

VALIDUS HOLDINGS LTD  
Form 10-Q  
August 05, 2016  
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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 June 30, 2016

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 98-0501001  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) 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)

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 August 3, 2016 there were 80,337,635 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 June 30, 2016 (unaudited) and December 31, 2015

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

	June 30, 2016 (unaudited)	December 31, 2015
<b>Assets</b>		
Fixed maturities trading, at fair value (amortized cost: 2016—\$5,524,027; 2015—\$5,556,965)	\$5,511,586	\$5,510,331
Short-term investments trading, at fair value (amortized cost: 2016—\$2,369,704; 2015—\$1,941,615)	2,369,654	1,941,635
Other investments, at fair value (cost: 2016—\$338,669; 2015—\$315,963)	359,526	336,856
Cash and cash equivalents	568,798	723,109
Restricted cash	96,022	73,270
Total investments and cash	8,945,586	8,585,201
Investments in affiliates, equity method (cost: 2016—\$86,101; 2015—\$70,186)	99,278	88,065
Premiums receivable	1,372,000	658,682
Deferred acquisition costs	283,213	181,002
Prepaid reinsurance premiums	145,567	77,992
Securities lending collateral	10,224	4,863
Loss reserves recoverable	442,987	350,586
Paid losses recoverable	27,648	23,071
Income taxes recoverable	8,526	16,228
Deferred tax asset	23,745	21,661
Receivable for investments sold	13,736	39,766
Intangible assets	118,426	121,258
Goodwill	196,758	196,758
Accrued investment income	24,925	23,897
Other assets	105,625	126,782
Total assets	\$11,818,244	\$10,515,812
<b>Liabilities</b>		
Reserve for losses and loss expenses	\$3,122,717	\$2,996,567
Unearned premiums	1,621,563	966,210
Reinsurance balances payable	92,488	75,380
Securities lending payable	10,690	5,329
Deferred tax liability	3,552	3,847
Payable for investments purchased	52,718	77,475
Accounts payable and accrued expenses	149,593	627,331
Notes payable to AlphaCat investors	370,982	75,493
Senior notes payable	245,261	245,161
Debentures payable	537,987	537,668
Total liabilities	\$6,207,551	\$5,610,461
<b>Commitments and contingent liabilities</b>		
Redeemable noncontrolling interest	1,532,283	1,111,714

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Shareholders' equity		
Preferred shares (Issued and Outstanding: 2016—6,000; 2015—nil)	\$ 150,000	\$—
Common shares (Issued: 2016—161,252,871; 2015—160,570,772; Outstanding: 2016—80,772,238; 2015—82,900,617)	28,219	28,100
Treasury shares (2016—80,480,633; 2015—77,670,155)	(14,084	) (13,592 )
Additional paid-in capital	883,701	1,002,980
Accumulated other comprehensive loss	(18,182	) (12,569 )
Retained earnings	2,836,602	2,634,056
Total shareholders' equity available to Validus	3,866,256	3,638,975
Noncontrolling interest	212,154	154,662
Total shareholders' equity	\$4,078,410	\$3,793,637

Total liabilities, noncontrolling interests and shareholders' equity \$11,818,244 \$10,515,812

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 Six Months Ended June 30, 2016 and 2015 (unaudited)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Revenues</b>				
Gross premiums written	\$764,042	\$726,168	\$1,936,833	\$1,845,392
Reinsurance premiums ceded	(36,229 )	(55,418 )	(204,064 )	(246,743 )
Net premiums written	727,813	670,750	1,732,769	1,598,649
Change in unearned premiums	(154,090 )	(98,062 )	(587,778 )	(450,071 )
Net premiums earned	573,723	572,688	1,144,991	1,148,578
Net investment income	39,257	33,611	68,718	64,640
Net realized gains on investments	2,724	2,244	2,140	6,413
Change in net unrealized gains (losses) on investments	31,428	(34,676 )	78,872	(1,449 )
(Loss) income from investment affiliate	(589 )	284	(4,702 )	3,060
Other insurance related income and other income	824	100	2,237	1,040
Foreign exchange gains (losses)	6,286	(2,671 )	12,531	(6,936 )
Total revenues	653,653	571,580	1,304,787	1,215,346
<b>Expenses</b>				
Losses and loss expenses	307,130	266,146	531,577	507,075
Policy acquisition costs	107,966	104,323	215,159	202,734
General and administrative expenses	89,688	84,025	175,896	168,260
Share compensation expenses	10,727	9,242	21,964	18,296
Finance expenses	14,166	18,682	29,369	39,649
Total expenses	529,677	482,418	973,965	936,014
Income before taxes, income from operating affiliates and (income) attributable to AlphaCat investors	123,976	89,162	330,822	279,332
Tax (expense) benefit	(1,706 )	(2,549 )	412	(5,114 )
Income (loss) from operating affiliates	—	1,738	(23 )	5,722
(Income) attributable to AlphaCat investors	(6,114 )	—	(10,714 )	—
Net income	\$116,156	\$88,351	\$320,497	\$279,940
Net (income) attributable to noncontrolling interest	(21,193 )	(22,561 )	(58,724 )	(40,739 )
Net income available to Validus	94,963	65,790	261,773	239,201
Dividends on preferred shares	—	—	—	—
Net income available to Validus common shareholders	\$94,963	\$65,790	\$261,773	\$239,201
<b>Comprehensive income</b>				
Net income	\$116,156	\$88,351	\$320,497	\$279,940
Other comprehensive (loss) income				
Change in foreign currency translation adjustments	(3,287 )	2,763	(5,315 )	(256 )
Change in minimum pension liability, net of tax	479	422	396	157
Change in fair value of cash flow hedge	64	390	(694 )	(411 )
Other comprehensive (loss) income	(2,744 )	3,575	(5,613 )	(510 )
Comprehensive (income) attributable to noncontrolling interest	(21,193 )	(22,561 )	(58,724 )	(40,739 )

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Comprehensive income available to Validus	\$92,219	\$69,365	\$256,160	\$238,691
Earnings per share				
Weighted average number of common shares and common share equivalents outstanding				
Basic	81,950,833	84,003,549	82,386,047	83,627,396
Diluted	83,373,003	87,313,154	83,785,659	87,448,142
Basic earnings per share available to Validus common shareholders	\$1.16	\$0.77	\$3.18	\$2.83
Earnings per diluted share available to Validus common shareholders	\$1.14	\$0.75	\$3.12	\$2.74
Cash dividends declared per common share	\$0.35	\$0.32	\$0.70	\$0.64

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 Six Months Ended June 30, 2016 and 2015 (unaudited)  
 (Expressed in thousands of U.S. dollars)

	Six Months Ended June 30,	
	2016	2015
	(unaudited)	(unaudited)
Preferred shares		
Balance - beginning of period	\$—	\$—
Preferred shares issued	150,000	—
Balance - end of period	\$150,000	\$—
Common shares		
Balance - beginning of period	\$28,100	\$27,222
Common shares issued, net	119	494
Balance - end of period	\$28,219	\$27,716
Treasury shares		
Balance - beginning of period	\$(13,592 )	\$(12,545 )
Repurchase of common shares	(492 )	(595 )
Balance - end of period	\$(14,084 )	\$(13,140 )
Additional paid-in capital		
Balance - beginning of period	\$1,002,980	\$1,207,493
Offering expenses on preferred shares	(5,148 )	—
Common shares issued, net	(7,504 )	14,366
Repurchase of common shares	(128,591 )	(142,628 )
Share compensation expenses	21,964	18,296
Balance - end of period	\$883,701	\$1,097,527
Accumulated other comprehensive loss		
Balance - beginning of period	\$(12,569 )	\$(8,556 )
Other comprehensive loss	(5,613 )	(510 )
Balance - end of period	\$(18,182 )	\$(9,066 )
Retained earnings		
Balance - beginning of period	\$2,634,056	\$2,372,972
Dividends on preferred shares	—	—
Dividends on common shares	(59,227 )	(57,874 )
Net income	320,497	279,940
Net (income) attributable to noncontrolling interest	(58,724 )	(40,739 )
Balance - end of period	\$2,836,602	\$2,554,299
Total shareholders' equity available to Validus	\$3,866,256	\$3,657,336
Noncontrolling interest	\$212,154	\$153,523
Total shareholders' equity	\$4,078,410	\$3,810,859



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 Six Months Ended June 30, 2016 and 2015 (unaudited)  
(Expressed in thousands of U.S. dollars)

	Six Months Ended June 30,	
	2016	2015
	(unaudited)(unaudited)	
Cash flows provided by operating activities		
Net income	\$ 320,497	\$ 279,940
Adjustments to reconcile net income to cash provided by operating activities:		
Share compensation expenses	21,964	18,296
Amortization of discount on senior notes	54	54
Loss (income) from investment affiliate	4,702	(3,060 )
Net realized gains on investments	(2,140 )	(6,413 )
Change in net unrealized (gains) losses on investments	(78,872 )	1,449
Amortization of intangible assets	2,832	2,832
Loss (income) from operating affiliates	23	(5,722 )
Foreign exchange (gains) losses included in net income	(6,289 )	7,729
Amortization of premium on fixed maturity investments	8,710	12,395
Change in:		
Premiums receivable	(719,070 )	(566,100 )
Deferred acquisition costs	(102,211 )	(92,020 )
Prepaid reinsurance premiums	(67,575 )	(79,304 )
Loss reserves recoverable	(95,429 )	644
Paid losses recoverable	(4,571 )	(2,253 )
Income taxes recoverable	7,423	(13,931 )
Deferred tax asset	(2,529 )	908
Accrued investment income	(1,183 )	984
Other assets	(5,272 )	90,625
Reserve for losses and loss expenses	147,305	(50,240 )
Unearned premiums	655,353	529,374
Reinsurance balances payable	18,610	(34,472 )
Deferred tax liability	(308 )	2,329
Accounts payable and accrued expenses	(32,581 )	(61,570 )
Net cash provided by operating activities	69,443	32,474
Cash flows used in investing activities		
Proceeds on sales of fixed maturity investments	1,376,077	2,237,966
Proceeds on maturities of fixed maturity investments	184,413	186,594
Purchases of fixed maturity investments	(1,537,608 )	(2,337,990)
Purchases of short-term investments, net	(428,040 )	(154,804 )
(Purchases) sales of other investments, net	(19,796 )	4,101
Increase in securities lending collateral	(5,361 )	(6,551 )
Redemption from operating affiliates	369	—
Investment in investment affiliates, net	(16,305 )	(23,115 )
(Increase) decrease in restricted cash	(22,752 )	32,984
Net cash used in investing activities	(469,003 )	(60,815 )

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Cash flows provided by (used in) financing activities		
Net proceeds on issuance of notes payable to AlphaCat investors	294,748	—
Net proceeds on issuance of preferred shares	144,852	—
Issuance of common shares, net	(7,385 )	14,860
Purchases of common shares under share repurchase program	(129,083 )	(143,223 )
Dividends paid on preferred shares	—	—
Dividends paid on common shares	(59,961 )	(58,718 )
Increase in securities lending payable	5,361	6,551
Third party investment in redeemable noncontrolling interest	381,250	452,700
Third party redemption of redeemable noncontrolling interest	(10,800 )	(80,433 )
Third party investment in noncontrolling interest	171,674	9,600
Third party distributions of noncontrolling interest	(127,103 )	(158,175 )
Third party subscriptions deployed on AlphaCat Funds and Sidecars	(411,336 )	(117,400 )
Net cash provided by (used in) financing activities	252,217	(74,238 )
Effect of foreign currency rate changes on cash and cash equivalents		
	(6,968 )	(8,730 )
Net decrease in cash and cash equivalents	(154,311 )	(111,309 )
Cash and cash equivalents - beginning of period	723,109	550,401
Cash and cash equivalents - end of period	\$568,798	\$439,092
Taxes paid during the period	\$3,837	\$14,192
Interest paid during the period	\$27,552	\$27,248
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") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report on Form 10-Q should be read in conjunction with the financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the U.S. Securities and Exchange Commission (the "SEC").

