder of 2015.

## Notable and Non-notable Loss Events

There were no losses and loss expenses from notable or non-notable loss events for the three months ended September 30, 2015.

## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended September 30, 2015	
Property—current period excluding items below	60.0	%
Property—current period—notable loss events	0.0	%
Property—current period—non-notable loss events	0.0	%
Property—change in prior accident years (a)	(9.5	)%
Property—loss ratio (a)	50.5	%

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	Losses and Loss Expenses - Property Lines Three Months Ended September 30, 2015	
(Dollars in thousands)	\$6,652	
Property—current period excluding items below	—	
Property—current period—notable loss events	—	
Property—current period—non-notable loss events	(1,054	)
Property—change in prior accident years (a)	\$5,598	

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 \$66 during the three months ended September 30, 2015, increasing the loss ratio by 0.6 percentage points. The remaining fair value adjustment of \$61 will be amortized during the remainder of 2015.

The property lines current quarter loss ratio was 60.0 percentage points, representing attritional claims experienced during the current quarter. The favorable development of \$1.1 million on prior accident years for the three months ended September 30, 2015 primarily relates to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Liability Lines Three Months Ended September 30, 2015	
Liability—current period excluding items below	74.2	%
Liability—current period—notable loss events	0.0	%
Liability—current period—non-notable loss events	0.0	%
Liability—change in prior accident years (a)	(7.6	)%
Liability—loss ratio (a)	66.6	%

	Losses and Loss Expenses - Liability Lines Three Months Ended September 30, 2015	
(Dollars in thousands)	\$39,212	
Liability—current period excluding items below	—	
Liability—current period—notable loss events	—	
Liability—current period—non-notable loss events	(4,000	)
Liability—change in prior accident years (a)	\$35,212	

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 \$2,590 during the three months ended September 30, 2015, benefiting the loss ratio by 4.9 percentage points. The remaining fair value adjustment of \$2,401 will be amortized during the remainder of 2015.

The liability lines current quarter loss ratio was 74.2 percentage points, representing attritional claims experienced during the quarter. The liability lines experienced favorable loss reserve development of \$4.0 million during the three months ended September 30, 2015 due to the amortization of the fair value adjustment noted above and favorable development on attritional losses.





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## Policy Acquisition Costs

(Dollars in thousands)	Three Months Ended September 30, 2015		
	Policy Acquisition Costs	% of Net Premiums Earned	
Property	\$2,513	22.7	%
Liability	10,701	20.2	%
Total (a)	\$13,214	20.7	%

Upon closing the acquisition, an adjustment of \$34,736 was made to reduce deferred acquisition costs to reflect fair (a) value. These deferred acquisition costs would otherwise have been expensed in the amount of \$2,925 during the three months ended September 30, 2015, benefiting the policy acquisition cost ratio by 4.6 percentage points.

The property acquisition cost ratio for the three months ended September 30, 2015 was 22.7% and the liability acquisition cost ratio for the three months ended September 30, 2015 was 20.2%. The impact of the acquisition fair value adjustments on the policy acquisition cost ratio is noted above.

## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Three Months Ended September 30, 2015		
	Expenses	% of Net Premiums Earned	
General and administrative expenses	\$9,587	15.0	%
Share compensation expenses	554	0.9	%
Total	\$10,141	15.9	%

## 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 September 30, 2015.

	Three Months Ended September 30, 2015	
Losses and loss expense ratio	63.8	%
Policy acquisition cost ratio	20.7	%
General and administrative expense ratio (a)	15.9	%
Expense ratio	36.6	%
Combined ratio	100.4	%

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

The combined ratio for the three months ended September 30, 2015 reflects the underlying ratios highlighted above.

## Net Investment Income

	Net Investment Income Three Months Ended September 30, 2015	
(Dollars in thousands)		
Fixed maturities and short-term investments	\$4,997	
Other investments	1,004	
Restricted cash and cash and cash equivalents	8	
Total gross investment income	6,009	
Investment expenses	(375	)
Total net investment income	\$5,634	



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## Third Quarter 2015 Non-Segment Discussion

## Corporate Expenses

Corporate general and administrative expenses for the three months ended September 30, 2015, net of eliminations related to the operating segments, were \$18.5 million compared to \$19.4 million for the three months ended September 30, 2014, a decrease of \$0.9 million or 4.6%. This decrease was due primarily to the retention of certain costs within the operating segments and a decrease in professional fees compared to the prior year quarter. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses and other costs relating to the Company as a whole.

Corporate share compensation expenses for the three months ended September 30, 2015 were \$3.4 million compared to \$3.0 million for the three months ended September 30, 2014, an increase of \$0.4 million or 12.3%.

Corporate finance expenses for the three months ended September 30, 2015 and 2014, net of eliminations related to the operating segments, were \$11.5 million.

Transaction expenses for the three months ended September 30, 2015 were \$nil compared to \$0.1 million for the three months ended September 30, 2014. The transaction expenses related to costs incurred in connection with the acquisition of Western World, which was completed on October 2, 2014. The Company incurred an additional \$4.7 million of transaction expenses which were recognized in the fourth quarter of 2014. Western World results have been included in the Company's consolidated results from the date of acquisition. Transaction expenses are primarily comprised of legal, financial advisory and audit related services.

## Third Quarter 2015 Non-Operating Income and Expenses

The following non-operating income and expense items are discussed on a consolidated basis, since the Company does not include these items when assessing the results of its operating segments.

## Net Realized and Change in Net Unrealized Losses on Investments

(Dollars in thousands)	Net Realized and Change in Net Unrealized Losses on Investments		
	Three Months Ended September 30,		
	2015	2014	Change
Net realized (losses) gains on investments	\$(41,906	) \$4,595	\$(46,501
Change in net unrealized losses on investments	(34,908	) (84,974	) 50,066
Net realized and change in net unrealized losses on investments	\$(76,814	) \$(80,379	) \$3,565

Net realized losses on investments for the three months ended September 30, 2015 were \$41.9 million compared to gains of \$4.6 million for the three months ended September 30, 2014, an unfavorable movement of \$46.5 million. The net realized losses for the three months ended September 30, 2015, included \$40.7 million in realized losses relating to PaCRE. The amount of PaCRE's realized losses attributable to noncontrolling interest was \$36.6 million for the three months ended September 30, 2015, leaving a net loss to the Company of \$4.1 million. The net realized gains on investments for the three months ended September 30, 2014 was driven by \$2.6 million in realized gains relating to PaCRE. The amount of PaCRE's realized gains attributable to noncontrolling interest was \$2.3 million for the three months ended September 30, 2014, leaving a net gain to the Company of \$0.3 million.

The change in net unrealized losses on investments for the three months ended September 30, 2015 was \$34.9 million compared to \$85.0 million for the three months ended September 30, 2014, a favorable movement of \$50.1 million, or 58.9%. The change in net unrealized losses on investments for the three months ended September 30, 2015 included \$38.8 million in unrealized losses relating to PaCRE. The amount of PaCRE's net unrealized losses attributable to noncontrolling interest was \$34.9 million for the three months ended September 30, 2015, leaving a net loss to the Company of \$3.9 million. The change in net unrealized losses on investments for the three months ended September 30, 2014 was driven by \$61.0 million in unrealized losses relating to PaCRE. The amount of PaCRE's net unrealized losses attributable to noncontrolling interest was \$54.9 million for the three months ended September 30,

2014, leaving a net loss to the Company of \$6.1 million.

The change in net unrealized gains excluding PaCRe for the three months ended September 30, 2015 were \$3.9 million compared to a change in net unrealized losses of \$24.0 million for the three months ended September 30, 2014, a favorable movement of \$27.9 million. The favorable movement was primarily due to a downward shift in the yield curve during the current quarter compared to an upward shift in the yield curve during the three months ended September 30, 2014.

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## Income From Investment Affiliate

(Dollars in thousands)	Income From Investment Affiliate		
	Three Months Ended September 30,		
	2015	2014	Change
Income from investment affiliate	\$2,482	\$1,754	\$728

The 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 previous quarter.

## Foreign Exchange 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 period-to-period comparisons. The Company's largest foreign currency fluctuation exposures are to the following currencies, with the movement in the U.S. dollar against each currency shown in the table below:

U.S. dollar strengthened (weakened) against:	Three Months Ended September 30,			
	2015	2014		
British Pound sterling	3.7	% 5.6	%	
Euro	(0.2)	)% 8.5	%	
Canadian dollar	6.4	% 5.1	%	
Swiss franc	4.4	% 7.8	%	
Australian dollar	9.5	% 8.5	%	
New Zealand dollar	5.9	% 12.7	%	
Singapore dollar	5.6	% 2.5	%	
Japanese yen	(2.0)	)% 8.3	%	
South African rand	13.7	% 6.4	%	

## Foreign Exchange Losses

(Dollars in thousands)	Three Months Ended September 30,		
	2015	2014	Change
Foreign exchange losses	\$(2,274	) \$(11,441	) \$9,167

Foreign exchange losses for the three months ended September 30, 2015 were \$2.3 million compared to losses of \$11.4 million for the three months ended September 30, 2014, a favorable movement of \$9.2 million, or 80.1%, due primarily to the U.S. dollar strengthening against the Canadian dollar and South African rand in the current quarter. 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 attempts to limit its exposure to foreign exchange fluctuations.

## Other Loss

(Dollars in thousands)	Other Loss		
	Three Months Ended September 30,		
	2015	2014	Change
Other loss	\$(1,970	) \$(7,690	) \$5,720

Other loss for the three months ended September 30, 2015 and 2014 was due primarily to adjustments related to assets acquired with the purchase of Flagstone.

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## Net Loss Attributable to Noncontrolling Interest

(Dollars in thousands)	Net Loss Attributable to Noncontrolling Interest Three Months Ended September 30,		
	2015	2014	Change
Net loss attributable to noncontrolling interest	\$71,663	\$53,069	\$18,594

For the three months ended September 30, 2015, the net loss attributable to noncontrolling interest was \$71.7 million, which was comprised of an operating loss of \$0.1 million, as discussed in the AlphaCat Segment Results of Operations, and a non-operating loss of \$71.6 million, primarily on the investment portfolio within PaCRe.

For the three months ended September 30, 2014, net loss attributable to noncontrolling interest was \$53.1 million, which was comprised of an operating loss of \$0.4 million, as discussed in the AlphaCat Segment Results of Operations, and a non-operating loss of \$52.6 million, primarily on the investment portfolio within PaCRe.

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## Year to Date 2015 Summarized Consolidated Results of Operations

Gross premiums written for the nine months ended September 30, 2015 were \$2,248.1 million compared to \$2,026.6 million for the nine months ended September 30, 2014, an increase of \$221.5 million, or 10.9%.

Net premiums earned for the nine months ended September 30, 2015 were \$1,706.8 million compared to \$1,443.7 million for the nine months ended September 30, 2014, an increase of \$263.1 million, or 18.2%.

Underwriting income for the nine months ended September 30, 2015 was \$341.0 million compared to \$391.3 million for the nine months ended September 30, 2014, a decrease of \$50.2 million, or 12.8%.

Combined ratio for the nine months ended September 30, 2015 of 80.0% which included \$245.8 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 14.4 percentage points compared to a combined ratio for the nine months ended September 30, 2014 of 72.9% which included \$167.6 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 11.6 percentage points. The favorable loss reserve development was primarily due to lower than expected development on attritional losses.

Loss ratio for the nine months ended September 30, 2015 of 44.8% compared to 37.8% for the nine months ended September 30, 2014, an increase of 7.0 percentage points. Incurred losses for the nine months ended September 30, 2015 were \$765.3 million, compared to \$545.5 million for the nine months ended September 30, 2014, an increase of \$219.8 million or 40.3%.

Loss ratios by line of business are as follows:

	Nine Months Ended September 30,		
	2015	2014	Change
Property (a)	22.3	% 14.4	% 7.9
Marine	51.4	% 44.8	% 6.6
Specialty	59.0	% 63.5	% (4.5)
Liability (a)	71.6	% 0.0	% 71.6
All lines	44.8	% 37.8	% 7.0

(a) The results of Western World have been included in the Company's consolidated results from the October 2, 2014 date of acquisition.

Losses and loss expenses from notable loss events, including development on these events, for the nine months ended September 30, 2015 were \$97.1 million compared to \$28.1 million for the nine months ended September 30, 2014.

Notable loss events are defined as consolidated losses from a single event which aggregate to a threshold greater than or equal to \$30.0 million. Notable loss events for the nine months ended September 30, 2015 were the August 12th port explosion in Tianjin, China and Pemex, an offshore rig explosion. The port explosion in Tianjin resulted in estimated loss to the Company of \$47.8 million or 2.8 percentage points of the loss ratio. Net of \$3.9 million of reinstatement premiums, the net loss was \$43.9 million. The offshore rig explosion, Pemex resulted in estimated loss to the Company of \$49.3 million or 2.9 percentage points of the loss ratio. Including reinstatement premiums payable, the net loss was \$51.4 million. During the nine months ended September 30, 2014, the Company incurred a loss of \$28.1 million or 1.9 percentage points of the loss ratio, related to Tripoli Airport which subsequently developed into a notable loss event during the three months ended December 31, 2014.

Losses and loss expenses from non-notable loss events, including development on these events, for the nine months ended September 30, 2015 were \$22.2 million compared to \$25.1 million for the nine months ended September 30, 2014. Non-notable loss events are defined as consolidated losses from a single event which aggregate to a threshold greater than or equal to \$15.0 million but less than \$30.0 million. The non-notable loss event for the nine months ended September 30, 2015 was the Chilean earthquake, which resulted in an estimated loss to the Company of \$22.2 million or 1.3 percentage points of the loss ratio. Net of \$2.2 million of reinstatement premiums, the net loss was \$20.0 million.

Net investment income for the nine months ended September 30, 2015 was \$96.2 million compared to \$69.9 million for the nine months ended September 30, 2014, an increase of \$26.2 million, or 37.5%.



Investment yield for the nine months ended September 30, 2015 was 1.92% compared to 1.41% for the nine months ended September 30, 2014.

Net operating income available to Validus for the nine months ended September 30, 2015 was \$304.8 million compared to \$357.4 million for the nine months ended September 30, 2014, a decrease of \$52.6 million, or 14.7%.