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

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

The amended guidance includes changes in the identification of the primary beneficiary of investment companies considered to be VIEs. These changes resulted in the Company concluding that it is considered to be the primary beneficiary of the AlphaCat sidecars, the AlphaCat ILS funds and the BetaCat ILS funds and therefore the Company is required to consolidate these entities. The adoption of the amended guidance also resulted in the Company concluding that it was no longer required to consolidate PaCRe Ltd. ("PaCRe") due to the change in the VIE definition of "kick-out" rights under the amended guidance. The cumulative effect of these changes on the Company's retained earnings through the six months ended June 30, 2015 was a gain of \$405.

The following tables present the impact of the application of the amended accounting guidance on the Company's Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and Consolidated Statement of Cash Flows for the six months ended June 30, 2015:

	Three Months Ended June 30, 2015		
	As previously reported	Adjustment for adoption of new consolidation guidance	Revised
Total revenues	\$591,492	\$ (19,912 )	\$571,580
Total expenses	480,511	1,907	482,418
Net income	81,657	6,694	88,351
Net (income) attributable to noncontrolling interest	(17,644 )	(4,917 )	(22,561 )
Net income available to Validus	64,013	1,777	65,790
Comprehensive income available to Validus	67,588	1,777	69,365
Basic earnings per share available to common shareholders	\$0.75	\$ 0.02	\$0.77

Earnings per diluted share available to common shareholders \$0.73 \$ 0.02 \$0.75

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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)

	Six Months Ended June 30, 2015		
	As previously reported	Adjustment for adoption of new consolidation guidance	Revised
Total revenues	\$ 1,280,697	\$ (65,351 )	\$ 1,215,346
Total expenses	934,010	2,004	936,014
Net income	294,045	(14,105 )	279,940
Net (income) attributable to noncontrolling interest	(56,621 )	15,882	(40,739 )
Net income available to Validus	237,424	1,777	239,201
Comprehensive income available to Validus	236,914	1,777	238,691
Basic earnings per share available to common shareholders	\$ 2.81	\$ 0.02	\$ 2.83
Earnings per diluted share available to common shareholders	\$ 2.72	\$ 0.02	\$ 2.74

## Six Months Ended June 30, 2015

	As previously reported	Adjustment for adoption of new consolidation guidance	Revised
Net cash (used in) provided by operating activities	\$ (228,841 )	\$ 261,315	\$ 32,474
Net cash used in investing activities	(290,517 )	229,702	(60,815 )
Net cash provided by (used in) financing activities	389,593	(463,831 )	(74,238 )
Effect of foreign currency rate changes on cash and cash equivalents	(13,765 )	5,035	(8,730 )
Net decrease in cash	(143,530 )	32,221	(111,309 )
Cash and cash equivalents - beginning of period	577,240	(26,839 )	550,401
Cash and cash equivalents - end of period	433,710	5,382	439,092

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

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

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

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

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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 ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” (ASU 2014-09). The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March and April 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” and ASU 2016-10, “Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing”. The amendments in these ASU's clarify the implementation guidance within ASU 2014-09 on principal versus agent considerations and the aspects of identifying performance obligations, respectively, while retaining the related principals in those areas. In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients”. The amendments in this ASU do not change the core principle of the guidance in Topic 606. Rather, the amendments provide clarifying guidance in a few narrow areas and add practical expedients to reduce the potential for diversity in practice as well as the cost and complexity of applying the guidance. The original effective date for the amendments in ASU 2014-09 was for annual reporting periods beginning after December 15, 2016; however, in August 2015, the FASB delayed the effective date by one year through the issuance of ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date”. As such, the new effective date is for interim and annual reporting periods beginning after December 15, 2017. Entities may adopt the standard as of the original effective date; however, earlier adoption is not permitted. The Company is currently evaluating the impact of this guidance on the Company’s Consolidated Financial Statements.

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

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

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326)”. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. This guidance is effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for annual periods beginning after December 15, 2018, and interim periods within those fiscal years. The Company is currently evaluating the impact of this guidance 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

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

The Company classifies its fixed maturity and short-term investments as trading and accounts for its other investments in accordance with U.S. GAAP guidance for "Financial Instruments." As such, all investments are carried at fair value with interest and dividend income and realized and unrealized gains and losses included in net income for the period. The amortized cost (or cost), gross unrealized gains and (losses) and fair value of the Company's investments as at June 30, 2016 were as follows:

	Amortized Cost (or Cost)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Managed investments				
U.S. government and government agency	\$ 924,350	\$ 7,536	\$ (83 )	\$ 931,803
Non-U.S. government and government agency	217,796	2,146	(4,692 )	215,250
U.S. states, municipalities, political subdivisions	278,756	7,049	(393 )	285,412
Agency residential mortgage-backed securities	662,468	14,713	(398 )	676,783
Non-agency residential mortgage-backed securities	23,858	271	(740 )	23,389
U.S. corporate	1,539,711	20,350	(4,014 )	1,556,047
Non-U.S. corporate	367,473	3,264	(6,331 )	364,406
Bank loans	613,414	574	(16,926 )	597,062
Asset-backed securities	429,890	2,352	(2,902 )	429,340
Commercial mortgage-backed securities	308,712	6,048	(727 )	314,033
Total fixed maturities	5,366,428	64,303	(37,206 )	5,393,525
Short-term investments	189,678	—	(50 )	189,628
Other investments				
Fund of hedge funds	1,457	—	(498 )	959
Hedge funds	12,463	6,162	—	18,625
Private equity investments	62,119	14,457	(3,270 )	73,306
Investment funds	203,128	743	—	203,871
Overseas deposits	55,301	—	—	55,301
Mutual funds	4,201	3,263	—	7,464
Total other investments	338,669	24,625	(3,768 )	359,526
Total managed investments	\$ 5,894,775	\$ 88,928	\$ (41,024 )	\$ 5,942,679
Non-managed investments				
Catastrophe bonds	\$ 157,599	\$ 2,114	\$ (1,652 )	\$ 158,061
Short-term investments	2,180,026	—	—	2,180,026
Total non-managed investments	2,337,625	2,114	(1,652 )	2,338,087
Total investments	\$ 8,232,400	\$ 91,042	\$ (42,676 )	\$ 8,280,766



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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 fair value of the Company's investments as at December 31, 2015 were as follows:

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

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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)

## (a) Fixed maturity investments

The following table sets forth certain information regarding the investment ratings of the Company's fixed maturity investments as at June 30, 2016 and December 31, 2015.

	June 30, 2016		December 31, 2015			
	Fair Value	% of Total	Fair Value	% of Total		
Managed fixed maturities						
AAA	\$2,446,839	44.1	%	\$2,367,642	43.0	%
AA	508,086	9.2	%	569,386	10.3	%
A	1,045,965	18.8	%	1,031,326	18.7	%
BBB	741,800	13.4	%	691,538	12.6	%
Total investment grade managed fixed maturities	4,742,690	85.5	%	4,659,892	84.6	%
BB	227,436	4.0	%	235,724	4.3	%
B	183,127	3.3	%	179,069	3.2	%
CCC	8,331	0.2	%	5,706	0.1	%
CC	113	0.0	%	1,015	0.0	%
NR	231,828	4.2	%	242,546	4.4	%
Total non-investment grade managed fixed maturities	650,835	11.7	%	664,060	12.0	%
Total managed fixed maturities	\$5,393,525	97.2	%	\$5,323,952	96.6	%
Non-managed catastrophe bonds						
BBB	\$—	0.0	%	\$1,911	0.0	%
Total investment grade non-managed catastrophe bonds	—	0.0	%	1,911	0.0	%
BB	41,412	0.7	%	70,962	1.3	%
B	6,161	0.1	%	30,698	0.6	%
NR	110,488	2.0	%	82,808	1.5	%
Total non-investment grade non-managed catastrophe bonds	158,061	2.8	%	184,468	3.4	%
Total non-managed fixed maturities	158,061	2.8	%	186,379	3.4	%
Total fixed maturities	\$5,551,586	100.0	%	\$5,510,331	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)

The amortized cost and fair value amounts for the Company's fixed maturity investments held at June 30, 2016 and December 31, 2015 are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Managed investments				
Due in one year or less	\$349,115	\$348,137	\$367,132	\$366,019
Due after one year through five years	2,990,421	2,996,295	2,965,920	2,936,053
Due after five years through ten years	485,899	492,101	548,183	539,083
Due after ten years	116,065	113,447	150,444	148,036
	3,941,500	3,949,980	4,031,679	3,989,191
Asset-backed and mortgage-backed securities	1,424,928	1,443,545	1,337,374	1,334,761
Total managed fixed maturities	\$5,366,428	\$5,393,525	\$5,369,053	\$5,323,952
Non-managed catastrophe bonds				
Due in one year or less	\$28,445	\$29,328	\$7,504	\$7,544
Due after one year through five years	128,614	128,185	165,093	163,575
Due after five years through ten years	540	548	15,250	15,260
Due after ten years	—	—	—	—
Total non-managed fixed maturities	157,599	158,061	187,847	186,379
Total fixed maturities	\$5,524,027	\$5,551,586	\$5,556,900	\$5,510,331

## (b) Other investments

The following tables set forth certain information regarding the Company's other investment portfolio as at June 30, 2016 and December 31, 2015:

Other investments	Fair Value as at June 30, 2016	Investments with redemption restrictions	Investments without redemption restrictions	Redemption frequency (a)	Redemption notice period (a)
Fund of hedge funds	\$959	\$ 959	\$ —		
Hedge funds	18,625	18,625	—		
Private equity investments	73,306	73,306	—		
Investment funds	203,871	181,536	22,335	Daily	2 days
Overseas deposits	55,301	55,301	—		
Mutual funds	7,464	—	7,464	Daily	Daily
Total other investments	\$359,526	\$ 329,727	\$ 29,799		

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

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

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

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

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

Certain securities included in other investments are subject to redemption restrictions and are unable to be redeemed from the funds. Distributions from these funds will be received as the underlying investments of the funds are liquidated. Currently, it is not known to the Company when these underlying assets will be sold by their investment managers; however, it is estimated that the majority of the underlying assets of the investments would liquidate over five to ten years from inception of the funds. In addition, one of the investment funds with a fair value of \$171,187 (December 31, 2015: \$167,910), has a lock-up period of three years as at June 30, 2016 and may also impose a redemption gate. A lock-up period refers to the initial amount of time an investor is contractually required to remain invested before having the ability to redeem. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash shortly after the redemption date. Furthermore, the underlying investments held in the overseas deposit funds are liquid and will generally trade freely in an open market. However, the Company's ability to withdraw from the overseas deposit funds is restricted by an annual and quarterly funding and release process for Lloyd's market participants.

The Company's maximum exposure to any of these alternative investments is limited to the amount invested and any remaining capital commitments. Refer to Note 15, "Commitments and contingencies," for further details. As at June 30, 2016, the Company does not have any plans to sell any of the other investments listed above.

(c) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Managed investments				
Fixed maturities and short-term investments	\$30,621	\$29,433	\$58,638	\$57,106
Other investments	8,026	4,014	8,898	7,202
Restricted cash, cash and cash equivalents	380	427	1,245	843
Securities lending income	12	6	17	9
Total gross investment income	39,039	33,880	68,798	65,160
Investment expenses	(2,190 )	(2,026 )	(4,026 )	(3,870 )
Total managed net investment income	\$36,849	\$31,854	\$64,772	\$61,290

Non managed investments

Fixed maturities and short-term investments	\$1,977	\$1,733	\$3,272	\$3,307
Restricted cash, cash and cash equivalents	431	24	674	43
Total non-managed net investment income	2,408	1,757	3,946	3,350
Total net investment income	\$39,257	\$33,611	\$68,718	\$64,640

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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)

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Managed fixed maturities, short-term and other investments				
Gross realized gains	\$3,306	\$6,140	\$6,523	\$12,449
Gross realized (losses)	(786 )	(4,036 )	(5,089 )	(6,165 )
Net realized gains on investments	2,520	2,104	1,434	6,284
Change in net unrealized gains (losses) on investments	30,052	(33,926 )	77,130	743
Total net realized and change in net unrealized gains (losses) on managed investments	\$32,572	\$(31,822)	\$78,564	\$7,027
Non-managed fixed maturities, short-term and other investments				
Gross realized gains	\$204	\$140	\$715	\$140
Gross realized (losses)	—	—	(9 )	(11 )
Net realized gains on investments	204	140	706	129
Change in net unrealized (losses) on investments	1,376	(750 )	1,742	(2,192 )
Total net realized and change in net unrealized (losses) on non-managed investments	1,580	(610 )	2,448	(2,063 )
Total net realized and change in net unrealized gains (losses) on total investments	\$34,152	\$(32,432)	\$81,012	\$4,964

(e) Pledged investments

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

June 30, 2016

Description	Commitment	Issued and Outstanding	Investments and cash pledged as collateral
\$85,000 syndicated unsecured letter of credit facility	\$85,000	\$ —	\$ —
\$300,000 syndicated secured letter of credit facility	300,000	105,575	151,166
\$24,000 secured bi-lateral letter of credit facility	24,000	11,805	48,380
AlphaCat Re secured letter of credit facility	20,000	20,000	30,191
IPC bi-lateral facility	25,000	5,666	—
\$236,000 Flagstone bi-lateral facility	236,000	195,622	322,520
Total	\$690,000	\$ 338,668	\$ 552,257

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Validus Holdings, Ltd.

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

In addition, \$4,687,599 of cash and cash equivalents, restricted cash, short-term investments and fixed maturity investments were pledged during the normal course of business as at June 30, 2016 (December 31, 2015: \$4,056,788). Of those, \$4,564,394 were held in trust (December 31, 2015: \$4,007,215). Pledged assets are generally for the benefit of the Company's cedants and policyholders, to support AlphaCat's fully collateralized reinsurance transactions and to facilitate the accreditation of Validus Reinsurance, Ltd., Validus Reinsurance (Switzerland) Ltd. ("Validus Re Swiss") and Talbot as an alien insurer/reinsurer by certain regulators.

During December 2014, Validus Reinsurance, Ltd. established a Multi-Beneficiary Reinsurance Trust ("MBRT") to collateralize its (re)insurance liabilities associated with and for the benefit of U.S. domiciled cedants, and was approved as a trustee reinsurer in the State of New Jersey. As a result, cedants domiciled in that state will receive automatic credit in their regulatory filings for the reinsurance provided prospectively by the Company. As of June 30, 2016, Validus Reinsurance, Ltd. was approved as a trustee reinsurer in 48 states as well as Puerto Rico and the District of Columbia. In addition, Validus Re Swiss established a MBRT in December 2015 and was approved as a trustee reinsurer in 9 states as at June 30, 2016.

## 4. Fair value measurements

## (a) Classification within the fair value hierarchy

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

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

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

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

Level 3 - Fair values are measured based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect the Company's own judgments about assumptions where there is little,

if any, market activity for that asset or liability that market participants might use.

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

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

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At June 30, 2016, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient	Total
Managed investments					
U.S. government and government agency	\$—	\$931,803	\$—	\$—	\$931,803
Non-U.S. government and government agency	—	215,250	—	—	215,250
U.S. states, municipalities and political subdivisions	—	285,412	—	—	285,412
Agency residential mortgage-backed securities	—	676,783	—	—	676,783
Non-agency residential mortgage-backed securities	—	23,389	—	—	23,389
U.S. corporate	—	1,556,047	—	—	1,556,047
Non-U.S. corporate	—	364,406	—	—	364,406
Bank loans	—	353,914	243,148	—	597,062
Asset-backed securities	—	416,957	12,383	—	429,340
Commercial mortgage-backed securities	—	314,033	—	—	314,033
Total fixed maturities	—	5,137,994	255,531	—	5,393,525
Short-term investments	186,276	3,352	—	—	189,628
Other investments					
Fund of hedge funds	—	—	—	959	959
Hedge funds	—	—	—	18,625	18,625
Private equity investments	—	—	—	73,306	73,306
Investment funds	—	22,335	—	181,536	203,871
Overseas deposits	—	—	—	55,301	55,301
Mutual funds	—	7,464	—	—	7,464
Total other investments	—	29,799	—	329,727	359,526
Total managed investments	\$186,276	\$5,171,145	\$255,531	\$329,727	\$5,942,679
Non-managed investments					
Catastrophe bonds	\$—	\$120,543	\$37,518	\$—	\$158,061
Short-term investments	2,180,026	—	—	—	2,180,026
Total non-managed investments	2,180,026	120,543	37,518	—	2,338,087
Total investments	\$2,366,302	\$5,291,688	\$293,049	\$329,727	\$8,280,766

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

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

At June 30, 2016, managed Level 3 investments totaled \$255,531 (December 31, 2015: \$232,337), representing 4.3% (December 31, 2015: 3.9%) of total managed investments.

## (b) Valuation techniques

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

## Fixed maturity investments

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

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

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

U.S. government and government agency

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

Non-U.S. government and government agency

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

U.S. states, municipalities and political subdivisions

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

Agency residential mortgage-backed securities

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

Non-agency residential mortgage-backed securities

The Company's non-agency mortgage-backed investments include non-agency prime residential mortgage-backed fixed maturity investments. The Company has no fixed maturity investments classified as sub-prime held in its fixed maturity investments portfolio. Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available

trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.



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

U.S. corporate

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

Non-U.S. corporate

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

Bank loans

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

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

Asset-backed securities

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

from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. Broker-dealer quotes for which significant observable inputs are unable to be corroborated with market observable information are classified as Level 3.

#### 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

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cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.

Catastrophe bonds

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

Short-term investments

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

Other investments

Fund of hedge funds

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

Hedge funds

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

Private equity investments

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

Investment funds

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

The structured securities funds invest across asset backed, residential mortgage backed and commercial mortgage backed securities, whereas the mezzanine debt fund invests in a portfolio of mezzanine securities which generally take the form of private debt securities with equity participation in connection with buyouts, recapitalizations and refinancings. The fair value of units in each fund is based on the NAV of the respective fund as reported by the independent fund administrator. The NAV for each fund is reported on a one or three month delay by the fund's

administrator. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

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## Overseas deposits

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

## Mutual funds

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

## (c) Level 3 investments

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016			
	Bank Loans	Catastrophe Bonds	Asset Backed Securities	Total
Level 3 investments—beginning of period	\$255,011	\$ 37,105	\$ —	\$292,116
Purchases	8,885	—	12,383	21,268
Settlements	(17,784 )	—	—	(17,784 )
Change in net unrealized (losses) gains	(2,964 )	413	—	(2,551 )
Transfers into Level 3 during the period	—	—	—	—
Transfers out of Level 3 during the period	—	—	—	—
Level 3 investments—end of period	\$243,148	\$ 37,518	\$ 12,383	\$293,049
	Three Months Ended June 30, 2015			
	Bank Loans	Catastrophe Bonds	Total	
Level 3 investments—beginning of period	\$86,533	\$ 15,500	\$ 102,033	
Purchases	43,791	—	43,791	
Sales	(929 )	(2,000 )	(2,929 )	
Settlements	(4,203 )	—	(4,203 )	
Change in net unrealized losses	(210 )	—	(210 )	
Transfers into Level 3 during the period	—	—	—	
Transfers out of Level 3 during the period	—	—	—	
Level 3 investments—end of period	\$124,982	\$ 13,500	\$ 138,482	

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	Six Months Ended June 30, 2016			
	Bank Loans	Catastrophe Bonds	Asset Backed Securities	Total
Level 3 investments—beginning of period	\$232,337	\$ 13,500	\$ —	\$245,837
Purchases	50,988	23,272	12,383	86,643
Sales	(2,389 )	—	—	(2,389 )
Settlements	(34,033 )	(125 )	—	(34,158 )
Change in net unrealized (losses) gains	(3,755 )	871	—	(2,884 )
Transfers into Level 3 during the period	—	—	—	—
Transfers out of Level 3 during the period	—	—	—	—
Level 3 investments—end of period	\$243,148	\$ 37,518	\$ 12,383	\$293,049
	Six Months Ended June 30, 2015			
	Bank Loans	Catastrophe Bonds	Total	
Level 3 investments—beginning of period	\$32,748	\$ 17,500	\$50,248	
Purchases	101,966	—	101,966	
Sales	(929 )	(3,989 )	(4,918 )	
Settlements	(8,198 )	—	(8,198 )	
Net realized losses	—	(11 )	(11 )	
Change in net unrealized losses	(605 )	—	(605 )	
Transfers into Level 3 during the period	—	—	—	
Transfers out of Level 3 during the period	—	—	—	
Level 3 investments—end of period	\$124,982	\$ 13,500	\$138,482	

There have not been any transfers into or out of Level 3 during the three and six months ended June 30, 2016 or 2015, respectively.

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5. Variable interest entities

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

(a) Consolidated VIEs

AlphaCat sidecars

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

AlphaCat ILS funds

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

AlphaCat Re and AlphaCat Master Fund

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

Notes Payable to AlphaCat Investors

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

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

During the six months ended June 30, 2016, one of the AlphaCat ILS funds issued both common shares and structured notes to the Company and other third party investors in order to capitalize the fund. The fund deploys its capital through AlphaCat Re; therefore, the structured notes do not have a stated maturity date or principal amount since repayment is dependent on the settlement and income or loss of the variable funding notes with AlphaCat Re. The structured notes rank senior to the common shares and earn an interest rate of 8.0% per annum, payable on a cumulative basis in arrears.