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Net income available to Validus for the nine months ended September 30, 2015 was \$304.1 million, or \$3.50 per diluted common share compared to \$355.4 million or \$3.70 per diluted common share for the nine months ended September 30, 2014.

Annualized return on average equity and annualized net operating return on average equity for the nine months ended September 30, 2015 were 11.1% and 11.2%, respectively, compared to 12.8% and 12.9% for the nine months ended September 30, 2014.

Total investments and cash as at September 30, 2015 was \$8.5 billion compared to \$8.1 billion as at December 31, 2014.

AlphaCat's assets under management as at October 1, 2015 was \$2.2 billion compared to \$1.9 billion as at January 1, 2015.

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Overview of the Results of Operations for the Nine Months Ended September 30, 2015 compared to the Nine Months Ended September 30, 2014.

The change in net operating income available to Validus for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 is described in the following table:

	Increase (decrease) to net operating income available to Validus over the nine months ended September 30, 2015 compared to 2014		
(Dollars in thousands)	Validus Holdings, Ltd. Consolidated	Western World Segment	Validus Holdings, Ltd. Consolidated excluding the Western World Segment
Net premiums earned	\$263,139	\$196,930	\$66,209
Notable loss events (a)	(68,916)	)—	(68,916)
Non-notable loss events (b)	2,947	—	2,947
Incurred current year losses, excluding notable and non-notable loss events	(231,965)	)(153,737	)(78,228)
Prior period loss development	78,142	15,639	62,503
Other underwriting deductions (c)	(93,557)	)(57,772	)(35,785)
Underwriting income (d)	(50,210)	)1,060	(51,270)
(Income) attributable to AlphaCat investors	(11,508)	)—	(11,508)
Other operating expenses and income, net (e)	11,987	15,027	(3,040)
Net operating income (d)	(49,731)	)16,087	(65,818)
Net operating (income) loss attributable to noncontrolling interest	(2,887)	)—	(2,887)
Net operating income available to Validus (d)	\$(52,618	)\$16,087	\$(68,705)

(a) Loss and loss expenses from notable loss events for the nine months ended September 30, 2015 were \$97.1 million compared to \$28.1 million nine months ended September 30, 2014.

(b) Losses and loss expenses from non-notable loss events for the nine months ended September 30, 2015 were \$22.2 million compared to \$25.1 million for the nine months ended September 30, 2014.

(c) Other underwriting deductions consist of policy acquisition costs, general & administrative expenses and share compensation expenses.

(d) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income and operating 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."

(e) Other operating expenses and income, net, consists of net investment income, other insurance related income, finance expenses, taxes and income (loss) from operating affiliates.

Net operating income available to Validus for the nine months ended September 30, 2015 was \$304.8 million compared to \$357.4 million for the nine months ended September 30, 2014, a decrease of \$52.6 million or 14.7%.

The Company acquired Western World on October 2, 2014, therefore, the results of Western World have been included in the Company's consolidated results from the date of acquisition. As a result, there are no comparatives for the nine months ended September 30, 2014. Net operating income available to Validus excluding the Western World segment for the nine months ended September 30, 2015 was \$288.7 million compared to \$357.4 million for the nine

months ended September 30, 2014, a decrease of \$68.7 million or 19.2%.

The primary factors driving the decrease in net operating income available to Validus excluding the Western World segment were:

• An increase in losses and loss expenses of \$81.7 million, comprised of:

an increase in incurred current year losses, excluding notable and non-notable losses of \$78.2 million; and

an increase in notable loss events of \$68.9 million; offset by,

an increase in favorable prior period development of \$62.5 million; and

a decrease in non-notable loss events of \$2.9 million;

• An increase in policy acquisition costs of \$30.0 million primarily due to new agricultural business written in the Validus Re segment; and

• An increase in (income) attributable to AlphaCat investors of \$11.5 million; offset by,

• An increase in net premiums earned of \$66.2 million, primarily due to new agriculture business written in the Validus Re segment.

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## Year to Date 2015 Results of Operations - Validus Re Segment

The following table presents results of operations for the nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	Nine Months Ended September 30,		
	2015	2014	Change
Underwriting income			
Gross premiums written	\$1,111,020	\$1,081,816	\$29,204
Reinsurance premiums ceded	(147,611 )	(161,721 )	14,110
Net premiums written	963,409	920,095	43,314
Change in unearned premiums	(205,110 )	(233,271 )	28,161
Net premiums earned	758,299	686,824	71,475
Underwriting deductions			
Losses and loss expenses	357,491	247,848	109,643
Policy acquisition costs	128,909	106,547	22,362
General and administrative expenses	58,254	53,757	4,497
Share compensation expenses	7,665	7,126	539
Total underwriting deductions	552,319	415,278	137,041
Underwriting income (a)	205,980	271,546	(65,566 )
Net investment income	56,694	54,810	1,884
Other insurance related income	3,318	2,385	933
Finance expenses	(11,068 )	(11,131 )	63
Operating income before taxes	254,924	317,610	(62,686 )
Tax (expense) benefit	(14 )	1,176	(1,190 )
Net operating income (a)	\$254,910	\$318,786	\$(63,876 )
Selected ratios:			
Net premiums written / Gross premiums written	86.7	% 85.1	% 1.6
Losses and loss expenses	47.1	% 36.1	% 11.0
Policy acquisition costs	17.0	% 15.5	% 1.5
General and administrative expenses (b)	8.7	% 8.9	% (0.2 )
Expense ratio	25.7	% 24.4	% 1.3
Combined ratio	72.8	% 60.5	% 12.3

Non-GAAP Financial Measures: In presenting the Company's results, management has included and discussed underwriting income and net operating income that are not calculated under standards or rules that comprise U.S.

(a) 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.



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The change in net operating income for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 is described in the following table:

	Increase (decrease) to net operating income over the nine months ended September 30, 2015 compared to 2014
(Dollars in thousands)	
Net premiums earned	\$71,475
Notable loss events (a)	(56,523 )
Non-notable loss events (b)	2,837
Incurred current year losses, excluding notable and non-notable loss events	(105,171 )
Prior period loss development	49,214
Other underwriting deductions (c)	(27,398 )
Underwriting income (d)	(65,566 )
Other operating income and expenses, net (e)	1,690
Net operating income (d)	\$(63,876 )

(a) Losses and loss expenses from notable loss events for the nine months ended September 30, 2015 were \$72.2 million compared to \$15.7 million for the nine months ended September 30, 2014.

(b) Losses and loss expenses from non-notable loss events for the nine months ended September 30, 2015 were \$17.5 million compared to \$20.3 million for the nine months ended September 30, 2014.

(c) Other underwriting deductions consist of policy acquisition costs, general & administrative expenses and share compensation expenses.

(d) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting 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."

(e) Other operating income and expenses, net, consists of net investment income, other insurance related income, finance expenses and taxes.

## Gross Premiums Written

(Dollars in thousands)	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written					
	2015		2014		Change	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$530,456	47.7	% \$598,570	55.4	% \$(68,114 )	(7.7 )
Marine	153,351	13.8	% 175,706	16.2	% (22,355 )	(2.4 )
Specialty	427,213	38.5	% 307,540	28.4	% 119,673	10.1
Total	\$1,111,020	100.0	% \$1,081,816	100.0	% \$29,204	0.0

The decrease in gross premiums written in the property lines of \$68.1 million was primarily due to a reduction in business written in the catastrophe excess of loss lines of \$74.5 million. This decrease was driven by reductions in our participation on various programs due to current market conditions. The decrease in gross premiums written in the marine lines of \$22.4 million was due to non-renewals as a result of current market conditions and business historically written in marine lines being renewed in specialty lines. The increase in gross premiums written in the

specialty lines of \$119.7 million was primarily due to a significant new agriculture deal as well as a significant increase in an existing agriculture deal, offset by various non-renewals.

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## Reinsurance Premiums Ceded

(Dollars in thousands)	Reinsurance Premiums Ceded Nine Months Ended September 30,		
	2015	2014	Change
Property	\$ 119,823	\$ 135,443	\$(15,620 )
Marine	17,196	21,002	(3,806 )
Specialty	10,592	5,276	5,316
Total	\$ 147,611	\$ 161,721	\$(14,110 )

Reinsurance premiums ceded in the property lines decreased by \$15.6 million primarily as a result of renewing the Company's main retro program at reduced rates. The increase in reinsurance premiums ceded in the specialty lines of \$5.3 million was primarily due to a composite marine program being renewed in the specialty lines.

## Net Premiums Written

(Dollars in thousands)	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Nine Months Ended September 30,					
	2015		2014		Change	
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	\$410,633	77.4	% \$463,127	77.4	% \$(52,494 )	0.0
Marine	136,155	88.8	% 154,704	88.0	% (18,549 )	0.8
Specialty	416,621	97.5	% 302,264	98.3	% 114,357	(0.8 )
Total	\$963,409	86.7	% \$920,095	85.1	% \$43,314	1.6

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.

## Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Nine Months Ended September 30,		
	2015	2014	Change
Property	\$323,616	\$354,061	\$(30,445 )
Marine	113,239	117,521	(4,282 )
Specialty	321,444	215,242	106,202
Total	\$758,299	\$686,824	\$71,475

The decrease in property and marine lines net premiums earned of \$30.4 million and \$4.3 million, respectively was as a result of lower gross premiums written during the nine months ended September 30, 2015, offset by the earned impact of the reduction in reinsurance premiums ceded. The increase in net premiums earned in the specialty lines of \$106.2 million was primarily due to an increase in gross premiums written during the nine months ended September 30, 2015.

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## Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Nine Months Ended September 30,		
	2015	2014	Change
All lines—current period excluding items below	49.3	% 39.1	% 10.2
All lines—current period—notable loss events	9.5	% 2.3	% 7.2
All lines—current period—non-notable loss events	2.3	% 3.0	% (0.7)
All lines—change in prior accident years	(14.0)	)% (8.3)	)% (5.7)
All lines—loss ratio	47.1	% 36.1	% 11.0
	Losses and Loss Expenses - All Lines Nine Months Ended September 30,		
(Dollars in thousands)	2015	2014	Change
All lines—current period excluding items below	\$373,859	\$268,688	\$105,171
All lines—current period—notable loss events	72,182	15,659	56,523
All lines—current period—non-notable loss events	17,500	20,337	(2,837)
All lines—change in prior accident years	(106,050)	) (56,836)	) (49,214)
All lines—losses and loss expenses	\$357,491	\$247,848	\$109,643

## Notable Loss Events

Losses and loss expenses from notable loss events were \$72.2 million for the nine months ended September 30, 2015, which represented 9.5 percentage points of the loss ratio. Losses and loss expenses from Tianjin, a current quarter notable loss event, were \$35.8 million. Net of \$3.1 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$32.7 million. Losses and loss expenses from Pemex, a second quarter notable loss event, were \$36.4 million for the nine months ended September 30, 2015. Net of \$8.9 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$27.4 million. Losses and loss expenses from a single notable loss event, Tripoli Airport, were \$15.7 million for the nine months ended September 30, 2014, which represented 2.3 percentage points of the loss ratio. Net of \$2.1 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$13.5 million.

## Non-notable Loss Events

Losses and loss expenses from non-notable loss events for the nine months ended September 30, 2015 were \$17.5 million compared to \$20.3 million for the nine months ended September 30, 2014. The non-notable loss event for the nine months ended September 30, 2015 was the Chilean earthquake.

## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Nine Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	22.8	% 18.1	% 4.7
Property—current period—notable loss events	7.2	% 0.0	% 7.2
Property—current period—non-notable loss events	5.4	% 5.7	% (0.3)
Property—change in prior accident years	(18.0)	)% (14.3)	)% (3.7)
Property—loss ratio	17.4	% 9.5	% 7.9

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(Dollars in thousands)	Losses and Loss Expenses - Property Lines		
	Nine Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	\$73,926	\$63,924	\$10,002
Property—current period—notable loss events	23,298	—	23,298
Property—current period—non-notable loss events	17,384	20,337	(2,953)
Property—change in prior accident years	(58,437)	) (50,598	) (7,839)
Property—losses and loss expenses	\$56,171	\$33,663	\$22,508

During the nine months ended September 30, 2015, the property lines incurred \$23.3 million of losses and loss expenses from a single notable loss event, Tianjin, which represented 7.2 percentage points of the property lines loss ratio. Net of \$1.8 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$21.5 million. The property lines incurred no losses and loss expenses from notable loss events during the nine months ended September 30, 2014.

During the nine months ended September 30, 2015, the property lines incurred \$17.4 million of losses and loss expenses from a single non-notable loss event, the Chilean earthquake, which represented 5.4 percentage points of the property lines loss ratio. During the nine months ended September 30, 2014, the property lines incurred \$20.3 million of losses and loss expenses from non-notable loss events, which represented 5.7 percentage points of the property lines loss ratio.

The property lines current period loss ratio, excluding the impact of notable and non-notable loss events, increased by 4.7 percentage points as a result of higher attritional losses in the period, including \$10.0 million of losses and loss expenses from flooding in Texas during the second quarter. The favorable development on prior accident years for the nine months ended September 30, 2015 of \$58.4 million, included favorable development on prior years from event specific reserves of \$27.8 million. The remainder was primarily due to favorable development on attritional losses. The favorable development on prior accident years for the nine months ended September 30, 2014 of \$50.6 million was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Marine Lines		
	Nine Months Ended September 30,		
	2015	2014	Change
Marine—current period excluding items below	54.8	% 46.6	% 8.2
Marine—current period—notable loss events	41.7	% 0.3	% 41.4
Marine—current period—non-notable loss events	0.0	% 0.0	% 0.0
Marine—change in prior accident years	(25.8	)% (4.4	)% (21.4)
Marine—loss ratio	70.7	% 42.5	% 28.2

(Dollars in thousands)	Losses and Loss Expenses - Marine Lines		
	Nine Months Ended September 30,		
	2015	2014	Change
Marine—current period excluding items below	\$62,040	\$54,731	\$7,309
Marine—current period—notable loss events	47,219	400	46,819
Marine—current period—non-notable loss events	—	—	—
Marine—change in prior accident years	(29,225	) (5,213	) (24,012)
Marine—losses and loss expenses	\$80,034	\$49,918	\$30,116

During the nine months ended September 30, 2015, the marine lines incurred \$12.5 million of losses and loss expenses from a current quarter notable loss event, Tianjin, which represented 11.0 percentage points of the marine lines loss ratio. Net of \$1.3 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$11.2 million. In addition, losses and loss expenses from Pemex, a second quarter notable loss event, were \$34.7 million which represented 30.7 percentage points of the marine lines loss ratio. Net of \$8.4 million of

reinstatement premiums, the effect of this event on net operating income was a reduction of \$26.3 million.