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

The following table presents a reconciliation of the beginning and ending notes payable to AlphaCat investors for the three and six months ended June 30, 2016:

	Three Months Ended June 30, 2016		
	Variable Funding Notes	Structured Notes	Total
Notes payable to AlphaCat investors, beginning of period	\$261,793	\$ 61,717	\$323,510
Issuance of notes payable to AlphaCat investors	102,817	32,609	135,426
Redemption of notes payable to AlphaCat investors	(88,079 )	—	(88,079 )
Foreign exchange losses	125	—	125
Notes payable to AlphaCat investors, end of period	\$276,656	\$ 94,326	\$370,982
	Six Months Ended June 30, 2016		
	Variable Funding Notes	Structured Notes	Total
Notes payable to AlphaCat investors, beginning of period	\$75,493	\$ —	\$75,493
Issuance of notes payable to AlphaCat investors	298,105	94,326	392,431
Redemption of notes payable to AlphaCat investors	(97,684 )	—	(97,684 )
Foreign exchange losses	742	—	742
Notes payable to AlphaCat investors, end of period	\$276,656	\$ 94,326	\$370,982

The income attributable to AlphaCat investors was \$6,114 and \$10,714 for the three and six months ended June 30, 2016, respectively, with \$13,126 included in accounts payable and accrued expenses as at June 30, 2016 (December 31, 2015: \$2,412).

## BetaCat ILS funds

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

The following table presents the total assets and total liabilities of the Company's consolidated VIEs, excluding intercompany eliminations, as at June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
	Total	Total	Total	Total
	Assets	Liabilities	Assets	Liabilities
AlphaCat sidecars	\$47,693	\$ 10,468	\$206,581	\$ 14,804
AlphaCat ILS funds - Lower Risk (a)	1,544,346	29,842	1,268,070	143,371

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AlphaCat ILS funds - Higher Risk (a)	701,348	147,466	522,867	300,122
AlphaCat Re and AlphaCat Master Fund	2,431,907	2,431,737	1,615,779	1,615,609
BetaCat ILS funds	63,947	493	64,221	2,472

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

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

**(b) Non-Consolidated VIEs**

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

**6. Investments in affiliates**

The following table presents the Company's investments in affiliates as at June 30, 2016 and December 31, 2015:

	June 30, December	
	2016	31, 2015
Investment affiliate	\$99,278	\$ 87,673
Operating affiliate	—	392
Investments in affiliates	\$99,278	\$ 88,065

**(a) Investment affiliate****Aquiline Financial Services Fund II L.P.**

On December 20, 2011, the Company entered into an Assignment and Assumption Agreement (the "Agreement") with Aquiline Capital Partners LLC, a Delaware limited liability company ("Aquiline Capital") 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 Aquiline Capital'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 Aquiline II Partnership is a VIE and the Company is not the primary beneficiary. Therefore, the Company's investment in the Aquiline II Partnership has been treated as an equity method investment. The Aquiline II 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 the Aquiline II Partnership income for the period.

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

**Aquiline Financial Services Fund III L.P.**

On November 7, 2014, the Company, entered into a Subscription Agreement (the "Subscription Agreement") with Aquiline Capital Partners III GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "Aquiline III General Partner") pursuant to which the Company committed and agreed to purchase limited partnership or other comparable limited liability equity interests (the "Limited Partnership Interests") in Aquiline Financial Services Fund III L.P., a Cayman Islands exempted limited partnership (the "Aquiline III Partnership"), and/or one or more Alternative Investment Vehicles and Intermediate Entities (together with the Aquiline III Partnership, the "Aquiline

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").

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The Aquiline III Partnership is a VIE and the Company is not the primary beneficiary. Therefore, the Company's investment in the Aquiline III Partnership has been treated as an equity method investment. The Aquiline III 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 Aquiline III Partnership income for the period.

In accordance with the terms of the Agreement, no limited partner has the right to withdraw from the Aquiline III Partnership or to withdraw any part of its capital account without prior consent from the Aquiline III General Partner.

The Company's maximum exposure to the Aquiline III Partnership is limited to the amount invested and any remaining capital commitment. Refer to Note 15, "Commitments and contingencies," for further details.

The following table presents a reconciliation of the beginning and ending investment in the Company's investment affiliate balance for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Investment affiliate, beginning of period	\$84,135	\$85,982	\$87,673	\$63,506
Capital contributions	15,732	3,415	16,307	23,115
(Loss) income from investment affiliate	(589 )	284	(4,702 )	3,060
Investment affiliate, end of period	\$99,278	\$89,681	\$99,278	\$89,681

The following table presents the Company's investment in the partnerships as at June 30, 2016:

	Investment at cost	Voting ownership %	Equity ownership %	Carrying value
Aquiline Financial Services Fund II L.P.	\$ 56,479	—%	8.0 %	\$71,178
Aquiline Financial Services Fund III L.P.	\$ 29,622	—%	10.5 %	\$28,100
Total	\$ 86,101			\$99,278

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

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

(b) Operating affiliate

PaCRe, Ltd.

On April 2, 2012, the Company joined with other investors in capitalizing PaCRe, a Class 4 Bermuda reinsurer formed for the purpose of writing high excess property catastrophe reinsurance. However, during the fourth quarter of 2015, PaCRe's Class 4 license was surrendered and the company was considered off-risk effective January 1, 2016.

The Company's investment in PaCRe has been treated as an equity method investment. The Company's maximum exposure to the fund is the amount of capital invested at any given time.

The following table presents a reconciliation of the beginning and ending investment in the Company's operating affiliate balance for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating affiliate, beginning of period	\$369	\$54,928	\$392	\$50,944

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Return of investment	(369 )	—	(369 )	—
(Loss) income from operating affiliate	—	1,738	(23 )	5,722
Operating affiliate, end of period	\$—	\$56,666	\$—	\$56,666

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The following table presents the Company's investment in PaCRe as at June 30, 2016:

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

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

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

## 7. Noncontrolling interest

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

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

The following tables present a reconciliation of the beginning and ending balances of redeemable noncontrolling interest and noncontrolling interest for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
Balance, beginning of period	\$ 1,409,037	\$ 157,223	\$ 1,566,260
Issuance of shares	112,500	59,349	171,849
Income attributable to noncontrolling interest	17,230	3,963	21,193
Redemptions payable	(6,484 )	—	(6,484 )
Distributions	—	(8,381 )	(8,381 )
Balance, end of period	\$ 1,532,283	\$ 212,154	\$ 1,744,437
	Three Months Ended June 30, 2015		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
Balance, beginning of period	\$ 834,644	\$ 151,583	\$ 986,227
Issuance of shares	249,300	9,600	258,900
Income attributable to noncontrolling interest	17,462	5,099	22,561
Redemption of shares	(59,395 )	—	(59,395 )
Redemptions payable	(6,500 )	—	(6,500 )
Distributions	—	(12,759 )	(12,759 )
Balance, end of period	\$ 1,035,511	\$ 153,523	\$ 1,189,034

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	Six Months Ended June 30, 2016		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
Balance, beginning of period	\$ 1,111,714	\$ 154,662	\$ 1,266,376
Issuance of shares	381,250	171,674	552,924
Income attributable to noncontrolling interest	45,803	12,921	58,724
Redemptions payable	(6,484 )	—	(6,484 )
Distributions	—	(127,103 )	(127,103 )
Balance, end of period	\$ 1,532,283	\$ 212,154	\$ 1,744,437
	Six Months Ended June 30, 2015		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
Balance, beginning of period	\$ 617,791	\$ 292,274	\$ 910,065
Issuance of shares	452,700	9,600	462,300
Income attributable to noncontrolling interest	30,915	9,824	40,739
Redemption of shares	(59,395 )	—	(59,395 )
Redemptions payable	(6,500 )	—	(6,500 )
Distributions	—	(158,175 )	(158,175 )
Balance, end of period	\$ 1,035,511	\$ 153,523	\$ 1,189,034



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## 8. Derivative instruments

The Company enters into derivative instruments for risk management purposes, specifically to hedge unmatched foreign currency exposures and interest rate exposures. As at June 30, 2016 and December 31, 2015, the Company held foreign currency forward contracts to mitigate the risk of fluctuations in the U.S. dollar against a number of foreign currencies. In addition, the Company held two interest rate swaps to fix the payment of interest on the Company's 2006 and 2007 Junior Subordinated Deferrable Debentures, as well as three interest rate swaps and one cross-currency interest rate swap to fix the payment of interest and mitigate the foreign exchange rate impact on Flagstone's 2006 and 2007 Junior Subordinated Deferrable Debentures.

As at June 30, 2016 and December 31, 2015, none of the Company's foreign currency forward contracts were designated as hedging instruments for accounting purposes.

The following table summarizes information on the classification and amount of the fair value of derivatives not designated as hedging instruments for accounting purposes on the Consolidated Balance Sheets as at June 30, 2016 and December 31, 2015:

	June 30, 2016			December 31, 2015		
	Notional Exposure	Asset	Liability	Notional Exposure	Asset	Liability
		Derivative at Fair Value (a)	Derivative at Fair Value (a)		Derivative at Fair Value (a)	Derivative at Fair Value (a)
Derivatives not designated as hedging instruments:						
Foreign currency forward contracts	\$297,275	\$ 4,230	\$ 4,746	\$255,840	\$ 2,601	\$ 3,211

Asset and liability derivatives are classified within other assets and accounts payable and accrued expenses, respectively, on the Consolidated Balance Sheets. The net impact on earnings, recognized in income within foreign exchange gains (losses) relating to the foreign currency forward contracts that were not designated as hedging (a) instruments during the three and six months ended June 30, 2016 was \$896 and (\$1,117), respectively (2015: \$nil and \$nil, respectively). The net impact on earnings, recognized in income within other income (loss) relating to the foreign currency forward contracts that were not designated as hedging instruments during the three and six months ended June 30, 2016 were \$84 and \$120, respectively (2015: (\$128) and (\$127), respectively).

The following table summarizes information on the classification and amount of the fair value of derivatives designated as hedging instruments for accounting purposes on the Consolidated Balance Sheets as at June 30, 2016 and December 31, 2015:

	June 30, 2016			December 31, 2015		
	Notional Exposure	Asset	Liability	Notional Exposure	Asset	Liability
		Derivative at Fair Value (a)	Derivative at Fair Value (a)		Derivative at Fair Value (a)	Derivative at Fair Value (a)
Derivatives designated as hedging instruments:						
Interest rate swap contracts	\$552,263	\$ 20	\$ 2,529	\$552,263	\$ 21	\$ 1,942

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

(a) Classification within the fair value hierarchy

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

(b) Derivative instruments designated as a fair value hedge

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

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The following table provides the total impact on earnings, recognized in income within foreign exchange gains (losses), relating to the derivative instruments formally designated as fair value hedges for accounting purposes along with the impact of the related hedged items for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2015
Foreign currency forward contracts		
Amount of loss recognized in income on derivative	\$-(8,954)	\$-(15,156)
Amount of gain on hedged item recognized in income attributable to risk being hedged	\$8,954	\$15,156
Amount of gain recognized in income on derivative (ineffective portion)	\$—	\$—

(c) Derivative instruments designated as a cash flow hedge

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

The following table provides the total impact on other comprehensive income (loss) and earnings relating to the derivative instruments formally designated as cash flow hedges along with the impact of the related hedged items for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest rate swap contracts				
Amount of effective portion recognized in other comprehensive income	\$2,694	\$2,846	\$6,350	\$6,886
Amount of effective portion subsequently reclassified to earnings	\$(2,758)	\$(3,236)	\$(5,656)	\$(6,475)
Amount of ineffective portion excluded from effectiveness testing	\$64	\$390	\$(694)	\$(411)

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 June 30, 2016 or December 31, 2015.

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

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

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## 9. Reserve for losses and loss expenses

Reserves for losses and loss expenses are based in part upon the estimation of case reserves from broker, insured and ceding company reported data. The Company also uses statistical and actuarial methods to estimate ultimate expected losses and loss expenses, from which incurred but not reported losses can be calculated. The period of time from the occurrence of a loss to the reporting of a loss to the Company and to the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. As these factors become apparent, reserves will be adjusted, sometimes requiring an increase or decrease in the overall reserves of the Company, and at other times requiring a reallocation of incurred but not reported reserves ("IBNR") 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 six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Reserve for losses and loss expenses, beginning of period	\$2,980,300	\$3,207,885	\$2,996,567	\$3,243,147
Loss reserves recoverable	(370,689 )	(375,882 )	(350,586 )	(377,466 )
Net reserves for losses and loss expenses, beginning of period	2,609,611	2,832,003	2,645,981	2,865,681
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:				
Current year	369,911	336,864	648,097	661,352
Prior years (a)	(62,781 )	(70,718 )	(116,520 )	(154,277 )
Total incurred losses and loss expenses (a)	307,130	266,146	531,577	507,075
Less net losses and loss expenses paid in respect of losses occurring in:				
Current year	(45,882 )	(28,965 )	(61,655 )	(42,065 )
Prior years	(176,775 )	(260,027 )	(430,079 )	(496,260 )
Total net paid losses	(222,657 )	(288,992 )	(491,734 )	(538,325 )
Foreign exchange (gain) loss	(14,354 )	6,841	(6,094 )	(18,433 )
Net reserve for losses and loss expenses, end of period	2,679,730	2,815,998	2,679,730	2,815,998
Loss reserves recoverable	442,987	376,665	442,987	376,665
Reserve for losses and loss expenses, end of period	\$3,122,717	\$3,192,663	\$3,122,717	\$3,192,663
Incurred losses and loss expenses comprise:				
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Gross losses and loss expenses (a)	\$397,863	\$303,771	\$667,716	\$568,567
Reinsurance recoverable	(90,733 )	(37,625 )	(136,139 )	(61,492 )
Net incurred losses and loss expenses (a)	\$307,130	\$266,146	\$531,577	\$507,075

(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 \$2,892 and \$6,115, respectively, during the three and six months ended June 30, 2015, benefiting the loss ratio by 4.4 and 4.6 percentage points, respectively. The remaining fair value adjustment of \$4,864 was fully amortized

during 2015.

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The June 30, 2016 gross reserves for losses and loss expenses comprise reserves for reported claims of \$1,267,625 (December 31, 2015: \$1,278,697) and IBNR of \$1,855,092 (December 31, 2015: \$1,717,870). The net favorable development on prior years by segment and line of business for the three and six months ended June 30, 2016 and 2015 was as follows:

	Three Months Ended June 30, 2016				
	Property	Marine	Specialty	Liability	Total
Validus Re	\$(9,468 )	\$(10,018)	\$(11,391)	\$—	\$(30,877)
Talbot	(10,094 )	(8,928 )	(9,306 )	—	(28,328 )
Western World	(1,582 )	—	—	(1,576 )	(3,158 )
AlphaCat	(296 )	—	(122 )	—	(418 )
Net favorable development	\$(21,440)	\$(18,946)	\$(20,819)	\$(1,576)	\$(62,781)

The net favorable development of \$62.8 million for the three months ended June 30, 2016 was primarily due to favorable development on attritional losses and prior year event and non-event reserves. The Validus Re and Western World segments experienced favorable development on prior years primarily due to favorable development on attritional losses; whereas, the Talbot segment experienced favorable development on prior years primarily due to favorable development on event and non-event reserves.

	Three Months Ended June 30, 2015				
	Property	Marine	Specialty	Liability	Total
Validus Re	\$(15,928)	\$(11,099)	\$(3,852)	\$—	\$(30,879)
Talbot	(16,683 )	(13,810 )	(5,093 )	—	(35,586 )
Western World (a)	(866 )	—	—	(3,387 )	(4,253 )
Net favorable development (a)	\$(33,477)	\$(24,909)	\$(8,945)	\$(3,387)	\$(70,718)

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) \$2,892 during the three months ended June 30, 2015, benefiting the loss ratio by 4.4 percentage points. The remaining fair value adjustment of \$4,864 was fully amortized during 2015.

The Validus Re segment experienced favorable development on prior years primarily due to favorable development on attritional losses; whereas, the Talbot segment experienced favorable development on prior years primarily due to favorable development on attritional losses and certain events, including the Thailand floods. 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.

	Six Months Ended June 30, 2016				
	Property	Marine	Specialty	Liability	Total
Validus Re	\$(32,300)	\$(6,463 )	\$(17,798)	\$—	\$(56,561 )
Talbot	(28,540 )	(5,964 )	(16,544 )	—	(51,048 )
Western World	(2,023 )	—	—	(5,561 )	(7,584 )
AlphaCat	(477 )	—	(850 )	—	(1,327 )
Net favorable development	\$(63,340)	\$(12,427)	\$(35,192)	\$(5,561)	\$(116,520)

The net favorable development of \$116.5 million for the six months ended June 30, 2016 was primarily attributable to net favorable development in the Validus Re, Talbot and Western World segments. The Validus Re net favorable development was primarily attributable to favorable development on attritional losses or non-event reserves; whereas Talbot's favorable development was due to favorable development on attritional losses along with favorable development on prior year event reserves. Western World's net favorable development was attributable to favorable development on attritional losses.



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	Six Months Ended June 30, 2015				
	Property	Marine	Specialty	Liability	Total
Validus Re	\$(30,824)	\$(15,669)	\$(9,082)	\$—	\$(55,575)
Talbot	(37,435)	(36,324)	(13,514)	—	(87,273)
Western World (a)	(3,594)	—	—	(6,991)	(10,585)
AlphaCat	(844)	—	—	—	(844)
Net favorable development (a)	\$(72,697)	\$(51,993)	\$(22,596)	\$(6,991)	\$(154,277)

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) \$6,115 during the six months ended June 30, 2015, benefiting the loss ratio by 4.6 percentage points. The remaining fair value adjustment of \$4,864 was fully amortized during 2015.

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

**10. Reinsurance**

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

**Credit risk**

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At June 30, 2016, 98.7% (December 31, 2015: 98.7%) of reinsurance recoverable (which includes loss reserves recoverable and recoverables on paid losses), inclusive of \$291,536 of total IBNR recoverable (December 31, 2015: \$214,863), were fully collateralized or from reinsurers rated A- or better.

Reinsurance recoverable by reinsurer as at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016			December 31, 2015		
	Reinsurance Recoverable	% of Total		Reinsurance Recoverable	% of Total	
Top 10 reinsurers	\$391,076	83.1	%	\$303,108	81.1	%
Other reinsurers' balances > \$1 million	70,763	15.0	%	61,222	16.4	%
Other reinsurers' balances < \$1 million	8,796	1.9	%	9,327	2.5	%
Total	\$470,635	100.0	%	\$373,657	100.0	%



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	June 30, 2016			
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Fully collateralized reinsurers	NR	\$ 80,829	17.2	%
Swiss Re	AA-	80,604	17.1	%
Lloyd's Syndicates	A+	79,508	16.9	%
Hannover Re	AA-	47,686	10.1	%
Everest Re	A+	42,506	9.0	%
Munich Re	AA-	18,161	3.9	%
Transatlantic Re	A+	11,719	2.5	%
Hamilton Re	A-	11,623	2.5	%
National Indemnity Company	AA+	9,565	2.0	%
Toa Re	A+	8,875	1.9	%
Total		\$ 391,076	83.1	%

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

At June 30, 2016 and December 31, 2015, the provision for uncollectible reinsurance relating to reinsurance recoverable was \$5,025 and \$4,997, respectively. To estimate this provision for uncollectible reinsurance, the reinsurance recoverable is first allocated to applicable reinsurers. This determination is based on a process rather than an estimate, although an element of judgment is applied, especially in relation to ceded IBNR. The Company then uses default factors to determine the portion of a reinsurer's balance deemed to be uncollectible. Default factors require considerable judgment and are determined in part using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions.

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## 11. Share capital

The Company is authorized to issue up to an aggregate of 571,428,571 common and preferred shares with a par value of \$0.175 per share.

## (a) Preferred shares

On June 13, 2016, the Company issued 6,000 shares of its 5.875% Non-Cumulative Preferred Shares, Series A (the "Series A Preferred Shares") (equivalent to 6,000,000 Depositary Shares, each of which represents a 1/1,000th interest in a Series A Preferred Share), \$0.175 par value and \$25,000 liquidation preference per share (equivalent to \$25 per Depositary Share). The Series A Preferred Shares were registered and sold under the Securities Act of 1933, as amended, and were issued at a price to the public of \$25,000 per share (equivalent to \$25 per Depositary Share). After underwriting discounts and expenses, the Company received net proceeds of \$144,852 which will be used for general corporate purposes.

The Depositary Shares, representing the Series A Preferred Shares, are traded on the New York Stock Exchange under the symbol "VRPRA." The Series A Preferred Shares have no stated maturity date and are redeemable, in whole or in part, at the Company's option on and after June 15, 2021, at a redemption price of \$25,000 per Series A Preferred Share (equivalent to \$25 per Depositary Share), plus declared and unpaid dividends. The Company may also redeem all, but not less than all, of the Series A Preferred Shares before the redemption date at a redemption price of \$26,000 per share (equivalent to \$26 per Depositary Share), plus declared and unpaid dividends, if the Company is required to submit a proposal to the holders of the Series A Preferred Shares concerning an amalgamation, consolidation, merger or other similar corporate transaction or change in Bermuda law. The Series A Preferred Shares may also be redeemed before the redemption date at a redemption price of \$25,000 per Series A Preferred Share (equivalent to \$25 per Depositary Share), plus declared and unpaid dividends, in whole, if there is a change in tax law, or in whole or in part, in the case of a capital disqualification event.

Dividends on the Series A Preferred Shares, when, as and if declared by the Company's Board of Directors or a duly authorized committee thereof, will accrue and be payable on the liquidation preference amount from the original issue date, on a non-cumulative basis, quarterly in arrears on each dividend payment date at an annual rate of 5.875%. The Company will be restricted from paying dividends on and repurchasing its common shares, unless certain dividend payments are made on the Series A Preferred Shares.

Upon any voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Series A Preferred Shares and any parity shares are entitled to receive out of our assets available for distribution to shareholders, before any distribution is made to holders of common shares or other junior shares, a liquidating distribution in the amount of \$25,000 per Series A Preferred Share (equivalent to \$25 per Depositary Share) plus declared and unpaid dividends. Distributions will be made pro rata in accordance with the respective aggregate liquidation preferences of the Series A Preferred Shares and any parity shares and only to the extent of our assets, if any, that are available after satisfaction of all liabilities to creditors.

Holders of the Series A Preferred Shares have no voting rights, except with respect to certain fundamental changes in the terms of the Series A Preferred Shares and in the case of certain dividend non-payments or as otherwise required by Bermuda law or the Company's bye-laws.