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The marine lines current period loss ratio, excluding the impact of notable and non-notable loss events, increased by 8.2 percentage points as a result of higher attritional losses in the current period. The favorable development of \$29.2 million on prior accident years for the nine months ended September 30, 2015 was primarily due to favorable development on attritional losses; whereas, the lower favorable development of \$5.2 million on prior accident years for the nine months ended September 30, 2014 was primarily due to favorable development on the Gryphon Alpha mooring failure, partially offset by adverse development on Costa Concordia.

	Losses and Loss Expense Ratio - Specialty Lines Nine Months Ended September 30,		
	2015	2014	Change
Specialty—current period excluding items below	74.1	% 69.7	% 4.4
Specialty—current period—notable loss events	0.5	% 7.1	% (6.6)
Specialty—current period—non-notable loss events	0.0	% 0.0	% 0.0
Specialty—change in prior accident years	(5.7)	)% (0.5)	)% (5.2)
Specialty—loss ratio	68.9	% 76.3	% (7.4)

	Losses and Loss Expenses - Specialty Lines Nine Months Ended September 30,		
(Dollars in thousands)	2015	2014	Change
Specialty—current period excluding items below	\$237,893	\$150,033	\$87,860
Specialty—current period—notable loss events	1,665	15,259	(13,594)
Specialty—current period—non-notable loss events	116	—	116
Specialty—change in prior accident years	(18,388)	) (1,025)	) (17,363)
Specialty—losses and loss expenses	\$221,286	\$164,267	\$57,019

During the nine months ended September 30, 2015, the specialty lines incurred \$1.7 million of losses and loss expenses from a second quarter notable loss event, Pemex, which represented 0.5 percentage points of the specialty lines loss ratio. During the nine months ended September 30, 2014, the specialty lines incurred \$15.3 million of losses and loss expenses from a single notable loss event, Tripoli Airport, which represented 7.1 percentage points of the specialty lines loss ratio. Net of \$2.1 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$13.1 million.

The specialty lines current period loss ratio, excluding the impact of notable and non-notable loss events, increased by 4.4 percentage points, primarily due to a change in business mix to include more agriculture business and higher attritional losses in the current period. The favorable loss reserve development on prior accident years of \$18.4 million during the nine months ended September 30, 2015 was due primarily to favorable development on attritional losses. The lower favorable development of \$1.0 million on prior accident years in the nine months ended September 30, 2014 was primarily due to an increase in the loss estimate on agriculture losses.

## Policy Acquisition Costs

	Nine Months Ended September 30,					
	2015		2014		Change	
(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	\$58,054	17.9	% \$59,665	16.9	% \$(1,611)	) 1.0
Marine	23,258	20.5	% 19,825	16.9	% 3,433	3.6
Specialty	47,597	14.8	% 27,057	12.6	% 20,540	2.2
Total	\$128,909	17.0	% \$106,547	15.5	% \$22,362	1.5

The acquisition cost ratio for the marine lines increased by 3.6 percentage points primarily due to adjustments to existing business. The 2.2 percentage point increase in the acquisition cost ratio for the specialty lines was driven by profit commissions and a large proportional contract that carries higher acquisition costs.

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## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Nine Months Ended September 30, 2015		2014		Change	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$58,254	7.7	% \$53,757	7.8	% \$4,497	(0.1 )
Share compensation expenses	7,665	1.0	% 7,126	1.1	% 539	(0.1 )
Total	\$65,919	8.7	% \$60,883	8.9	% \$5,036	(0.2 )

The increase in general and administrative expenses of \$4.5 million or 8.4% was due primarily to a greater retention of costs within the segment and an increase in staff costs related to overseas underwriting operations during the nine months ended September 30, 2015. This increase was partially offset by a reduction in office and infrastructure costs in the current period related to entities that are no longer in use as a result of efficiencies achieved through rationalization of historical Flagstone entities. Share compensation expenses were comparable for the nine months ended September 30, 2015 and 2014.

## 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 nine months ended September 30, 2015 and 2014.

	Nine Months Ended September 30,		Change
	2015	2014	
Losses and loss expense ratio	47.1	% 36.1	% 11.0
Policy acquisition cost ratio	17.0	% 15.5	% 1.5
General and administrative expense ratio (a)	8.7	% 8.9	% (0.2 )
Expense ratio	25.7	% 24.4	% 1.3
Combined ratio	72.8	% 60.5	% 12.3

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

The increase in the combined ratio for the nine months ended September 30, 2015 of 12.3 percentage points compared to the nine months ended September 30, 2014 was due to the movement in the underlying ratios as discussed above.

## Net Investment Income

(Dollars in thousands)	Net Investment Income Nine Months Ended September 30,		Change
	2015	2014	
Fixed maturities and short-term investments	\$51,486	\$52,871	\$(1,385 )
Other investments	8,668	2,879	5,789
Restricted cash and cash and cash equivalents	51	3,465	(3,414 )
Securities lending income	13	5	8
Total gross investment income	60,218	59,220	998
Investment expenses	(3,524	) (4,410	) 886
Total net investment income	\$56,694	\$54,810	\$1,884





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The increase in net investment income for the nine months ended September 30, 2015 was \$1.9 million or 3.4% primarily due to a change in asset allocation intended to improve yield. Net investment income from other investments includes distributed and undistributed net income from certain investments.

## Other Insurance Related Income

(Dollars in thousands)	Other Insurance Related Income Nine Months Ended September 30,		
	2015	2014	Change
Other insurance related income	\$3,318	\$2,385	\$933

Other insurance related income for the nine months ended September 30, 2015 includes a recoverable for federal excise taxes of \$2.3 million.

## Finance Expenses

(Dollars in thousands)	Finance Expenses Nine Months Ended September 30,		
	2015	2014	Change
Finance expenses	\$11,068	\$11,131	\$(63 )

Finance expenses for the nine months ended September 30, 2015 and 2014 were comparable.

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## Year to Date 2015 Results of Operations - AlphaCat Segment

The following table presents results of operations for the nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	Nine Months Ended September 30,		
	2015	2014	Change
Underwriting income			
Gross premiums written	\$176,129	\$135,073	\$41,056
Reinsurance premiums ceded	(4,538)	(4,348)	(190)
Net premiums written	171,591	130,725	40,866
Change in unearned premiums	(54,196)	(32,444)	(21,752)
Net premiums earned	117,395	98,281	19,114
Underwriting deductions			
Losses and loss expenses	1,232	(7,155)	8,387
Policy acquisition costs	12,162	9,414	2,748
General and administrative expenses	12,202	15,627	(3,425)
Share compensation expenses	440	330	110
Total underwriting deductions	26,036	18,216	7,820
Underwriting income (a)	91,359	80,065	11,294
Net investment income	4,872	2,546	2,326
Other insurance related income	17,048	21,482	(4,434)
Finance expenses	(9,462)	(2,039)	(7,423)
Operating income before income from operating affiliates and (income) attributable to AlphaCat investors	103,817	102,054	1,763
Income from operating affiliates	12,083	13,580	(1,497)
(Income) attributable to AlphaCat investors	(94,341)	(82,833)	(11,508)
Net operating income (a)	21,559	32,801	(11,242)
Net operating (income) attributable to noncontrolling interest	(6,047)	(3,160)	(2,887)
Net operating income available to Validus (a)	\$15,512	\$29,641	\$(14,129)
Selected ratios:			
Net premiums written / Gross premiums written	97.4	% 96.8	% 0.6
Losses and loss expenses	1.0	% (7.3)	% 8.3
Policy acquisition costs	10.4	% 9.6	% 0.8
General and administrative expenses (b)	10.8	% 16.2	% (5.4)
Expense ratio	21.2	% 25.8	% (4.6)
Combined ratio	22.2	% 18.5	% 3.7

(a) Non-GAAP Financial Measures: In presenting the Company's results, management has included and discussed underwriting income and net 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.

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The change in net operating income available to Validus for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 is described in the following table:

	Increase (decrease) to net operating income available to Validus over the nine months ended September 30, 2015 compared to 2014	
(Dollars in thousands)		
Net premiums earned	\$19,114	
Notable and non-notable loss events (a)	—	
Incurred current year losses, excluding notable and non-notable loss events	2,377	
Prior period loss development	(10,764	)
Other underwriting deductions (b)	567	
Underwriting income (c)	11,294	
(Income) attributable to AlphaCat investors	(11,508	)
Other operating income and expenses, net (d)	(11,028	)
Net operating income (c)	(11,242	)
Net operating income attributable to noncontrolling interest	(2,887	)
Net operating income available to Validus (c)	\$(14,129	)

(a) There were no losses and loss expenses from notable or non-notable loss events for either of the nine months ended September 30, 2015 or 2014.

(b) Other underwriting deductions consist of policy acquisition costs, general & administrative expenses and share compensation expenses.

(c) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting 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."

(d) Other operating income and expenses, net, consists of net investment income, other insurance related income, finance expenses and income (loss) from operating affiliates.

## Gross Premiums Written

(Dollars in thousands)	Gross Premiums Written		
	Nine Months Ended September 30,		
	2015	2014	Change
Property	\$176,129	\$135,073	\$41,056

The increase in gross premiums written in the property lines was primarily due to an increase in assets under management.

## Reinsurance Premiums Ceded

Reinsurance premiums ceded for the nine months ended September 30, 2015 were \$4.5 million compared to \$4.3 million for the nine months ended September 30, 2014.

## Net Premiums Written

(Dollars in thousands)	Net Premiums Written		
	Nine Months Ended September 30,		
	2015	2014	Change
Property	\$171,591	\$130,725	\$40,866

The increase in net premiums written was driven by factors highlighted above in respect of gross premiums written and reinsurance premiums ceded. The ratios of net premiums written to gross premiums written were 97.4% and 96.8% for the nine months ended September 30, 2015 and 2014, respectively.

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## Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Nine Months Ended September 30,		
	2015	2014	Change
Property	\$ 117,395	\$ 98,281	\$ 19,114

The increase in net premiums earned in the property lines was primarily due to the increase in gross premiums written.  
Losses and Loss Expenses

	Losses and Loss Expense Ratio - Property Lines Nine Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	1.7	% 4.5	% (2.8 )
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	(0.7	)% (11.8	)% 11.1
Property—loss ratio	1.0	% (7.3	)% 8.3

(Dollars in thousands)	Losses and Loss Expenses - Property Lines Nine Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	\$ 2,076	\$ 4,453	\$(2,377 )
Property—current period—notable loss events	—	—	—
Property—current period—non-notable loss events	—	—	—
Property—change in prior accident years	(844	) (11,608	) 10,764
Property - losses and loss expenses	\$ 1,232	\$ (7,155	) \$ 8,387

The property lines current period loss ratio decreased by 2.8 percentage points as a result of lower attritional losses in the period. The favorable development on prior accident years for the nine months ended September 30, 2014 was \$11.6 million, primarily due to the partial release of a 2013 aggregate excess of loss contract.

## Notable and Non-notable Loss Events

There were no losses and loss expenses from notable or non-notable loss events for either of the nine months ended September 30, 2015 and 2014.

## Policy Acquisition Costs

(Dollars in thousands)	Nine Months Ended September 30,					
	2015		2014		Change	
	Policy	% of Net	Policy	% of Net	Policy	% of Net
	Acquisition	Premiums	Acquisition	Premiums	Acquisition	Premiums
	Costs	Earned	Costs	Earned	Costs	Earned
Property	\$ 12,162	10.4	% \$ 9,414	9.6	% \$ 2,748	0.8

The acquisition cost ratios for the nine months ended September 30, 2015 and 2014 were comparable.

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## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Nine Months Ended September 30, 2015		2014		Change	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$12,202	10.4	% \$15,627	15.9	% \$(3,425 )	(5.5 )
Share compensation expenses	440	0.4	% 330	0.3	% 110	0.1
Total	\$12,642	10.8	% \$15,957	16.2	% \$(3,315 )	(5.4 )

The decrease in general and administrative expenses of \$3.4 million or 21.9% was primarily due to the deconsolidation of one of the AlphaCat ILS funds on June 1, 2015 and a decrease in professional fees relating to PaCre. The share compensation expenses for the nine months ended September 30, 2015 and 2014 were comparable.

## 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 nine months ended September 30, 2015 and 2014.

	Nine Months Ended September 30,		Change
	2015	2014	
Losses and loss expense ratio	1.0	% (7.3)	% 8.3
Policy acquisition cost ratio	10.4	% 9.6	% 0.8
General and administrative expense ratio (a)	10.8	% 16.2	% (5.4 )
Expense ratio	21.2	% 25.8	% (4.6 )
Combined ratio	22.2	% 18.5	% 3.7

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

The increase in the combined ratio for the nine months ended September 30, 2015 of 3.7 percentage points compared to the nine months ended September 30, 2014 was due to the movement in the underlying ratios as discussed above.

## Net Investment Income

(Dollars in thousands)	Net Investment Income Nine Months Ended September 30,		Change
	2015	2014	
Fixed maturities and short-term investments	\$4,792	\$2,493	\$2,299
Restricted cash and cash and cash equivalents	80	53	27
Total net investment income	\$4,872	\$2,546	\$2,326

The increase in net investment income for the nine months ended September 30, 2015 was \$2.3 million or 91.4% and was due to an increase in the size of the catastrophe bond portfolio.

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## Other Insurance Related Income

(Dollars in thousands)	Other Insurance Related Income Nine Months Ended September 30,		
	2015	2014	Change
Other insurance related income	\$ 17,048	\$ 21,482	\$(4,434 )

Other insurance related income for the AlphaCat segment primarily includes third party and related party management and performance fee income. The decrease in other insurance related income of \$4.4 million or 20.6% was primarily due to a reduction in performance fees and a loss of \$1.8 million on the deconsolidation of one of the AlphaCat ILS Funds during the nine months ended September 30, 2015 and a gain of \$1.4 million on the deconsolidation of one of the AlphaCat ILS Funds during the nine months ended September 30, 2014.