The following table is a summary of the Preferred shares issued and outstanding:

	Preferred Shares
Preferred shares issued and outstanding, December 31, 2015	—
Preferred shares issued	6,000
Preferred shares issued and outstanding, June 30, 2016	6,000

## (b) Common Shares

The holders of common shares are entitled to receive dividends and 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

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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 78,841,758 common shares for an aggregate purchase price of \$2,620,814 from the inception of its share repurchase program to June 30, 2016. The Company had \$403,587 remaining under its authorized share repurchase program as of June 30, 2016.

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

The following table is a summary of the common shares issued and outstanding:

	Common Shares
Common shares issued, December 31, 2015	160,570,772
Restricted share awards vested, net of shares withheld	601,890
Restricted share units vested, net of shares withheld	18,486
Options exercised	13,635
Performance share awards vested, net of shares withheld	48,088
Common shares issued, June 30, 2016	161,252,871
Treasury shares, June 30, 2016	(80,480,633 )
Common shares outstanding, June 30, 2016	80,772,238
	Common Shares
Common shares issued, December 31, 2014	155,554,224
Restricted share awards vested, net of shares withheld	609,654
Restricted share units vested, net of shares withheld	13,260
Options exercised	728,489
Warrants exercised	1,461,715
Direct issuance of common stock	639
Performance share awards vested, net of shares withheld	11,524
Common shares issued, June 30, 2015	158,379,505
Treasury shares, June 30, 2015	(75,083,710 )
Common shares outstanding, June 30, 2015	83,295,795

## (c) Dividends

On May 5, 2016, the Company announced a quarterly cash dividend of \$0.35 (2015: \$0.32) per common share. This dividend was paid on June 30, 2016 to holders of record on June 15, 2016.

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

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## 12. Stock plans

## (a) Long Term Incentive Plan

The Company's Amended and Restated 2005 Long Term Incentive Plan ("LTIP") provides for grants to employees of options, stock appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, dividend equivalents or other share-based awards. The total number of shares reserved for issuance under the LTIP are 2,753,292 shares of which 1,256,215 shares remain available for issuance at June 30, 2016. The LTIP is administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. Grant prices are established at the fair market value of the Company's common shares at the date of grant.

## i. Options

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

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

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

Activity with respect to options for the six months ended June 30, 2016 was as follows:

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2015	65,401	\$ 7.74	\$ 20.17
Options exercised	(14,044)	7.69	17.02
Options outstanding, June 30, 2016	51,357	\$ 7.75	\$ 21.03

Activity with respect to options for the six months ended June 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	(1,040,680)	7.26	16.86
Options outstanding, June 30, 2015	119,377	\$ 5.94	\$ 25.46

## ii. Restricted share awards

Restricted shares granted under the LTIP vest either pro rata or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. The Company recognized share compensation expenses during the three and six months ended June 30, 2016 of \$9,517 (2015: \$8,653) and \$18,646 (2015:\$17,132), 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 awards for the six months ended June 30, 2016 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2015	2,739,446	\$ 38.25
Restricted share awards granted	534,905	48.69
Restricted share awards vested	(783,523 )	37.32
Restricted share awards forfeited	(8,317 )	37.94
Restricted share awards outstanding, June 30, 2016	2,482,511	\$ 40.79

Activity with respect to unvested restricted share awards for the six months ended June 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	670,432	43.55
Restricted share awards vested	(781,704 )	34.42
Restricted share awards forfeited	(51,818 )	38.04
Restricted share awards outstanding, June 30, 2015	2,695,621	\$ 38.09

At June 30, 2016, there were \$76,049 (December 31, 2015: \$69,143) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 2.6 years (December 31, 2015: 2.4 years).

## iii. Restricted share units

Restricted share units under the LTIP vest either ratably or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. The Company recognized share compensation expenses during the three and six months ended June 30, 2016 of \$377 (2015: \$279) and \$688 (2015: \$541), 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 units for the six months ended June 30, 2016 was as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2015	114,337	\$ 38.47
Restricted share units granted	20,129	48.69
Restricted share units vested	(23,982 )	38.18
Restricted share units issued in lieu of cash dividends	1,629	38.47
Restricted share units outstanding, June 30, 2016	112,113	\$ 40.37

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Activity with respect to unvested restricted share units for the six months ended June 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	1,517	36.53
Restricted share units forfeited	(892 )	35.42
Restricted share units outstanding, June 30, 2015	112,711	\$ 38.47

At June 30, 2016, there were \$3,079 (December 31, 2015: \$2,790) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 2.7 years (December 31, 2015: 2.6 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 six months ended June 30, 2016 of \$833 (2015: \$310) and \$2,630 (2015: \$623), respectively.

Activity with respect to unvested performance share awards for the six months ended June 30, 2016 was as follows:

	Performance Share Awards	Weighted Average Grant Date Fair Value
Performance share awards outstanding, December 31, 2015	172,594	\$ 40.70
Performance share awards granted	121,844	48.69
Performance share awards vested	(57,581 )	36.11
Performance share awards conversion adjustment	45,517	36.82
Performance share awards outstanding, June 30, 2016	282,374	\$ 44.46

Activity with respect to unvested performance share awards for the six months ended June 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, June 30, 2015	172,594	\$ 40.70

At June 30, 2016, there were \$8,719 (December 31, 2015: \$4,011) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 2.5 years (December 31, 2015: 2.1 years).



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## (b) Total share compensation expenses

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Restricted share awards	\$9,517	\$8,653	\$18,646	\$17,132
Restricted share units	377	279	688	541
Performance share awards	833	310	2,630	623
Total	\$10,727	\$9,242	\$21,964	\$18,296

## 13. Debt and financing arrangements

## (a) Financing structure

The financing structure at June 30, 2016 was as follows:

	Commitment	Issued and outstanding (a)	Drawn
2006 Junior Subordinated Deferrable Debentures	\$ 150,000	\$ 150,000	\$ 150,000
2007 Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	134,437	134,437	134,437
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	598,187	537,987	537,987
2010 Senior Notes due 2040	250,000	250,000	245,261
Total debentures and senior notes payable	848,187	787,987	783,248
\$85,000 syndicated unsecured letter of credit facility	85,000	—	—
\$300,000 syndicated secured letter of credit facility	300,000	105,575	—
\$24,000 secured bi-lateral letter of credit facility	24,000	11,805	—
\$20,000 AlphaCat Re secured letter of credit facility	20,000	20,000	—
\$25,000 IPC bi-lateral facility	25,000	5,666	—
\$236,000 Flagstone bi-lateral facility	236,000	195,622	—
Total credit and other facilities	690,000	338,668	—
Total debt and financing arrangements	\$ 1,538,187	\$ 1,126,655	\$ 783,248

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

	Commitment	Issued and outstanding (a)	Drawn
2006 Junior Subordinated Deferrable Debentures	\$ 150,000	\$ 150,000	\$ 150,000
2007 Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	134,118	134,118	134,118
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	597,868	537,668	537,668
2010 Senior Notes due 2040	250,000	250,000	245,161
Total debentures and senior notes payable	847,868	787,668	782,829
\$85,000 syndicated unsecured letter of credit facility	85,000	—	—
\$300,000 syndicated secured letter of credit facility	300,000	235,540	—
\$24,000 secured bi-lateral letter of credit facility	24,000	10,543	—
\$20,000 AlphaCat Re secured letter of credit facility	30,000	30,000	—
\$25,000 IPC bi-lateral facility	25,000	9,241	—
\$236,000 Flagstone bi-lateral facility	236,000	193,764	—
Total credit and other facilities	700,000	479,088	—
Total debt and financing arrangements	\$ 1,547,868	\$ 1,266,756	\$ 782,829

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

(b) Senior notes and junior subordinated deferrable debentures

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

Description	Issuance date	Commitment	Maturity date	Interest Rate as at		Interest payments due
				Issuance Date	June 30, 2016	
2006 Junior Subordinated Deferrable Debentures	June 15, 2006	\$ 150,000	June 15, 2036	9.069% (a)	5.831% (e)	Quarterly
Flagstone 2006 Junior Subordinated Deferrable Debentures	August 23, 2006	\$ 134,437	September 15, 2036	3.540% (b)	6.463% (e)	Quarterly
2007 Junior Subordinated Deferrable Debentures	June 21, 2007	\$ 200,000	June 15, 2037	8.480% (c)	5.180% (e)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	June 8, 2007	\$ 88,750	July 30, 2037	3.000% (b)	5.900% (e)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 20, 2007	\$ 25,000	September 15, 2037	3.100% (b)	5.983% (e)	Quarterly
2010 Senior Notes due 2040	January 26, 2010	\$ 250,000	January 26, 2040	8.875% (d)	8.875% (d)	Semi-annually in arrears

(a) Fixed interest rate for 5 years, floating interest rate of three-month LIBOR plus 3.550% thereafter, reset quarterly.

(b) Floating interest rate of three-month LIBOR plus amount stated, reset quarterly.

(c) Fixed interest rate for 5 years, floating interest rate of three-month LIBOR plus 2.950% thereafter, reset quarterly.

(d) Fixed interest rate.

(e) Fixed interest rate as a result of interest rate swap contracts entered into by the Company.

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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 are amortized to income over the life of the 2010 Senior Notes and are presented on a net basis within the senior notes payable balance in the Company's Consolidated Balance Sheets. There were no redemptions made during the three and six months ended June 30, 2016 and 2015.

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

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

Junior subordinated deferrable debentures

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

Debt issuance costs for the 2006 and 2007 Junior Subordinated Deferrable Debentures were amortized to income over the five year optional redemption periods. They are redeemable at the Company's option at par. There were no redemptions made during the three and six months ended June 30, 2016 and 2015.

As part of the acquisition of Flagstone, the Company assumed junior subordinated deferrable debentures due 2036 and 2037 (respectively, the “Flagstone 2006 Junior Subordinated Deferrable Debentures” and “Flagstone 2007 Junior Subordinated Deferrable Debentures”). These debentures are redeemable quarterly at par. There were no redemptions made during the three and six months ended June 30, 2016 and 2015.

Future payments of principal of \$537,987 on the debentures discussed above are all expected to be after 2021.

(c) Credit facilities

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

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

Also on December 9, 2015, the Company entered into a \$300,000 five-year secured credit facility, with the same parties, which provides for letter of credit availability for the Company (the “Five Year Secured Facility” and together with the Five Year Unsecured Facility, the “Credit Facilities”). The Five Year Secured Facility was also provided by a syndicate of commercial banks. Letters of credit under the Five Year Secured Facility will be available to support

obligations in connection with the reinsurance business of the Company and its subsidiaries. The Company may request that existing lenders under the Five Year Secured Facility or prospective additional lenders agree to make available additional commitments from time to time so long as the aggregate commitments under the Five Year Secured Facility do not exceed \$400,000. The obligations of the Company under the Five Year Secured Facility are secured by cash and securities deposited into cash collateral accounts from time to time with The Bank of New York Mellon.

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As of June 30, 2016, there was \$nil outstanding under the Five Year Unsecured Facility and \$105,575 in outstanding letters of credit under the Five Year Secured Facility.

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

ii. \$25,000 IPC bi-lateral facility

The Company assumed an existing evergreen letter of credit facility through the acquisition of IPC Holdings, Ltd. (the "IPC bi-lateral facility"). As of June 30, 2016, there were \$5,666 outstanding letters of credit issued under the IPC bi-lateral facility (December 31, 2015: \$9,241). As of June 30, 2016, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the IPC bi-lateral facility.

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

The Company is party to an evergreen secured bi-lateral letter of credit facility with Citibank Europe plc (the "Secured bi-lateral letter of credit facility"). As of June 30, 2016, \$11,805 (December 31, 2015: \$10,543) of letters of credit were outstanding under the Secured bi-lateral letter of credit facility. The Secured bi-lateral letter of credit facility has no fixed termination date and as of June 30, 2016, and throughout the reporting periods presented, the Company is in compliance with all covenants and restrictions under the Secured bi-lateral letter of credit facility.

iv. \$20,000 AlphaCat Re secured letter of credit facility

During 2013, AlphaCat Re entered into a secured evergreen letter of credit facility with Comerica Bank. This facility provided for letters of credit issued by AlphaCat Re to be used to support its reinsurance obligations. During the three months ended June 30, 2016 the available amount under the facility was reduced to \$20,000 from \$30,000. As of June 30, 2016, \$20,000 (December 31, 2015: \$30,000) of letters of credit were outstanding under this facility. As of June 30, 2016, and throughout the reporting periods presented, AlphaCat Re was in compliance with all covenants and restrictions under the AlphaCat Re secured letter of credit facility.

v. \$236,000 Flagstone bi-lateral facility

As part of the Flagstone Acquisition, the Company assumed an evergreen Letters of Credit Master Agreement between Citibank Europe plc and Flagstone Reassurance Suisse, S.A. (the "Flagstone Bi-Lateral Facility"). As of June 30, 2016, the Flagstone Bi-Lateral Facility had \$195,622 (December 31, 2015: \$193,764) letters of credit issued and outstanding. As of June 30, 2016, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Flagstone Bi-Lateral Facility.



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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, Talbot FAL facility and other charges and AlphaCat financing fees as follows:

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
2006 Junior Subordinated Deferrable Debentures	\$2,211	\$2,211	\$4,422	\$4,398
2007 Junior Subordinated Deferrable Debentures	1,830	1,835	3,661	3,644
Flagstone 2006 Junior Subordinated Deferrable Debentures	2,244	2,243	4,489	4,461
Flagstone 2007 Junior Subordinated Deferrable Debentures	1,766	1,770	3,533	3,528
2010 Senior Notes due 2040	5,597	5,597	11,194	11,194
Credit facilities	235	1,193	896	2,900
Bank charges, Talbot FAL facility and other charges (a)	206	1,252	213	2,459
AlphaCat fees (b)	77	2,581	961	7,065
Total finance expenses	\$14,166	\$18,682	\$29,369	\$39,649

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

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

## 14. Accumulated other comprehensive loss

The changes in accumulated other comprehensive loss, by component for the three and six months ended June 30, 2016 and 2015 was as follows:

Three Months Ended June 30, 2016	Foreign	Minimum	Cash	Total
	currency	pension	flow	
	translation	liability	hedge	
	adjustment			
Balance beginning of period, net of tax	\$(13,862 )	\$ 251	\$(1,827)	\$(15,438)
Net current period other comprehensive loss, net of tax	(3,287 )	479	64	(2,744 )
Balance end of period, net of tax	\$(17,149 )	\$ 730	\$(1,763)	\$(18,182)
Three Months Ended June 30, 2015	Foreign	Minimum	Cash	Total
	currency	pension	flow	
	translation	liability	hedge	
	adjustment			
Balance beginning of period, net of tax	\$(11,137 )	\$ (475 )	\$(1,029)	\$(12,641)
Net current period other comprehensive loss, net of tax	2,763	422	390	3,575
Balance end of period, net of tax	\$(8,374 )	\$ (53 )	\$(639 )	\$(9,066 )
Six Months Ended June 30, 2016	Foreign	Minimum	Cash	Total
	currency	pension	flow	
	translation	liability	hedge	
	adjustment			
Balance beginning of period, net of tax	\$(11,834 )	\$ 334	\$(1,069)	\$(12,569)
Net current period other comprehensive loss, net of tax	(5,315 )	396	(694 )	(5,613 )
Balance end of period, net of tax	\$(17,149 )	\$ 730	\$(1,763)	\$(18,182)





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Six Months Ended June 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, net of tax	(256 )	157	(411 )	(510 )
Balance end of period, net of tax	\$ (8,374 )	\$ (53 )	\$(639)	\$(9,066)

## 15. Commitments and contingencies

## (a) Funds at Lloyd's

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

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

## (b) Lloyd's Central Fund

Whenever a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2016 underwriting capacity at Lloyd's of £600,000, at the June 30, 2016 exchange rate of £1 equals \$1.33 and assuming the maximum 3% assessment, the Company would be assessed approximately \$23,940.

## (c) Investment affiliate commitments

As discussed in Note 6, "Investments in affiliates," on December 20, 2011, the Company entered into an Assignment and Assumption Agreement with Aquiline Capital Partners LLC, pursuant to which it assumed total capital commitments of \$50,000 in respect of the Aquiline II Partnership. The Company's remaining commitment at June 30, 2016 was \$2,934 (December 31, 2015: \$3,413).

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. The Company's remaining capital commitment at June 30, 2016 was \$587 (December 31, 2015: \$683).

On November 7, 2014, the Company entered into a Subscription Agreement with the Aquiline III General Partner, pursuant to which it assumed total capital commitments of \$100,000 in respect of the Aquiline III Partnership. The Company's remaining commitment at June 30, 2016 was \$70,379 (December 31, 2015: \$86,110).

## (d) AlphaCat commitments

On December 29, 2014, the Company entered into an agreement with an AlphaCat ILS fund pursuant to which it assumed total capital commitments of \$20,000. On December 29, 2015, the Company assumed an additional capital commitment of \$20,000. The Company's remaining commitment at June 30, 2016 was \$nil (December 31, 2015: \$10,000).

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

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(e) Fixed maturity commitments

At June 30, 2016, the Company had an outstanding commitment to participate in certain secured loan facilities through participation agreements with an established loan originator. The undrawn amount under the revolver facility participations as at June 30, 2016 was \$29,726 (December 31, 2015: \$34,888).

During 2016, the Company entered into a loan commitment of \$25,000 of which the remaining unfunded commitment as at June 30, 2016 was \$4,588.

(f) Other investment commitments

At June 30, 2016, the Company had capital commitments in certain other investments of \$308,000 (December 31, 2015: \$263,000). The Company's remaining commitment to these investments at June 30, 2016 was \$198,265 (December 31, 2015: \$185,548).

16. Related party transactions

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

Aquiline Capital Partners, LLC and its related companies ("Aquiline"), which own 828,458 shares in the Company, 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 six months ended June 30, 2016 of \$65 (2015: \$526) and \$1,971 (2015: \$2,396), respectively with \$1,041 included in premiums receivable at June 30, 2016 (December 31, 2015: \$82). The Company also recognized reinsurance premiums ceded during the three and six months ended June 30, 2016 of \$(17) (2015: \$(28)) and \$nil (2015: \$1), respectively and had reinsurance balances payable of \$4 at June 30, 2016 (December 31, 2015: \$4). The Company recorded \$748 of loss reserves recoverable at June 30, 2016 (December 31, 2015: \$790). Earned premium adjustments were recorded during the three and six months ended June 30, 2016 of \$473 (2015: \$534) and \$999 (2015: \$1,317), respectively.

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 six months ended June 30, 2015 were \$120 and \$405, respectively.

On December 20, 2011, the Company entered into an Agreement with Aquiline Capital and Aquiline II General Partner pursuant to which the Company has assumed 100% of Aquiline Capital's interest in 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. For both the three and six months ended June 30, 2016, the Company incurred \$440 in partnership fees (2015: \$489 and \$937, respectively) and made capital contributions of \$nil and \$575 (2015: \$3,415 and \$8,977), respectively.

On November 7, 2014, the Company entered into a Subscription Agreement (the "Subscription Agreement") with 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 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. For both the three and six months ended June 30, 2016, the Company incurred \$575 in partnership fees (2015: \$369 and \$1,239, respectively) and made capital contributions of \$15,732 (2015: \$nil and \$14,138, respectively).

On November 24, 2015, Western World, a subsidiary of the Company, entered into a Stock Purchase Agreement (the "Agreement") with WRM America Indemnity Holding Company, LLC (the "Seller"), a company owned in part by Aquiline Financial Services Fund LP and Aquiline Financial Services Fund (Offshore) LP (collectively, "Aquiline"), pursuant to which Western World will purchase all of the issued and outstanding shares of capital stock of WRM America Indemnity Company, Inc. ("WRMAI"), a

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New York stock property and casualty insurance company. Under the terms of the Agreement, Western World has agreed to pay an amount equal to the sum of: (i) the amount of policyholder surplus of WRMAI as of the Closing Date, as shown on the Closing Balance Sheet, and (ii) \$3,750. The Agreement includes customary indemnities and conditions to closing including the approval by The New York Department of Financial Services of the acquisition of control of WRMAI by Western World.

Certain shareholders of the Company and their affiliates, as well as employers of entities associated with directors or officers have purchased insurance and/or reinsurance from the Company in the ordinary course of business. The Company believes these transactions were settled for arm's length consideration.

## 17. Earnings per share

The following table sets forth the computation of basic and earnings per diluted share for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic earnings per share				
Net income available to Validus common shareholders	94,963	65,790	261,773	239,201
Less: Dividends on outstanding warrants	—	(1,081)	—	(2,486)
Net income allocated to Validus common shareholders	\$94,963	\$64,709	\$261,773	\$236,715
Weighted average number of common shares outstanding	81,950,834	84,003,549	82,386,047	83,627,396
Basic earnings per share available to Validus common shareholders	\$1.16	\$0.77	\$3.18	\$2.83
Earnings per diluted share				
Net income available to Validus common shareholders	94,963	65,790	261,773	239,201
Less: Dividends on outstanding warrants	—	—	—	—
Net income allocated to Validus common shareholders	\$94,963	\$65,790	\$261,773	\$239,201
Weighted average number of common shares outstanding	81,950,834	84,003,549	82,386,047	83,627,396
Share equivalents:				
Warrants	—	2,073,231	—	2,409,149
Stock options	33,796	50,160	34,837	261,792
Unvested restricted shares	1,388,374	1,186,214	1,364,775	1,149,805
Weighted average number of diluted common shares outstanding	83,373,004	87,313,154	83,785,659	87,448,142
Earnings per diluted share available to Validus common shareholders	\$1.14	\$0.75	\$3.12	\$2.74
Share equivalents that would result in the issuance of common shares of 507,262 (2015: 630,174) and 253,631 (2015: 315,410) were outstanding for the three and six months ended June 30, 2016, respectively, 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.