## Finance Expenses

(Dollars in thousands)	Finance Expenses Nine Months Ended September 30,		
	2015	2014	Change
Finance expenses	\$ 9,462	\$ 2,039	\$ 7,423

The increase in finance expenses of \$7.4 million was due to fees incurred in relation to raising new capital.

## Income From Operating Affiliates

(Dollars in thousands)	Income from Operating Affiliates Nine Months Ended September 30,		
	2015	2014	Change
AlphaCat Re 2011	\$ 391	\$ 183	\$ 208
AlphaCat Re 2012	(36	) 882	(918 )
AlphaCat 2013	(33	) 2,043	(2,076 )
AlphaCat 2014	(110	) 4,399	(4,509 )
AlphaCat 2015	3,675	—	3,675
AlphaCat ILS funds	8,196	6,073	2,123
Total	\$ 12,083	\$ 13,580	\$(1,497 )

For details of voting and equity ownership interests of the above entities, refer to Note 5 to the Consolidated Financial Statements in Part I. The decrease in income from operating affiliates for the nine months ended September 30, 2015 was primarily due to the timing of capital deployment. Capital from AlphaCat 2014 was fully deployed during the first quarter of 2014; whereas, capital from AlphaCat 2013 was only fully deployed in the second quarter of 2013. Also contributing to the decrease was a decrease in income from AlphaCat 2012 due to a reserve release during the nine months ended September 30, 2014 and a decrease in the capital base of AlphaCat 2015 as compared to the capital base of AlphaCat 2014. These decreases were partially offset by an increase in income from the AlphaCat ILS funds due to the deconsolidation of one of the funds on June 1, 2015.



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## (Income) Attributable To AlphaCat Investors

(Dollars in thousands)	(Income) Attributable to AlphaCat Investors Nine Months Ended September 30,		
	2015	2014	Change
(Income) attributable to AlphaCat investors	\$(94,341	) \$(82,833	) \$(11,508

The increase in (income) attributable to AlphaCat investors of \$11.5 million for the nine months ended September 30, 2015 was primarily due the deconsolidation of one of the AlphaCat ILS funds on June 1, 2015 and an increase in assets under management. These increases were offset by a decrease relating to the timing of capital deployment. As noted above, capital from AlphaCat 2014 was fully deployed during the first quarter of 2014; whereas, capital from AlphaCat 2013 was only fully deployed in the second quarter of 2013 and thus had a larger effect on the nine months ended September 30, 2014.

## Net Operating (Income) Attributable to Noncontrolling Interest

(Dollars in thousands)	Net Operating (Income) Attributable to Noncontrolling Interest Nine Months Ended September 30,		
	2015	2014	Change
Net operating (income) attributable to noncontrolling interest	\$(6,047	) \$(3,160	) \$(2,887

For the nine months ended September 30, 2015, the net operating income attributable to noncontrolling interest was \$6.0 million, which was comprised of \$0.9 million relating to 90% of the net operating income in PaCRe for the period and \$5.1 million of net operating income relating to the one AlphaCat ILS fund consolidated through May 31, 2015.

## Assets Under Management

(Dollars in thousands)	Assets Under Management	
	As at October 1, 2015	As at January 1, 2015
Related party	\$361,216	\$346,907
Third party	1,877,422	1,533,840
Total	\$2,238,638	\$1,880,747

Assets under management were \$2.2 billion as at October 1, 2015, compared to \$1.9 billion as at January 1, 2015. During the nine months ended October 1, 2015, a total of \$509.0 million of capital was raised, of which \$468.7 million was raised from third parties. During the nine months ended October 1, 2015, \$221.9 million was returned to investors, of which \$164.7 million was returned to third party investors.

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## Year to Date 2015 Results of Operations - Talbot Segment

The following table presents results of operations for the nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	Nine Months Ended September 30,		
	2015	2014	Change
Underwriting income			
Gross premiums written	\$789,148	\$854,324	\$(65,176 )
Reinsurance premiums ceded	(164,144 )	(154,115 )	(10,029 )
Net premiums written	625,004	700,209	(75,205 )
Change in unearned premiums	9,167	(41,658 )	50,825
Net premiums earned	634,171	658,551	(24,380 )
Underwriting deductions			
Losses and loss expenses	268,512	304,848	(36,336 )
Policy acquisition costs	141,338	138,383	2,955
General and administrative expenses	115,341	107,031	8,310
Share compensation expenses	9,195	8,434	761
Total underwriting deductions	534,386	558,696	(24,310 )
Underwriting income (a)	99,785	99,855	(70 )
Net investment income	19,168	14,322	4,846
Other insurance related income	564	384	180
Finance expenses	(231 )	68	(299 )
Operating income before taxes	119,286	114,629	4,657
Tax expense	(4,286 )	(902 )	(3,384 )
Net operating income (a)	\$115,000	\$113,727	\$1,273
Selected ratios:			
Net premiums written / Gross premiums written	79.2	% 82.0	% (2.8 )
Losses and loss expenses	42.4	% 46.3	% (3.9 )
Policy acquisition costs	22.3	% 21.0	% 1.3
General and administrative expenses (b)	19.6	% 17.5	% 2.1
Expense ratio	41.9	% 38.5	% 3.4
Combined ratio	84.3	% 84.8	% (0.5 )

Non-GAAP Financial Measures: In presenting the Company's results, management has included and discussed underwriting income and net operating income that are not calculated under standards or rules that comprise U.S.

(a) 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.



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The change in net operating income for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 is described in the following table:

	Increase (decrease) to net operating income over the nine months ended September 30, 2015 compared to 2014	
(Dollars in thousands)		
Net premiums earned	\$(24,380	)
Notable loss events (a)	(12,393	)
Non-notable loss events (b)	110	
Incurred current year losses, excluding notable and non-notable loss events	24,566	
Prior period loss development	24,053	
Other underwriting deductions (c)	(12,026	)
Underwriting income (d)	(70	)
Other operating income and expenses, net (e)	1,343	
Net operating income (d)	\$1,273	

(a) Losses and loss expenses from notable loss events for the nine months ended September 30, 2015 were \$24.9 million compared to \$12.5 million for the nine months ended September 30, 2014.

(b) Losses and loss expenses from non-notable loss events for the nine months ended September 30, 2015 were \$4.7 million compared to \$4.8 million for the nine months ended September 30, 2014.

(c) Other underwriting deductions consist of policy acquisition costs, general & administrative expenses and share compensation expenses.

(d) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting 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."

(e) Other operating income and expenses, net, consists of net investment income, other insurance related income, finance expenses and taxes.

## Gross Premiums Written

(Dollars in thousands)	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written					
	2015		2014		Change	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$253,196	32.1	% \$261,100	30.6	% \$(7,904	) 1.5
Marine	266,891	33.8	% 319,805	37.4	% (52,914	) (3.6
Specialty	269,061	34.1	% 273,419	32.0	% (4,358	) 2.1
Total	\$789,148	100.0	% \$854,324	100.0	% \$(65,176	) 0.0

Talbot gross premiums written for the nine months ended September 30, 2015 translated at 2014 exchange rates would have been \$801.9 million, a decrease of \$52.4 million on the prior year period.

The decrease in gross premiums written in the property lines of \$7.9 million was primarily due to a decrease in the property treaty lines of \$9.6 million, of which \$8.5 million related to the Latin American business now being written directly through Validus Re Swiss. This business was previously written by Talbot and ceded to Validus Re through

the second quarter of 2014. In addition, renewed business in both the property treaty and downstream energy and power international lines have decreased due to unfavorable market conditions. These decreases were partially offset by an increase in the construction lines as a result of new projects and amendments to existing contracts. The decrease in gross premiums written in the marine lines of \$52.9 million was primarily driven by a decrease in the upstream energy, cargo and marine hull lines due to ongoing market conditions and economic factors which have reduced new business and renewals.

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## Reinsurance Premiums Ceded

(Dollars in thousands)	Reinsurance Premiums Ceded Nine Months Ended September 30,		
	2015	2014	Change
Property	\$81,720	\$91,332	\$(9,612)
Marine	32,166	20,621	11,545
Specialty	50,258	42,162	8,096
Total	\$164,144	\$154,115	\$10,029

The decrease in reinsurance premiums ceded in the property lines of \$9.6 million was due primarily to a decrease in the property treaty lines of \$5.9 million due to lower quota share premiums as a result of underlying Latin American business now being written directly through Validus Re Swiss. This business was previously written by Talbot and ceded to Validus Re through the second quarter of 2014. Also contributing to the decrease was a reduction in quota share premium across other classes and a decrease in reinstatement premiums. The increase in the marine lines of \$11.5 million was primarily due to the reinstatement premium impact of the second quarter notable loss event, Pemex. The increase in the specialty lines of \$8.1 million was primarily due to reinstatement premiums across a number of classes.

## Net Premiums Written

(Dollars in thousands)	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Nine Months Ended September 30,					
	2015		2014		Change	
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	\$171,476	67.7	% \$169,768	65.0	% \$1,708	2.7
Marine	234,725	87.9	% 299,184	93.6	% (64,459)	(5.7)
Specialty	218,803	81.3	% 231,257	84.6	% (12,454)	(3.3)
Total	\$625,004	79.2	% \$700,209	82.0	% \$(75,205)	(2.8)

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.

## Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Nine Months Ended September 30,		
	2015	2014	Change
Property	\$166,500	\$153,766	\$12,734
Marine	246,039	275,793	(29,754)
Specialty	221,632	228,992	(7,360)
Total	\$634,171	\$658,551	\$(24,380)

The changes in the net premiums earned were consistent with the pattern of net premiums written influencing the earned premiums for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014.

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## Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Nine Months Ended September 30,		
	2015	2014	Change
All lines—current period excluding items below	57.2	% 58.8	% (1.6 )
All lines—current period—notable loss events	3.9	% 1.9	% 2.0
All lines—current period—non-notable loss events	0.7	% 0.7	% 0.0
All lines—change in prior accident years	(19.4	)% (15.1	)% (4.3 )
All lines—loss ratio	42.4	% 46.3	% (3.9 )
	Losses and Loss Expenses - All Lines Nine Months Ended September 30,		
(Dollars in thousands)	2015	2014	Change
All lines—current period excluding items below	\$362,214	\$386,780	\$(24,566 )
All lines—current period—notable loss events	24,868	12,475	12,393
All lines—current period—non-notable loss events	4,675	4,785	(110 )
All lines—change in prior accident years	(123,245	) (99,192	) (24,053 )
All lines - losses and loss expenses	\$268,512	\$304,848	\$(36,336 )

## Notable Loss Events

Losses and loss expenses from notable loss events were \$24.9 million for the nine months ended September 30, 2015, which represented 3.9 percentage points of the loss ratio. Losses and loss expenses from Tianjin, a current quarter notable loss event, were \$12.0 million. Net of reinstatement premiums of \$0.8 million, the effect of this event on net operating income was a reduction of \$11.2 million. Losses and loss expenses from Pemex, a second quarter notable loss event, were \$12.9 million for the nine months ended September 30, 2015. Including reinstatement premiums payable, the effect of this event on net operating income was a reduction of \$24.0 million. Losses and loss expenses from a single notable loss event, Tripoli Airport, were \$12.5 million for the nine months ended September 30, 2014, which represented 1.9 percentage points of the loss ratio. Net of \$0.8 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$11.7 million.

## Non-notable Loss Events

Losses and loss expenses from non-notable loss events for the nine months ended September 30, 2015 were \$4.7 million compared to \$4.8 million for the nine months ended September 30, 2014. The non-notable loss event for the nine months ended September 30, 2015 was the Chilean earthquake.

## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Nine Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	62.6	% 64.9	% (2.3 )
Property—current period—notable loss events	2.2	% 0.0	% 2.2
Property—current period—non-notable loss events	2.5	% 3.1	% (0.6 )
Property—change in prior accident years	(28.3	)% (28.6	)% 0.3
Property—loss ratio	39.0	% 39.4	% (0.4 )

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(Dollars in thousands)	Losses and Loss Expenses - Property Lines Nine Months Ended September 30,		
	2015	2014	Change
Property—current period excluding items below	\$ 104,270	\$ 99,740	\$ 4,530
Property—current period—notable loss events	3,592	—	3,592
Property—current period—non-notable loss events	4,175	4,785	(610 )
Property—change in prior accident years	(47,141 )	(43,905 )	(3,236 )
Property - losses and loss expenses	\$ 64,896	\$ 60,620	\$ 4,276

During the nine months ended September 30, 2015, the property lines incurred \$3.2 million of losses and loss expenses from a current quarter notable loss event, Tianjin, which represented 1.9 percentage points of the property lines loss ratio. Net of \$0.2 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$2.9 million. In addition, losses and loss expenses from Pemex, a second quarter notable loss event, were \$0.4 million which represented 0.3 percentage points of the property lines loss ratio. Net of \$0.1 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$0.3 million. The property lines incurred no losses and loss expenses from notable loss events during the nine months ended September 30, 2014. During the nine months ended September 30, 2015, the property lines incurred \$4.2 million in losses and loss expenses from a single non-notable loss event, the Chilean earthquake, which represented 2.5 percentage points of the property lines loss ratio. During the nine months ended September 30, 2014, the property lines incurred \$4.8 million in losses and loss expenses from non-notable loss events which represented 3.1 percentage points of the property lines loss ratio.

The property lines current period loss ratio, excluding the impact of notable and non-notable loss events, decreased by 2.3 percentage points as a result of lower attritional losses in the current period and a construction fire loss of \$8.3 million included in the nine months ended September 30, 2014. The favorable development of \$47.1 million on prior accident years for the nine months ended September 30, 2015 primarily relates to favorable development on attritional losses and certain events, including the Thailand floods, which was a 2011 notable loss event. The favorable development of \$43.9 million on prior accident years for the nine months ended September 30, 2014 primarily relates to a combination of favorable development on attritional losses and notable loss events, primarily the Tohoku earthquake.

	Losses and Loss Expense Ratio - Marine Lines Nine Months Ended September 30,		
	2015	2014	Change
Marine—current period excluding items below	54.5	% 52.3	% 2.2
Marine—current period—notable loss events	8.6	% 0.1	% 8.5
Marine—current period—non-notable loss events	0.2	% 0.0	% 0.2
Marine—change in prior accident years	(20.8 )	)% (6.6 )	)% (14.2 )
Marine—loss ratio	42.5	% 45.8	% (3.3 )

(Dollars in thousands)	Losses and Loss Expenses - Marine Lines Nine Months Ended September 30,		
	2015	2014	Change
Marine—current period excluding items below	\$ 133,982	\$ 144,348	\$(10,366 )
Marine—current period—notable loss events	21,276	191	21,085
Marine—current period—non-notable loss events	500	—	500
Marine—change in prior accident years	(51,178 )	(18,191 )	(32,987 )
Marine - losses and loss expenses	\$ 104,580	\$ 126,348	\$(21,768 )





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During the nine months ended September 30, 2015, the marine lines incurred \$8.8 million of losses and loss expenses from a current quarter notable loss event, Tianjin, which represented 3.6 percentage points of the marine lines loss ratio. Net of \$0.5 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$8.3 million. In addition, losses and loss expenses from a second quarter notable loss event, Pemex were \$12.5 million which represented 5.0 percentage points of the marine lines loss ratio. Including reinstatement premiums payable, the effect of this event on net operating income was a reduction of \$23.6 million.

The marine lines current period loss ratio, excluding the impact of notable and non-notable loss events, increased by 2.2 percentage points primarily due to higher attritional losses in the current period. The favorable development of \$51.2 million and \$18.2 million on prior accident years for the nine months ended September 30, 2015 and 2014, respectively, was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Specialty Lines Nine Months Ended September 30,		
	2015	2014	Change
Specialty—current period excluding items below	55.9	% 62.3	% (6.4 )
Specialty—current period—notable loss events	0.0	% 5.4	% (5.4 )
Specialty—current period—non-notable loss events	0.0	% 0.0	% 0.0
Specialty—change in prior accident years	(11.2	)% (16.2	)% 5.0
Specialty—loss ratio	44.7	% 51.5	% (6.8 )

	Losses and Loss Expenses - Specialty Lines Nine Months Ended September 30,		
(Dollars in thousands)	2015	2014	Change
Specialty—current period excluding items below	\$123,962	\$142,692	\$(18,730 )
Specialty—current period—notable loss events	—	12,284	(12,284 )
Specialty—current period—non-notable loss events	—	—	—
Specialty—change in prior accident years	(24,926	) (37,096	) 12,170
Specialty - losses and loss expenses	\$99,036	\$117,880	\$(18,844 )

The specialty lines incurred no losses and loss expenses from notable loss events during the nine months ended September 30, 2015. Losses and loss expenses from a single notable loss event, Tripoli Airport, were \$12.3 million for the nine months ended September 30, 2014, which represented 5.4 percentage points of the loss ratio. Net of \$0.8 million of reinstatement premiums, the effect of this event on net operating income was a reduction of \$11.5 million. The specialty lines current period loss ratio, excluding the impact of notable and non-notable loss events, decreased by 6.4 percentage points primarily due to lower attritional losses in the current period. The favorable development of \$24.9 million and \$37.1 million on prior accident years for the nine months ended September 30, 2015 and 2014, respectively, was primarily due to favorable development on attritional losses.

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## Policy Acquisition Costs

(Dollars in thousands)	Nine Months Ended September 30,					
	2015		2014		Change	
	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	\$24,294	14.6	% \$20,028	13.0	% \$4,266	1.6
Marine	64,201	26.1	% 65,568	23.8	% (1,367 )	2.3
Specialty	52,843	23.8	% 52,787	23.1	% 56	0.7
Total	\$141,338	22.3	% \$138,383	21.0	% \$2,955	1.3

The property acquisition cost ratio increased by 1.6 percentage points due to lower ceded acquisition costs on quota share premiums as a result of the Latin American business being written directly through Validus Re Swiss. This business was previously written through Talbot and ceded to Validus Re through the second quarter of 2014. The marine acquisition cost ratio increased by 2.3 percentage points primarily due to the reinstatement premium impact of the second quarter notable loss event, Pemex, and profit commission adjustments to certain cargo and yachts policies during the nine months ended September 30, 2014.

## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Nine Months Ended September 30,					
	2015		2014		Change	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$115,341	18.2	% \$107,031	16.2	% \$8,310	2.0
Share compensation expenses	9,195	1.4	% 8,434	1.3	% 761	0.1
Total	\$124,536	19.6	% \$115,465	17.5	% \$9,071	2.1

General and administrative expenses translated at 2014 exchange rates would have been \$121.6 million, an increase of \$14.5 million. This increase was primarily due to a greater retention of costs within the segment together with an increase in the performance bonus accrual. Share compensation expense ratios were comparable for the nine months ended September 30, 2015 and 2014.

## 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 nine months ended September 30, 2015 and 2014.

	Nine Months Ended September 30,		
	2015	2014	Change
Losses and loss expense ratio	42.4	% 46.3	% (3.9 )
Policy acquisition cost ratio	22.3	% 21.0	% 1.3
General and administrative expense ratio (a)	19.6	% 17.5	% 2.1
Expense ratio	41.9	% 38.5	% 3.4
Combined ratio	84.3	% 84.8	% (0.5 )

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

The decrease in the combined ratio for the nine months ended September 30, 2015 of 0.5 percentage points compared to the nine months ended September 30, 2014 was due to the movement in the underlying ratios as discussed above.



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## Net Investment Income

(Dollars in thousands)	Net Investment Income		
	Nine Months Ended September 30,		
	2015	2014	Change
Fixed maturities and short-term investments	\$ 19,330	\$ 14,453	\$ 4,877
Restricted cash and cash and cash equivalents	1,115	1,016	99
Total gross investment income	20,445	15,469	4,976
Investment expenses	(1,277	) (1,147	) (130
Total net investment income	\$ 19,168	\$ 14,322	\$ 4,846

The increase in net investment income for the nine months ended September 30, 2015 was \$4.8 million or 33.8% primarily due to a change in asset allocation intended to improve yield.

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## Year to Date 2015 Results of Operations - Western World Segment

The Company acquired Western World on October 2, 2014, therefore, the results of Western World have been included in the Company's consolidated results from the date of acquisition. As a result, there are no comparatives for the nine months ended September 30, 2014.

The following table presents results of operations for the nine months ended September 30, 2015:

	Nine Months Ended September 30, 2015	
(Dollars in thousands)		
Underwriting income		
Gross premiums written	\$207,372	
Reinsurance premiums ceded	(13,390	)
Net premiums written	193,982	
Change in unearned premiums	2,948	
Net premiums earned	196,930	
Underwriting deductions		
Losses and loss expenses	138,098	
Policy acquisition costs	27,110	
General and administrative expenses	29,137	
Share compensation expenses	1,525	
Total underwriting deductions	195,870	
Underwriting income (a)	1,060	
Net investment income	16,660	
Other insurance related income	787	
Operating income before taxes	18,507	
Tax expense	(2,420	)
Net operating income (a)	\$16,087	
Selected ratios:		
Net premiums written / Gross premiums written	93.5	%
Losses and loss expenses	70.1	%
Policy acquisition costs	13.8	%
General and administrative expense (b)	15.6	%
Expense ratio	29.4	%
Combined ratio	99.5	%

Non-GAAP Financial Measures: In presenting the Company's results, management has included and discussed underwriting income and net 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.

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## Gross Premiums Written

(Dollars in thousands)	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written Nine Months Ended September 30, 2015		
	Gross Premiums Written	% of Total	
Property	\$39,134	18.9	%
Liability	168,238	81.1	%
Total	\$207,372	100.0	%

The property lines consist largely of commercial package property and program business. During the three months ended March 31, 2015, Western World began writing brokerage property business. Gross premiums written in the brokerage property class totaled \$8.7 million for the nine months ended September 30, 2015. During the three months ended December 31, 2014, Western World discontinued writing binding authority commercial auto business and a large bar and tavern program. The liability lines consist largely of commercial package liability, program and other liability business.

## Reinsurance Premiums Ceded

(Dollars in thousands)	Reinsurance Premiums Ceded Nine Months Ended September 30, 2015
Property	\$3,180
Liability	10,210
Total	\$13,390

The Western World reinsurance program includes various treaties: a binding authority excess of loss, brokerage casualty, brokerage professional, property per risk excess of loss and property catastrophe excess of loss.

## Net Premiums Written

(Dollars in thousands)	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Nine Months Ended September 30, 2015		
	Net Premiums Written	% of Gross Premiums Written	
Property	\$35,954	91.9	%
Liability	158,028	93.9	%
Total	\$193,982	93.5	%

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

## Net Premiums Earned

(Dollars in thousands)	Net Premiums Earned Nine Months Ended September 30, 2015
Property	\$32,505
Liability	164,425



Total	\$196,930
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Net premiums earned were driven by the earnings pattern of net premiums written.

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## Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Nine Months Ended September 30, 2015	
All lines—current period excluding items below	78.1	%
All lines—current period—notable loss events	0.0	%
All lines—current period—non-notable loss events	0.0	%
All lines—change in prior accident years (a)	(8.0	)%
All lines—loss ratio (a)	70.1	%
	Losses and Loss Expenses - All Lines Nine Months Ended September 30, 2015	
(Dollars in thousands)	\$153,737	
All lines—current period excluding items below	—	
All lines—current period—notable loss events	—	
All lines—current period—non-notable loss events	—	
All lines—change in prior accident years (a)	(15,639	)
All lines—losses and loss expenses (a)	\$138,098	

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 \$8,639 during the nine months ended September 30, 2015, benefiting the loss ratio by 4.4% percentage points. The remaining fair value adjustment of \$2,340 will be amortized during the remainder of 2015.

## Notable and Non-notable Loss Events

There were no losses and loss expenses from notable or non-notable loss events for the nine months ended September 30, 2015.

## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Nine Months Ended September 30, 2015	
Property—current period excluding items below	76.8	%
Property—current period—notable loss events	0.0	%
Property—current period—non-notable loss events	0.0	%
Property—change in prior accident years (a)	(14.3	)%
Property—loss ratio (a)	62.5	%

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	Losses and Loss Expenses - Property Lines Nine Months Ended September 30, 2015	
(Dollars in thousands)		
Property—current period excluding items below	\$24,965	
Property—current period—notable loss events	—	
Property—current period—non-notable loss events	—	
Property—change in prior accident years (a)	(4,648	)
Property—losses and loss expenses (a)	\$20,317	

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 \$227 during the nine months ended September 30, 2015, increasing the loss ratio by 0.7% percentage points. The remaining fair value adjustment of \$61 will be amortized during the remainder of 2015.

The property lines current period loss ratio was 76.8% percentage points, representing attritional claims experienced during the period. The favorable development of \$4.6 million on prior accident years for the nine months ended September 30, 2015 primarily relates to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Liability Lines Nine Months Ended September 30, 2015	
Liability—current period excluding items below	78.3	%
Liability—current period—notable loss events	0.0	%
Liability—current period—non-notable loss events	0.0	%
Liability—change in prior accident years (a)	(6.7	)%
Liability—loss ratio (a)	71.6	%

	Losses and Loss Expenses - Liability Lines Nine Months Ended September 30, 2015	
(Dollars in thousands)		
Liability—current period excluding items below	\$128,772	
Liability—current period—notable loss events	—	
Liability—current period—non-notable loss events	—	
Liability—change in prior accident years (a)	(10,991	)
Liability—losses and loss expenses (a)	\$117,781	

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 \$8,866 during the nine months ended September 30, 2015, benefiting the loss ratio by 5.4% percentage points. The remaining fair value adjustment of \$2,401 will be amortized during the remainder of 2015.

The liability lines current period loss ratio was 78.3% percentage points, representing attritional claims experienced during the period. The liability lines experienced favorable loss reserve development of \$11.0 million during the nine months ended September 30, 2015 due to the amortization of the fair value adjustment noted above and favorable development on attritional losses.



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## Policy Acquisition Costs

(Dollars in thousands)	Nine Months Ended September 30, 2015		
	Policy Acquisition Costs	% of Net Premiums Earned	
Property	\$4,062	12.5	%
Liability	23,048	14.0	%
Total (a)	\$27,110	13.8	%

Upon closing the acquisition, an adjustment of \$34,736 was made to reduce deferred acquisition costs to reflect fair (a) value. These deferred acquisition costs would otherwise have been expensed in the amount of \$19,917 during the nine months ended September 30, 2015, benefiting the policy acquisition cost ratio by 10.1% percentage points. The property acquisition cost ratio for the nine months ended September 30, 2015 was 12.5% and the liability acquisition cost ratio for the nine months ended September 30, 2015 was 14.0%. The impact of the acquisition fair value adjustments on the policy acquisition cost ratio is noted above.

## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Nine Months Ended September 30, 2015		
	Expenses	% of Net Premiums Earned	
General and administrative expenses	\$29,137	14.8	%
Share compensation expenses	1,525	0.8	%
Total	\$30,662	15.6	%

## 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 nine months ended September 30, 2015.

	Nine Months Ended September 30, 2015	
Losses and loss expense ratio	70.1	%
Policy acquisition cost ratio	13.8	%
General and administrative expense ratio (a)	15.6	%
Expense ratio	29.4	%
Combined ratio	99.5	%

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

The combined ratio for the nine months ended September 30, 2015 reflects the underlying ratios highlighted above.

## Net Investment Income

(Dollars in thousands)	Net Investment Income Nine Months Ended September 30, 2015	
Fixed maturities and short-term investments	\$14,152	
Other investments	3,620	
Restricted cash and cash and cash equivalents	13	
Total gross investment income	17,785	
Investment expenses	(1,125	)
Total net investment income	\$16,660	



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## Year to Date 2015 Non-Segment Discussion

## Corporate Expenses

Corporate general and administrative expenses for the nine months ended September 30, 2015, net of eliminations related to the operating segments, were \$49.1 million compared to \$55.2 million for the nine months ended September 30, 2014, a decrease of \$6.1 million or 11.1%. This decrease was due primarily to the retention of certain costs within the operating segments. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses and other costs relating to the Company as a whole.

Corporate share compensation expenses for the nine months ended September 30, 2015 were \$9.5 million compared to \$8.4 million for the nine months ended September 30, 2014, an increase of \$1.1 million or 13.1%.

Corporate finance expenses for the nine months ended September 30, 2015 and 2014, net of eliminations related to the operating segments, were \$34.3 million.

Transaction expenses for the nine months ended September 30, 2015 were \$nil compared to \$3.4 million for the nine months ended September 30, 2014. The transaction expenses related to costs incurred in connection with the acquisition of Western World, which was completed on October 2, 2014. The Company incurred an additional \$4.7 million of transaction expenses which were recognized in the fourth quarter of 2014. Western World results have been included in the Company's consolidated results from the date of acquisition. Transaction expenses are primarily comprised of legal, financial advisory and audit related services.

## Year to Date 2015 Non-Operating Income and Expenses

The following non-operating income and expense items are discussed on a consolidated basis, since the Company does not include these items when assessing the results of its operating segments.

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

(Dollars in thousands)	Net Realized and Change in Net Unrealized (Losses) Gains on Investments		
	Nine Months Ended September 30,		
	2015	2014	Change
Net realized (losses) gains on investments	\$(35,493	) \$16,193	\$(51,686
Change in net unrealized gains on investments	19,766	16,146	3,620
Net realized and change in net unrealized (losses) gains on investments	\$(15,727	) \$32,339	\$(48,066

Net realized losses on investments for the nine months ended September 30, 2015 were \$35.5 million compared to gains of \$16.2 million for the nine months ended September 30, 2014, an unfavorable movement of \$51.7 million. The net realized losses for the nine months ended September 30, 2015, included \$40.7 million in realized losses relating to PaCRE. The amount of PaCRE's realized losses attributable to noncontrolling interest was \$36.6 million for the nine months ended September 30, 2015, leaving a net loss to the Company of \$4.1 million. The net realized gains on investments for the nine months ended September 30, 2014 was driven by \$8.2 million in realized gains relating to PaCRE. The amount of PaCRE's realized gains attributable to noncontrolling interest was \$7.4 million for the nine months ended September 30, 2014, leaving a net gain to the Company of \$0.8 million.

The change in net unrealized gains on investments for the nine months ended September 30, 2015 was \$19.8 million compared to \$16.1 million for the nine months ended September 30, 2014, a favorable movement of \$3.6 million, or 22.4%. The change in net unrealized gains on investments for the nine months ended September 30, 2015 was driven by \$17.3 million in unrealized gains relating to PaCRE. The amount of PaCRE's net unrealized gains attributable to noncontrolling interest was \$15.6 million for the nine months ended September 30, 2015, leaving a net gain to the Company of \$1.7 million. The change in net unrealized gains on investments for the nine months ended September 30, 2014 was driven by \$16.9 million in unrealized gains relating to PaCRE. The amount of PaCRE's net unrealized gains attributable to noncontrolling interest was \$15.3 million for the nine months ended September 30, 2014, leaving a net

gain to the Company of \$1.7 million.

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## Income From Investment Affiliate

(Dollars in thousands)	Income From Investment Affiliate Nine Months Ended September 30,		
	2015	2014	Change
Income from investment affiliate	\$5,542	\$7,881	\$(2,339)

The 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 nine months ended June 30, 2015 and 2014.

## Foreign Exchange 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 period-to-period comparisons. The Company's largest foreign currency fluctuation exposures are to the following currencies, with the movement in each currency against the U.S. dollar shown in the table below:

U.S. dollar strengthened (weakened) against:	Nine Months Ended September 30,		
	2015	2014	
British Pound sterling	2.9	% 2.3	%
Euro	8.4	% 8.9	%
Canadian dollar	14.5	% 5.5	%
Swiss franc	(1.9)	)% 7.0	%
Australian dollar	15.9	% 2.5	%
New Zealand dollar	21.6	% 5.7	%
Singapore dollar	7.3	% 1.1	%
Japanese yen	0.3	% 4.3	%
South African rand	19.6	% 8.0	%

(Dollars in thousands)	Foreign Exchange Losses Nine Months Ended September 30,		
	2015	2014	Change
Foreign exchange losses	\$(9,061)	\$(14,761)	\$5,700

Foreign exchange losses for the nine months ended September 30, 2015 were \$9.1 million compared to \$14.8 million for the nine months ended September 30, 2014, a favorable movement of \$5.7 million, or 38.6%, due primarily to the U.S. dollar strengthening against the Euro, Canadian and Australian dollars in the current period.

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 attempts to limit its exposure to foreign exchange fluctuations.

## Other Loss

(Dollars in thousands)	Other Loss Nine Months Ended September 30,		
	2015	2014	Change
Other loss	\$(2,578)	\$(1,473)	\$(1,105)

Other loss for the nine months ended September 30, 2015 and 2014 was due primarily to adjustments related to assets acquired with the purchase of Flagstone.

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## Net Loss (Income) Attributable to Noncontrolling Interest

(Dollars in thousands)	Net Loss (Income) Attributable to Noncontrolling Interest Nine Months Ended September 30,		
	2015	2014	Change
Net loss (income) attributable to noncontrolling interest	\$ 15,042	\$(25,745)	) \$ 40,787

For the nine months ended September 30, 2015, net loss attributable to noncontrolling interest was \$15.0 million, which was comprised of operating income of \$6.0 million, as discussed in the AlphaCat Segment Results of Operations, and a non-operating loss of \$21.1 million, primarily on the investment portfolio within PaCRé.

For the nine months ended September 30, 2014, net income attributable to noncontrolling interest was \$25.7 million, which was comprised of operating income of \$3.2 million, as discussed in the AlphaCat Segment Results of Operations, and a non-operating gain of \$22.6 million, primarily on the investment portfolio within PaCRé.

## Other Non-GAAP Financial Measures

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

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net operating income	\$73,563	\$84,508	\$310,856	\$360,587
Net realized (losses) gains on investments	(41,906)	) 4,595	(35,493)	) 16,193
Change in net unrealized (losses) gains on investments	(34,908)	) (84,974)	) 19,766	16,146
Income from investment affiliate	2,482	1,754	5,542	7,881
Foreign exchange losses	(2,274)	) (11,441)	) (9,061)	) (14,761)
Other loss	(1,970)	) (7,690)	) (2,578)	) (1,473)
Transaction expenses	—	(149)	) —	(3,401)
Net (loss) income	\$(5,013)	) \$(13,397)	) \$289,032	\$381,172

Operating income indicates the performance of the Company's core underwriting function, excluding revenues and expenses such as the reconciling items in the table above. The Company believes the reporting of operating income 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 unrealized gains and losses on investments, from its calculation of operating income 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 determined in accordance with U.S. GAAP, the Company believes that showing operating income provides investors with a valuable measure of profitability and enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the Company's results of operations in a manner similar to how management analyzes the Company's underlying business performance.



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Operating income should not be viewed as a substitute for U.S. GAAP net income as there are inherent material limitations associated with the use of operating income as compared to using net income, 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 operating income with other companies, particularly as operating income 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, 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 and reconciliation of operating income to net income.

The Company also 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.

In presenting the Company's results, management has also included and discussed certain schedules containing book value per diluted common share and book value per diluted common share plus accumulated dividends that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP and 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.

The following tables present reconciliations of diluted book value per share to book value per share, the most comparable U.S. GAAP financial measure, at September 30, 2015 and December 31, 2014.

(Dollars in thousands, except share and per share amounts)	As at September 30, 2015		
	Equity Amount	Shares	Exercise Price
Book value per common share			
Total shareholders' equity available to Validus	\$3,644,560	81,997,891	\$ 44.45
Book value per diluted common share			
Total shareholders' equity available to Validus	3,644,560	81,997,891	
Assumed exercise of outstanding warrants	59,506	3,377,320	\$ 17.62
Assumed exercise of outstanding stock options	1,319	65,401	\$ 20.17
Unvested restricted shares	—	3,014,830	
Book value per diluted common share	\$3,705,385	88,455,442	\$ 41.89
Adjustment for accumulated dividends			\$ 9.84
Book value per diluted common share plus accumulated dividends			\$ 51.73
	As at December 31, 2014		
(Dollars in thousands, except share and per share amounts)	Equity Amount	Shares	Exercise Price
Book value per common share			
Total shareholders' equity available to Validus	\$3,587,958	83,869,845	\$ 42.78
Book value per diluted common share			
Total shareholders' equity available to Validus	3,587,958	83,869,845	
Assumed exercise of outstanding warrants	90,950	5,174,114	\$ 17.58
Assumed exercise of outstanding stock options	20,581	1,160,057	\$ 17.74
Unvested restricted shares	—	3,068,564	

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Book value per diluted common share	\$3,699,489	93,272,580	\$ 39.66
Adjustment for accumulated dividends			\$ 8.88
Book value per diluted common share plus accumulated dividends			\$ 48.54

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## Liquidity and Capital Resources

## Investments

At September 30, 2015, the Company held investments totaling \$8.1 billion, compared to \$7.4 billion at December 31, 2014, an increase of \$0.7 billion, or 8.9%, primarily as a result of an increase in short-term investments. 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 investment policies specifically require 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 to provide necessary liquidity in a wide range of reasonable scenarios. At September 30, 2015, the average duration of the Company's fixed maturity investment portfolio was 2.44 years (December 31, 2014: 2.16 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 investment portfolio is also structured to preserve capital. The Company's investment policies require certain minimum credit quality standards, including a minimum weighted average portfolio rating of A+. Further limits on securities rated BBB and below 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 enterprise-risk framework. At September 30, 2015, the Company's total investment portfolio had an average credit quality rating of AA- (December 31, 2014: AA-) and an effective yield of 1.92% for the nine months then ended (2014: 1.41%). The estimated fair value of investment grade fixed maturities, as at September 30, 2015 was \$4.8 billion, or 86.1% of the fixed maturity portfolio, compared to \$4.9 billion as at December 31, 2014, or 89.2%, a decrease of \$0.1 billion, or 2.6%. The estimated fair value of managed non-investment grade fixed maturities as at September 30, 2015 was \$615.2 million or 9.5% of total managed cash and investments compared to \$523.3 million or 7.7% of total managed cash and investments as at December 31, 2014, an increase of \$91.9 million, or 17.6%. Managed non-investment grade securities consist primarily of bank loans and corporate bonds.

The Company also has an allocation to other investments, primarily investment funds and hedge funds. At September 30, 2015, these other investments, excluding noncontrolling interests, totaled \$382.9 million, or 5.0%, of total investments, excluding noncontrolling interest (December 31, 2014: \$382.5 million or 5.5%). For further details related to the investment portfolio, including the extent of investments with fair values measured using unobservable inputs, see Notes 3 and 4 to the Consolidated Financial Statements in Part I, Item 1.

The value of the Company's 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 investment portfolio exposes the Company to other risks, including insolvency or reduced credit quality of corporate debt securities, and prepayment, default and structural risks on asset-backed securities, mortgage-backed securities and bank loans.

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The estimated fair value of investments at September 30, 2015 and December 31, 2014 was as follows:

(Dollars in thousands)	September 30, 2015		December 31, 2014		
	Estimated Fair Value	% of Total Investments	Estimated Fair Value	% of Total Investments	
U.S. government and government agency	\$871,928	14.2	% \$760,086	12.3	%
Non-U.S. government and government agency	222,964	3.7	% 278,728	4.5	%
U.S. states, municipalities and political subdivisions	319,526	5.2	% 449,623	7.3	%
Agency residential mortgage-backed securities	497,270	8.2	% 529,231	8.5	%
Non-agency residential mortgage-backed securities	27,054	0.4	% 37,807	0.6	%
U.S. corporate	1,525,894	25.0	% 1,499,706	24.2	%
Non-U.S. corporate	467,820	7.7	% 563,162	9.1	%
Bank loans	509,473	8.4	% 449,004	7.2	%
Catastrophe bonds	159,976	2.6	% 75,664	1.2	%
Asset-backed securities	625,248	10.3	% 647,482	10.5	%
Commercial mortgage-backed securities	351,703	5.8	% 242,238	3.9	%
Total fixed maturities	5,578,856	91.5	% 5,532,731	89.3	%
Total short-term investments (a)	1,661,687	27.2	% 1,051,074	17.1	%
Total other investments (b)	817,374	13.4	% 813,011	13.1	%
Total investments including assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	8,057,917	132.1	% 7,396,816	119.5	%
Assets managed on behalf of AlphaCat investors (a)	(1,364,692 )	(22.4 )	)% (696,924 )	(11.3 )	)%
Catastrophe bonds	(159,976 )	(2.6 )	)% (75,664 )	(1.2 )	)%
Noncontrolling interest (b)	(434,436 )	(7.1 )	)% (430,494 )	(7.0 )	)%
Total investments, excluding assets managed on behalf of AlphaCat investors, catastrophe bonds and noncontrolling interest	\$6,098,813	100.0	% \$6,193,734	100.0	%

Included in the short-term investments balance are assets managed in support of AlphaCat's fully collateralized reinsurance transactions. Also, included in the short-term investments balance are investments held by one (a) AlphaCat ILS fund which was consolidated by the Company through May 31, 2015, but in which the Company had an equity interest of less than 100%. The remaining interests are held by third party investors and included in the Consolidated Balance Sheets as redeemable noncontrolling interest.

Included in the other investments balance are investments held by PaCRe in which the Company has an equity (b) interest of 10%. The remaining 90% interest is held by third party investors and included in the Consolidated Balance Sheets as noncontrolling interest.

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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 fixed maturity portfolio:

(Dollars in thousands)	September 30, 2015		
	Fair Value	% of Total	
Germany	\$47,659	7.0	%
United Kingdom	34,316	5.0	%
Supranational	32,334	4.8	%
France	18,244	2.7	%
Province of Ontario	16,069	2.4	%
Norway	15,964	2.3	%
Jordan	10,163	1.5	%
Province of Manitoba	10,068	1.5	%
Denmark	10,033	1.5	%
Other (individual jurisdictions below \$10,000)	28,114	4.1	%
Total Non-U.S. Government Securities	222,964	32.8	%
European Corporate Securities	187,551	27.5	%
United Kingdom Corporate Securities	143,665	21.1	%
Other Non-U.S. Corporate Securities	126,604	18.6	%
Total Non-U.S. Fixed Income Portfolio	\$680,784	100.0	%

The Company limits its exposure to any single issuer to 3.75% or less of total cash and investments, excluding government and agency securities, depending on the credit rating of the issuer. At September 30, 2015, the Company did not have an aggregate exposure to any single issuer of more than 0.7%, other than with respect to government and agency securities. The top ten exposures to fixed income corporate issuers at September 30, 2015 are as follows:

(Dollars in thousands)	September 30, 2015		
Issuer (a)	Fair Value (b)	S&P Rating (c)	% of Total Cash and Investments
HSBC Holdings Plc	\$58,174	A	0.7 %
JPMorgan Chase & Co	56,053	A-	0.7 %
Morgan Stanley	55,170	BBB+	0.6 %
Citigroup Inc	49,109	BBB+	0.6 %
Bank of America Corp	45,996	BBB+	0.5 %
Goldman Sachs Group	45,803	BBB+	0.5 %
Wells Fargo & Company	41,375	A-	0.5 %
Bank of New York Mellon Corp	34,666	A	0.4 %
US Bancorp	34,427	AA-	0.4 %
Apple Inc	32,015	AA+	0.4 %
Total	\$452,788		5.3 %

(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.

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The tables below show the Company's investments in affiliates, accounted for under the equity method:

(Dollars in thousands)	September 30, 2015			
	Investment at cost	Voting ownership	Equity ownership	Carrying value
AlphaCat Re 2011	\$4,997	43.7	% 22.3	% \$4,997
AlphaCat Re 2012	699	49.0	% 37.9	% 699
AlphaCat 2013	1,035	40.9	% 19.7	% 1,035
AlphaCat 2014	711	42.3	% 19.6	% 711
AlphaCat 2015	28,000	40.0	% 20.0	% 31,675
AlphaCat ILS funds	214,484	n/a	(a)	220,711
Aquiline Financial Services Fund II L.P.	55,098	n/a	8.1	% 74,341
Aquiline Financial Services Fund III L.P.	13,890	n/a	13.7	% 13,793
Total	\$318,914			\$347,962

(a) Equity ownership in the AlphaCat ILS funds was 7.6%, 19.4%, 9.1% and 32.5% as at September 30, 2015.

(Dollars in thousands)	December 31, 2014			
	Investment at cost	Voting ownership	Equity ownership	Carrying value
AlphaCat Re 2011	\$4,606	43.7	% 22.3	% \$4,606
AlphaCat Re 2012	735	49.0	% 37.9	% 735
AlphaCat 2013	1,068	40.9	% 19.7	% 1,068
AlphaCat 2014	22,000	42.3	% 19.6	% 28,085
AlphaCat 2015	25,600	40.0	% 20.0	% 25,600
AlphaCat ILS funds	133,091	n/a	(a)	137,883
Aquiline Financial Services Fund II L.P.	51,001	n/a	8.1	% 63,506
Total	\$238,101			\$261,483

(a) Equity ownership in the AlphaCat ILS funds was 7.9%, 39.7% and 9.1% as at December 31, 2014.

During the nine months ended September 30, 2015, the Company received partial returns of investment from AlphaCat 2014 and the AlphaCat ILS funds of \$27.3 million and \$23.4 million, respectively. Offsetting these returns were contributions of capital to AlphaCat 2015 and the AlphaCat ILS funds of \$2.4 million and \$8.0 million, respectively. The Company expects to receive further returns of investment during the year from AlphaCat Re 2011, AlphaCat Re 2012, AlphaCat 2013 and AlphaCat 2014. Net capital contributions to Aquiline Financial Services Fund II L.P. and Aquiline Financial Services Fund III L.P. for the nine months ended September 30, 2015 were \$5.3 million and \$13.8 million, respectively.

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## Reserves for Losses and Loss Expenses

At September 30, 2015, 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.

As at September 30, 2015

(Dollars in thousands)	Gross Case Reserves	Gross IBNR	Total Gross Reserve for Losses and Loss Expenses
Property	\$448,881	\$441,252	\$890,133
Marine	379,373	442,181	821,554
Specialty	281,084	574,477	855,561
Liability	186,135	415,951	602,086
Total	\$1,295,473	\$1,873,861	\$3,169,334

As at September 30, 2015

(Dollars in thousands)	Net Case Reserves	Net IBNR	Total Net Reserve for Losses and Loss Expenses
Property	\$390,731	\$376,503	\$ 767,234
Marine	344,051	393,174	737,225
Specialty	241,820	521,197	763,017
Liability	174,942	341,704	516,646
Total	\$1,151,544	\$1,632,578	\$ 2,784,122

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The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the three months ended September 30, 2015.

(Dollars in thousands)	Three Months Ended September 30, 2015					
	Validus Re Segment	AlphaCat Segment	Talbot Segment	Western World Segment	Eliminations	Total
Reserve for losses and loss expenses, beginning of period	\$1,295,816	\$4,869	\$1,330,810	\$621,108	\$(65,426)	\$3,187,177
Losses and loss expenses recoverable	(58,904)	—	(293,578)	(89,609)	65,426	(376,665)
Net reserves for losses and loss expenses, beginning of period	1,236,912	4,869	1,037,232	531,499	—	2,810,512
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:						
Current year	171,433	2,076	130,386	45,864	—	349,759
Prior years	(50,475)	—	(35,972)	(5,054)	—	(91,501)
Total incurred losses and loss expenses	120,958	2,076	94,414	40,810	—	258,258
Net paid losses	(123,594)	(238)	(105,223)	(41,610)	—	(270,665)
Foreign exchange gain	(6,265)	—	(7,718)	—	—	(13,983)
Net reserve for losses and loss expenses, end of period	1,228,011	6,707	1,018,705	530,699	—	2,784,122
Losses and loss expenses recoverable	60,785	—	298,836	85,823	(60,232)	385,212
Reserve for losses and loss expenses, end of period	\$1,288,796	\$6,707	\$1,317,541	\$616,522	\$(60,232)	\$3,169,334

The amount of recorded reserves represents management's best estimate of expected losses and loss expenses on premiums earned. For the three months ended September 30, 2015, favorable loss reserve development on prior accident years was \$91.5 million of which \$50.5 million related to the Validus Re segment, \$nil related to the AlphaCat segment, \$36.0 million related to the Talbot segment and \$5.1 million related to the Western World segment.

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The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the nine months ended September 30, 2015.

(Dollars in thousands)	Nine Months Ended September 30, 2015					
	Validus Re Segment	AlphaCat Segment	Talbot Segment	Western World Segment	Eliminations	Total
Reserve for losses and loss expenses, beginning of period	\$1,333,878	\$6,525	\$1,352,056	\$613,551	\$(71,616)	\$3,234,394
Losses and loss expenses recoverable	(70,279)	—	(290,581)	(88,222)	71,616	(377,466)
Net reserves for losses and loss expenses, beginning of period	1,263,599	6,525	1,061,475	525,329	—	2,856,928
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:						
Current year	463,541	2,076	391,757	153,737	—	1,011,111
Prior years	(106,050)	(844)	(123,245)	(15,639)	—	(245,778)
Total incurred losses and loss expenses	357,491	1,232	268,512	138,098	—	765,333
Net paid losses	(368,493)	(1,025)	(303,477)	(132,728)	—	(805,723)
Foreign exchange gain	(24,586)	(25)	(7,805)	—	—	(32,416)
Net reserve for losses and loss expenses, end of period	1,228,011	6,707	1,018,705	530,699	—	2,784,122
Losses and loss expenses recoverable	60,785	—	298,836	85,823	(60,232)	385,212
Reserve for losses and loss expenses, end of period	\$1,288,796	\$6,707	\$1,317,541	\$616,522	\$(60,232)	\$3,169,334

The amount of recorded reserves represents management's best estimate of expected losses and loss expenses on premiums earned. For the nine months ended September 30, 2015, favorable loss reserve development on prior accident years was \$245.8 million of which \$106.1 million related to the Validus Re segment, \$0.8 million related to the AlphaCat segment, \$123.2 million related to the Talbot segment and \$15.6 million related to the Western World segment.

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. Any reserve for potential development on notable loss events (or "RDE") is included as part of the Company's overall reserve as defined and disclosed in the Critical Accounting Policies and Estimates section.

For disclosure purposes, only those notable loss events which have an ultimate loss estimate at or 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, additions to the RDE may be established for a specific accident year. The Company increased the threshold for disclosure for notable loss events effective January 1, 2011, from \$5.0 million to \$15.0 million and further increased the threshold effective January 1, 2013 from \$15.0 million to \$30.0 million. Non-notable loss events which aggregate to \$15.0 million or more but less than \$30.0 million on a consolidated basis have been disclosed from January 1, 2013.

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The reserves for notable loss events table below does not disclose 2010, 2011 or 2012 notable loss events. Deepwater Horizon, a 2010 event, had closing reserves of \$25.4 million as at September 30, 2015. The New Zealand earthquakes of 2010 and 2011, had total closing reserves of \$129.2 million as at September 30, 2015. Hurricane Sandy, a 2012 event, had total closing reserves of \$72.6 million as at September 30, 2015 and Costa Concordia, also a 2012 event, had total closing reserves of \$30.5 million as at September 30, 2015.

Reserves for Notable Loss Events (Dollars in thousands)

2013 Notable Loss Event	Year Ended December 31, 2013			Year Ended December 31, 2014			Nine Months Ended September 30, 2015		
	Initial	Development (Favorable) Allocations	Closing Estimate (c)	Development (Favorable) Allocations	Closing Estimate (c)	Development (Favorable) Allocations	Closing Estimate (c)		
Notable Loss Event	Estimate (a)	Unfavorable of RDE (b)	December 31, 2013	Unfavorable of RDE (b)	December 31, 2014	Unfavorable of RDE (b)	September 30, 2015		
European Floods	\$77,587	\$(16,762) —	\$60,825	\$(25,938) —	\$34,887	(4,591) —	\$30,296		

Notable Loss Event	Year Ended December 31, 2013		Year Ended December 31, 2014		Nine Months Ended September 30, 2015	
	Paid Loss (Recovery)	Closing Reserve (d) December 31, 2013	Paid Loss (Recovery)	Closing Reserve (d) December 31, 2014	Paid Loss (Recovery)	Closing Reserve (d) September 30, 2015
European Floods	\$8,006	\$52,819	\$11,864	\$15,017	\$3,634	\$6,792

2014 Notable Loss Event	Year Ended December 31, 2014			Nine Months Ended September 30, 2015		
	Initial	Development (Favorable) Allocations	Closing Estimate (c)	Development (Favorable) Allocations	Closing Estimate (c)	
Notable Loss Event	Estimate (a)	Unfavorable of RDE (b)	December 31, 2014	Unfavorable of RDE (b)	September 30, 2015	
Tripoli Airport (e)	\$28,134	\$6,810 —	\$34,944	\$2,050 —	\$36,994	

	Year Ended December 31, 2014		Nine Months Ended September 30, 2015	
	Paid Loss (Recovery)	Closing Reserve (d)	Paid Loss (Recovery)	Closing Reserve (d)

Notable Loss Event Tripoli Airport (e)		December 31, 2014		September 30, 2015
	\$ —	\$ 34,944	\$ 21,598	\$ 15,396

2015 Notable Loss Events			Nine Months Ended September 30, 2015	
	Initial		Development (Favorable) / Allocations	Closing Estimate (c)
Notable Loss Events	Estimate (a)		Unfavorable (b) of RDE	September 30, 2015
Pemex	\$48,074		\$1,187 —	\$49,261
Tianjin	47,789		— —	47,789
Total 2015 Notable Loss Events	\$95,863		\$1,187 \$ —	\$97,050

			Nine Months Ended September 30, 2015	
				Closing Reserve (d)
Notable Loss Events			Paid Loss (Recovery)	September 30, 2015
Pemex			\$ 44	\$49,217
Tianjin			—	47,789
Total 2015 Notable Loss Events			\$ 44	\$97,006

(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).

As at September 30, 2014, the initial estimate for Tripoli Airport was below the \$30.0 million notable loss event (e) threshold; however, during the fourth quarter of 2014 adverse development caused this event to exceed the notable loss event threshold.



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## 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, AlphaCat, Talbot and Western World 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 short and long-term objectives.

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

	Capital at	
(Dollars in thousands)	September 30, 2015	
Western World Insurance Group, Inc. (consolidated)	\$672,217	
Validus Reinsurance, Ltd.	2,896,718	
Validus Reinsurance, Ltd. (consolidated)	3,568,935	
Noncontrolling interest in PaCRe, Ltd.	438,427	
Talbot Holdings, Ltd. (consolidated)	852,698	
Other, net	8,368	
Total consolidated capitalization	4,868,428	
Senior notes payable	(247,387	)
Debentures payable	(538,054	)
Total shareholders' equity	\$4,082,987	

## 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.

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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 nine months ended September 30, 2015 and 2014 is provided in the following table.

(Dollars in thousands)	Nine Months Ended September 30,		
	2015	2014	Change
Net cash provided by operating activities	\$51,878	\$148,851	\$(96,973)
Net cash used in investing activities	(560,622)	(27,326)	(533,296)
Net cash provided by (used in) financing activities	367,421	(280,391)	647,812
Effect of foreign currency rate changes on cash and cash equivalents	(27,432)	(11,293)	(16,139)
Net decrease in cash	\$(168,755)	\$(170,159)	\$1,404

**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 provided by operating activities during the nine months ended September 30, 2015 was \$51.9 million compared to \$148.9 million for nine months ended September 30, 2014, an unfavorable movement of \$97.0 million. This decrease was due to the timing of cash receipts, notably with regard to premiums receivable as well as the timing of claims payments. In addition, the timing of cash payments in relation to third party investors in operating affiliates impacted the operating cash flow.

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 September 30, 2015, the Company's portfolio was composed of fixed income investments, short-term and other investments amounting to \$8.1 billion or 94.3% of total cash and investments. For further details related to investments pledged as collateral, see Note 3 (d) to the Consolidated Financial Statements in Part I, Item 1.

Net cash used in investing activities during the nine months ended September 30, 2015 was \$560.6 million compared to \$27.3 million for the nine months ended September 30, 2014, an unfavorable movement of \$533.3 million. This unfavorable movement was due to a decrease in the sales and maturities of investments of \$903.5 million, offset by a decrease in the purchases of short-term investments of \$293.9 million and a decrease in restricted cash of \$106.9 million.

**Financing Activities**

Cash flow from financing activities is derived primarily from the issuance and purchase of shares in the Company and its subsidiaries, and the issuance and repayment of notes payable to AlphaCat investors.

Net cash provided by (used in) financing activities during the nine months ended September 30, 2015 was \$367.4 million compared to (\$280.4) million during the nine months ended September 30, 2014, a favorable movement of \$647.8 million. This favorable movement was driven primarily by an increase in the issuance of notes payable to AlphaCat investors of \$662.5 million due to an increase in assets under management, a decrease in the repurchase of common shares under the share repurchase program of \$82.6 million; offset by, an increase in the repayment of notes payable to AlphaCat investors of \$107.0 million.

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## Capital Resources

The following table details the Company's capital position as at September 30, 2015 and December 31, 2014.

Capitalization (Dollars in thousands)	September 30, 2015	December 31, 2014		
Senior Notes (a)	\$247,387	\$247,306		
Junior Subordinated Deferrable Debentures (JSDs) (b)	289,800	289,800		
Flagstone Junior Subordinated Deferrable Debentures (JSDs) (c)	248,254	249,477		
Total debt	785,441	786,583		
Redeemable noncontrolling interest	—	79,956		
Ordinary shares, capital and surplus available to Validus	3,655,429	3,596,514		
Accumulated other comprehensive loss	(10,869	) (8,556	)	)
Noncontrolling interest	438,427	458,595		
Total shareholders' equity (d)	4,082,987	4,046,553		
Total capitalization (d) (f)	4,868,428	4,913,092		
Total capitalization available to Validus (e) (f)	\$4,430,001	\$4,374,541		
Debt to total capitalization	16.1	% 16.0		%
Debt (excluding JSDs) to total capitalization	5.1	% 5.0		%

## Notes

(a) On January 21, 2010, the Company offered and sold \$250.0 million of Senior Notes due 2040 (the "2010 Senior Notes") in a registered public offering. The 2010 Senior Notes mature on January 26, 2040, and are redeemable at the Company's option in whole any time or in part from time to time at a make-whole redemption price. The net proceeds of \$244.0 million from the sale of the 2010 Senior Notes, after the deduction of commissions paid to the underwriters in the transaction and other expenses, was used by the Company for general corporate purposes, which included the repurchase of our outstanding capital stock and dividends to our shareholders.

(b) \$150.0 million of Junior Subordinated Deferrable Debentures (the "2006 Junior Subordinated Deferrable Debentures") were issued on June 15, 2006, mature on June 15, 2036 and have been redeemable at the Company's option at par since June 15, 2011. \$200.0 million of Junior Subordinated Deferrable Debentures ("2007 Junior Subordinated Deferrable Debentures") were issued on June 21, 2007, mature on June 15, 2037 and have been redeemable at the Company's option at par since June 15, 2012. During 2008 and 2009, the Company repurchased \$60.2 million principal amount of its 2007 Junior Subordinated Deferrable Debentures due 2037 from an unaffiliated financial institution.

(c) As part of the acquisition of Flagstone Reinsurance Holdings, S.A., the Company assumed \$134.5 million of junior subordinated deferrable interest debentures due 2036 (the "Flagstone 2006 Junior Subordinated Deferrable Debentures"). The Flagstone 2006 Junior Subordinated Deferrable Debentures mature on September 15, 2036 and have been redeemable at the Company's option at par since September 15, 2011. In addition, the Company assumed \$113.8 million of junior subordinated deferrable interest debentures due 2037 (the "Flagstone 2007 Junior Subordinated Deferrable Debentures"). \$88.8 million of the Flagstone 2007 Junior Subordinated Deferrable Debentures mature on July 30, 2037 and have been redeemable at the Company's option at par since July 30, 2012. \$25.0 million of the Flagstone 2007 Junior Subordinated Deferrable Debentures mature on September 15, 2037 and have been redeemable at the Company's option at par since September 15, 2012.

(d) Total capitalization equals total shareholders' equity plus redeemable noncontrolling interest, Senior Notes and Junior Subordinated Deferrable Debentures.

(e) Total capitalization available to Validus equals total shareholder's equity less noncontrolling interest plus Senior Notes and Junior Subordinated Deferrable Debentures.

(f) The Company does not include notes payable to AlphaCat investors within total capitalization, since these are issued to some of the Company's operating affiliates specifically for the purpose of purchasing capital market products and writing collateralized reinsurance.

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## Shareholders' Equity

Shareholders' equity available to Validus at September 30, 2015 was \$3.6 billion.

On November 4, 2015, the Company announced a quarterly cash dividend of \$0.32 per common share and \$0.32 per common share equivalent for which each outstanding warrant is exercisable, which is payable on December 31, 2015 to shareholders and warrant holders of record on December 15, 2015. 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 a further increase to the Company's common share repurchase authorization to \$750.0 million. This amount is in addition to the \$2.3 billion of common shares repurchased by the Company through February 3, 2015 under its previously authorized share repurchase programs.

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.

## Debt and Financing Arrangements

The following table details the Company's borrowings and credit facilities as at September 30, 2015.

(Dollars in thousands)	Maturity Date / Term (a)	Commitments	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	134,504	134,504
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 15, 2037	113,750	113,750
Total debentures payable		598,254	538,054
2010 Senior Notes due 2040	January 26, 2040	250,000	250,000
Total debentures and senior notes payable		848,254	788,054
\$400,000 syndicated unsecured letter of credit facility	March 9, 2016	400,000	—
\$525,000 syndicated secured letter of credit facility	March 9, 2016	525,000	244,358
\$30,000 secured bi-lateral letter of credit facility	Evergreen	30,000	10,172
Talbot FAL facility	December 31, 2017	25,000	25,000
AlphaCat Re secured letter of credit facility	Evergreen	30,000	30,000
IPC bi-lateral facility	Evergreen	25,000	10,782
\$230,000 Flagstone bi-lateral facility	Evergreen	230,000	205,593
Total credit and other facilities		1,265,000	525,905
Total debt and financing arrangements		\$2,113,254	\$1,313,959

(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 variable interest rates and debt covenants, please refer to Note 12 "Debt and financing arrangements" to the Consolidated

Financial Statements in Part I, Item 1.

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## 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 November 6, 2015:

	A.M. Best (a)	S&P (b)	Moody's (c)	Fitch (d)
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	Stable	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
Talbot Syndicate 1183				
Financial strength rating	A	—	—	—
Outlook on ratings	Positive	—	—	—
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	—	—	—

The A.M. Best ratings were most recently affirmed on March 12, 2015 for Validus Holdings, Ltd, Validus Reinsurance, Ltd and Validus Reinsurance (Switzerland) Ltd. The A.M. Best rating for Lloyd's was most recently (a) affirmed on July 22, 2015. The A.M. Best rating for Talbot Syndicate 1183 was most recently affirmed on June 12, 2015. The A.M. Best rating for Western World Insurance Company was downgraded from A+ to A on November 6, 2014.

On October 29, 2015, the S&P rating for Validus Reinsurance (Switzerland), Ltd. was upgraded from A- to A and (b) the ratings for Validus Reinsurance, Ltd. and Validus Holdings, Ltd. were affirmed. On October 13, 2014, the S&P rating for Lloyd's was affirmed and the outlook was revised from positive to stable.

(c) The Moody's ratings were most recently affirmed on June 25, 2014 for Validus Holdings, Ltd and Validus Reinsurance, Ltd.

The Fitch ratings were most recently affirmed on August 17, 2015 for Validus Holdings, Ltd. and Validus (d) Reinsurance, Ltd. On August 17, 2015, Fitch upgraded the Company's subordinated debt to BBB from BBB- due to the application of updated notching criteria for hybrid ratings. The Fitch rating for Lloyd's was most recently affirmed on June 30, 2015.





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Recent accounting pronouncements

Please refer to Note 2 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 premiums ceded and 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 Results of Operations and Financial Condition in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

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-looking 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;
- cyclical nature 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;



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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, 2014, 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.

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## 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 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.

As at September 30, 2015 and December 31, 2014, the impact on the Company's fixed maturity and short-term investments from an immediate 100 basis point increase in market interest rates (based on U.S. treasury yield) would have resulted in an estimated decrease in market value of 2.2% and 2.1%, or approximately \$131.6 million and \$127.2 million, respectively. As at September 30, 2015 and December 31, 2014, the impact on the Company's fixed maturity portfolio from an immediate 100 basis point decrease in market interest rates would have resulted in an estimated increase in market value of 2.4% and 2.0% or approximately \$138.1 million and \$123.0 million, respectively.

As at September 30, 2015, the Company held \$1.5 billion (December 31, 2014: \$1.5 billion), or 26.9% (December 31, 2014: 26.3%), of the Company's 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 liabilities under insurance and reinsurance policies that are payable in foreign currencies with cash, receivables and investments that are denominated in such currencies. As at September 30, 2015, approximately \$595.9 million, or 5.3% of our total assets and \$731.5 million, or 10.2% of our total liabilities were held in foreign currencies. As at September 30, 2015, approximately \$87.2 million, or 1.2% of our total liabilities held in foreign currencies were non-monetary items which do not require revaluation at each reporting date. As of December 31, 2014, \$606.3 million, or 5.9% of our total assets and \$738.5 million, or 11.9% of our total liabilities were held in foreign currencies. As of December 31, 2014, \$92.4 million, or 1.3% of our total liabilities denominated in foreign currencies were non-monetary items which do not require revaluation at each reporting date. 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 Note 7 of Part I, Item 1 - 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.

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**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+. In addition, the portfolio limits the amount of "risk assets", such as non-investment grade debt and equity securities, to a maximum of 35% of shareholders' equity. The Company also limits its exposure to any single issuer to 3.75% or less of its total cash and investments, excluding government and agency securities, depending on the credit rating of the issuer. With the exception of the Company's bank loan portfolio and certain capital securities issued by investment grade corporations, the minimum credit rating of any security purchased is Baa3/BBB-. In total, investments in below investment grade securities are limited to no more than 15% of the Company's managed cash and investment portfolio. As at September 30, 2015, 9.5% (December 31, 2014; 7.7%) of the Company's total managed cash and investment portfolio was below investment grade. The Company did not have an aggregate exposure to any single issuer of more than 0.7% (December 31, 2014; 1.0%) of total cash and investments, other than with respect to government and agency securities as at September 30, 2015.

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 September 30, 2015, 98.7% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or above, (December 31, 2014: 98.0%, rated A-) or from reinsurers posting full collateral.

**Liquidity risk:** Certain of the Company's investments may become illiquid. Disruptions 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 6.3% (December 31, 2014: 6.0%) of total cash and investments at September 30, 2015. If the Company requires significant amounts of cash on short notice in excess of normal cash requirements (which could include the payment of 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 September 30, 2015, the Company had \$783.9 million (December 31, 2014: \$999.8 million) of unrestricted, liquid assets, defined as unpledged cash and cash equivalents, short term investments and government and government agency securities. Details of the Company's debt and financing arrangements at September 30, 2015 are provided below.

(Dollars in thousands)	Maturity Date / Term	In Use / Outstanding
2006 Junior Subordinated Deferrable Debentures	June 15, 2036	\$150,000
2007 Junior Subordinated Deferrable Debentures	June 15, 2037	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	September 15, 2036	134,504
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 15, 2037	113,750
Total debentures payable		538,054
2010 Senior Notes due 2040	January 26, 2040	250,000
Total debentures and senior notes payable		788,054
\$400,000 syndicated unsecured letter of credit facility	March 9, 2016	—
\$525,000 syndicated secured letter of credit facility	March 9, 2016	244,358
\$30,000 secured bi-lateral letter of credit facility	Evergreen	10,172
Talbot FAL facility	December 31, 2017	25,000
AlphaCat Re secured letter of credit facility	Evergreen	30,000
IPC bi-lateral facility	Evergreen	10,782
\$230,000 Flagstone bi-lateral facility	Evergreen	205,593

Total credit and other facilities	525,905
Total debt and financing arrangements	\$1,313,959

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.

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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 September 30, 2015, 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, 2014.

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

The Company has repurchased approximately 74.9 million common shares for an aggregate purchase price of \$2.4 billion from the inception of the share repurchase program to November 4, 2015.

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.

On February 3, 2015, the Board of Directors of the Company approved a further increase to the Company's common share repurchase authorization to \$750.0 million. This amount is in addition to the \$2.3 billion of common shares repurchased by the Company through February 3, 2015 under its previously authorized share repurchase programs. 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 \$585.7 million as of November 4, 2015.

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 September 30, 2015, the number of shares repurchased by the Company was 1.4 million. The share repurchases made during the three months ended September 30, 2015 resulted in a dilutive impact on book value per diluted common share of \$0.04 for the quarter.

	Share Repurchase Activity (Expressed in thousands of U.S. dollars except for share and per share information)				
	As at June 30, 2015	Quarter ended			
Effect of share repurchases:	(cumulative)	July	August	September	September 30, 2015
Aggregate purchase price (a)	\$ 2,374,524	\$ 22,741	\$ 15,328	\$ 22,625	\$ 60,694
Shares repurchased	73,444,835	503,600	340,771	508,569	1,352,940
Average price (a)	\$ 32.33	\$ 45.16	\$ 44.98	\$ 44.49	\$ 44.86

	Share Repurchase Activity (Expressed in thousands of U.S. dollars except for share and per share information)				
	As at September 30, 2015	October	November	As at November 4, 2015	Cumulative to Date Effect
Effect of share repurchases:	(cumulative)				
Aggregate purchase price (a)	\$ 2,435,218	\$ —	\$ 3,446	\$ 3,446	\$ 2,438,664
Shares repurchased	74,797,775	—	77,177	77,177	74,874,952
Average price (a)	\$ 32.56	\$ —	\$ 44.65	\$ 44.65	\$ 32.57

(a) Share transactions are on a trade date basis through November 4, 2015 and are inclusive of commissions. Average share price is rounded to two decimal places.

As the average price per share repurchased during the periods from 2009 at the inception of the share repurchase (b) program through to 2013 was lower than the book value per common share, the repurchase of shares increased the ending book value per share.

(c) The estimated impact on earnings per diluted share was calculated by comparing reported results versus i) net income per share plus an estimate of lost net investment income on the cumulative share repurchases divided by ii) weighted average diluted shares outstanding excluding the weighted average impact of cumulative share



repurchases. The impact of cumulative share repurchases was accretive to earnings per diluted share.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit	Description
Exhibit 10.1*	Amended and Restated Validus Holdings, Ltd. 2005 Long Term Incentive Plan (As Amended and Restated Effective May 7, 2015)
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	

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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: November 6, 2015

/s/ Edward J. Noonan  
Edward J. Noonan  
Chief Executive Officer

Date: November 6, 2015

/s/ Jeffrey D. Sangster  
Jeffrey D. Sangster  
Executive Vice President and Chief Financial Officer