Notes to Consolidated Financial Statements (unaudited)

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

18. Segment information

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

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

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

Validus Re Segment

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

Talbot Segment

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

Western World Segment

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

AlphaCat Segment

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

Corporate and Investment information

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





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

Validus Re Segment Information	Three Months Ended		Six Months Ended June		
	June 30,	2015	30,	2015	
	2016		2016		
Underwriting revenues					
Gross premiums written	\$285,810	\$297,420	\$977,478	\$1,009,113	
Reinsurance premiums ceded	(3,196 )	(19,378 )	(95,691 )	(133,155 )	
Net premiums written	282,614	278,042	881,787	875,958	
Change in unearned premiums	(35,492 )	(13,492 )	(390,834 )	(358,320 )	
Net premiums earned	247,122	264,550	490,953	517,638	
Other insurance related income (loss)	150	434	(165 )	749	
Total underwriting revenues	247,272	264,984	490,788	518,387	
Underwriting deductions					
Losses and loss expenses	132,139	123,405	215,007	236,533	
Policy acquisition costs	42,564	43,826	84,823	85,920	
General and administrative expenses	17,872	18,781	35,051	38,290	
Share compensation expenses	2,775	2,396	5,676	4,974	
Total underwriting deductions	195,350	188,408	340,557	365,717	
Underwriting income	\$51,922	\$76,576	\$150,231	\$152,670	
Selected ratios:					
Net premiums written / Gross premiums written	98.9	% 93.5	% 90.2	% 86.8	%
Losses and loss expenses	53.5	% 46.6	% 43.8	% 45.7	%
Policy acquisition costs	17.2	% 16.6	% 17.3	% 16.6	%
General and administrative expenses (a)	8.4	% 8.0	% 8.3	% 8.4	%
Expense ratio	25.6	% 24.6	% 25.6	% 25.0	%
Combined ratio	79.1	% 71.2	% 69.4	% 70.7	%

(a) 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		Six Months Ended June		
	June 30,		30,		
Talbot Segment Information	2016	2015	2016	2015	
Underwriting revenues					
Gross premiums written	\$296,067	\$293,046	\$562,384	\$563,123	
Reinsurance premiums ceded	(27,161 )	(37,246 )	(114,619 )	(128,321 )	
Net premiums written	268,906	255,800	447,765	434,802	
Change in unearned premiums	(67,357 )	(50,362 )	(39,424 )	(6,775 )	
Net premiums earned	201,549	205,438	408,341	428,027	
Other insurance related income	279	40	290	94	
Total underwriting revenues	201,828	205,478	408,631	428,121	
Underwriting deductions					
Losses and loss expenses	109,310	95,970	209,411	174,098	
Policy acquisition costs	43,613	47,659	87,956	96,763	
General and administrative expenses	39,061	35,555	77,596	72,049	
Share compensation expenses	3,270	3,024	6,792	5,981	
Total underwriting deductions	195,254	182,208	381,755	348,891	
Underwriting income	\$6,574	\$23,270	\$26,876	\$79,230	
Selected ratios:					
Net premiums written / Gross premiums written	90.8	% 87.3	% 79.6	% 77.2	%
Losses and loss expenses	54.2	% 46.7	% 51.3	% 40.7	%
Policy acquisition costs	21.6	% 23.2	% 21.5	% 22.6	%
General and administrative expenses (a)	21.1	% 18.8	% 20.7	% 18.2	%
Expense ratio	42.7	% 42.0	% 42.2	% 40.8	%
Combined ratio	96.9	% 88.7	% 93.5	% 81.5	%

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

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

	Three Months Ended		Six Months Ended June		
	June 30,	June 30,	30,	30,	
Western World Segment Information	2016	2015	2016	2015	
Underwriting revenues					
Gross premiums written	\$86,971	\$79,554	\$150,930	\$136,501	
Reinsurance premiums ceded	(5,006 )	(5,441 )	(9,145 )	(8,674 )	
Net premiums written	81,965	74,113	141,785	127,827	
Change in unearned premiums	(16,309 )	(8,995 )	(14,630 )	5,173	
Net premiums earned	65,656	65,118	127,155	133,000	
Other insurance related income	189	276	477	539	
Total underwriting revenues	65,845	65,394	127,632	133,539	
Underwriting deductions					
Losses and loss expenses	44,229	46,771	83,875	97,288	
Policy acquisition costs	15,410	9,617	29,610	13,896	
General and administrative expenses	11,458	8,923	23,533	19,550	
Share compensation expenses	542	494	1,123	971	
Total underwriting deductions	71,639	65,805	138,141	131,705	
Underwriting (loss) income	\$(5,794 )	\$(411 )	\$(10,509 )	\$1,834	
Selected ratios:					
Net premiums written / Gross premiums written	94.2	% 93.2	% 93.9	% 93.6	%
Losses and loss expenses	67.4	% 71.8	% 66.0	% 73.1	%
Policy acquisition costs	23.5	% 14.8	% 23.3	% 10.5	%
General and administrative expenses (a)	18.2	% 14.5	% 19.3	% 15.4	%
Expense ratio	41.7	% 29.3	% 42.6	% 25.9	%
Combined ratio	109.1	% 101.1	% 108.6	% 99.0	%

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
AlphaCat Segment Information (a)				
Revenues				
Third party	\$3,091	\$4,323	\$7,818	\$8,860
Related party	328	1,134	1,219	2,320
Total revenues	3,419	5,457	9,037	11,180
Expenses				
General and administrative expenses	2,751	2,330	4,233	4,759
Share compensation expenses	133	150	274	299
Finance expenses	75	2,534	883	6,962
Foreign exchange losses	4	15	12	2
Total expenses	2,963	5,029	5,402	12,022
Income (loss) before investments from AlphaCat Funds and Sidecars	456	428	3,635	(842 )
Investment income (loss) from AlphaCat Funds and Sidecars (b)				
AlphaCat Sidecars	541	1,273	665	2,441
AlphaCat ILS Funds - Lower Risk (c)	2,075	1,894	4,582	3,180
AlphaCat ILS Funds - Higher Risk (c)	692	2,376	3,128	4,801
BetaCat ILS Funds	1,113	60	1,676	234
PaCRe	—	1,738	(23 )	5,722
Total investment income from AlphaCat Funds and Sidecars	4,421	7,341	10,028	16,378
Validus' share of AlphaCat income	\$4,877	\$7,769	\$13,663	\$15,536
Supplemental information:				
Gross premiums written				
AlphaCat Sidecars	\$(14 )	\$3,241	\$(66 )	\$43,347
AlphaCat ILS Funds - Lower Risk (c)	50,234	45,687	110,192	88,435
AlphaCat ILS Funds - Higher Risk (c)	42,010	13,867	138,330	32,818
AlphaCat Direct (d)	6,675	—	17,797	—
Total gross premiums written	\$98,905	\$62,795	\$266,253	\$164,600

(a) The results of AlphaCat are presented on an asset manager basis, which is non-GAAP. A reconciliation of segmental income to net income available to Validus is included in the tables below.

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

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

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



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	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Corporate and Investment Information				
Investment income				
Net investment income (a)	\$36,849	\$31,854	\$64,772	\$61,290
Operating expenses				
General and administrative expenses	17,872	17,092	34,055	32,698
Share compensation expenses	4,007	3,178	8,099	6,071
Finance expenses (a)	13,979	15,144	28,320	30,480
Dividends on preferred shares	—	—	—	—
Tax expense (benefit)	1,706	2,549	(412)	5,114
Total operating expenses	37,564	37,963	70,062	74,363
Other items				
Net realized gains on investments (a)	2,520	2,104	1,434	6,284
Change in net unrealized gains (losses) on investments (a)	30,052	(33,926)	77,130	743
(Loss) income from investment affiliate	(589)	284	(4,702)	3,060
Foreign exchange gains (losses) (a)	6,621	(3,237)	12,695	(6,693)
Other income (loss)	79	(608)	756	(608)
Total other items	38,683	(35,383)	87,313	2,786
Total Corporate and Investment Information	\$37,968	\$(41,492)	\$82,023	\$(10,287)

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

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Validus Holdings, Ltd.

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

Three Months Ended June 30, 2016

	Validus Re Segment	Talbot Segment	Western World Segment	AlphaCat & Variable Interest Entities	Consolidated & Corporate Investments	Eliminations	Total
Underwriting revenues							
Gross premiums written	\$285,810	\$296,067	\$86,971	\$ 98,905		\$ (3,711 )	\$764,042
Reinsurance premiums ceded	(3,196 )	(27,161 )	(5,006 )	(4,577 )		3,711	(36,229 )
Net premiums written	282,614	268,906	81,965	94,328		—	727,813
Change in unearned premiums	(35,492 )	(67,357 )	(16,309 )	(34,932 )		—	(154,090 )
Net premiums earned	247,122	201,549	65,656	59,396		—	573,723
Other insurance related income (loss)	150	279	189	3,401		(3,274 )	745
Total underwriting revenues	247,272	201,828	65,845	62,797		(3,274 )	574,468
Underwriting deductions							
Losses and loss expenses	132,139	109,310	44,229	21,452		—	307,130
Policy acquisition costs	42,564	43,613	15,410	6,530		(151 )	107,966
General and administrative expenses	17,872	39,061	11,458	6,561	17,872	(3,136 )	89,688
Share compensation expenses	2,775	3,270	542	133	4,007	—	10,727
Total underwriting deductions	195,350	195,254	71,639	34,676	21,879	(3,287 )	515,511
Underwriting income (loss)	\$51,922	\$6,574	\$(5,794 )	\$ 28,121	\$(21,879 )	\$ 13	\$58,957
Other items (a)				1,058	22,998		24,056
Dividends on preferred shares					—		—
Net investment income				3,005	36,849	(597 )	39,257
(Income) attributable to AlphaCat investors				(6,114 )	—		(6,114 )
Net (income) attributable to noncontrolling interest				(21,193 )	—		(21,193 )
Segmental income (loss)	\$51,922	\$6,574	\$(5,794 )	\$ 4,877	\$ 37,968	\$ (584 )	
Net income available to Validus common shareholders							\$94,963

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





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	Three Months Ended June 30, 2015							
	Validus Re Segment	Talbot Segment	Western World Segment	AlphaCat & Variable Interest Entities	Consolidated & Corporate Investments	Eliminations	Total	
Underwriting revenues								
Gross premiums written	\$297,420	\$293,046	\$79,554	\$ 62,795		\$ (6,647 )	\$726,168	
Reinsurance premiums ceded	(19,378 )	(37,246 )	(5,441 )	—		6,647	(55,418 )	
Net premiums written	278,042	255,800	74,113	62,795		—	670,750	
Change in unearned premiums	(13,492 )	(50,362 )	(8,995 )	(25,213 )		—	(98,062 )	
Net premiums earned	264,550	205,438	65,118	37,582		—	572,688	
Other insurance related income (loss)	434	40	276	5,532		(5,574 )	708	
Total underwriting revenues	264,984	205,478	65,394	43,114		(5,574 )	573,396	
Underwriting deductions								
Losses and loss expenses	123,405	95,970	46,771	—		—	266,146	
Policy acquisition costs	43,826	47,659	9,617	3,742		(521 )	104,323	
General and administrative expenses	18,781	35,555	8,923	8,805	17,092	(5,131 )	84,025	
Share compensation expenses	2,396	3,024	494	150	3,178	—	9,242	
Total underwriting deductions	188,408	182,208	65,805	12,697	20,270	(5,652 )	463,736	
Underwriting income (loss)	\$76,576	\$23,270	\$(411 )	\$ 30,417	\$(20,270 )	\$ 78	\$109,660	
Other items (a)				(1,844 )	(53,076 )		(54,920 )	
Dividends on preferred shares					—		—	
Net investment income				1,757	31,854		33,611	
(Income) attributable to AlphaCat investors				—	—		—	
Net (income) attributable to noncontrolling interest				(22,561 )	—		(22,561 )	
Segmental income (loss)	\$76,576	\$23,270	\$(411 )	\$ 7,769	\$(41,492 )	\$ 78		
Net income available to Validus common shareholders							\$65,790	

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

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	Six Months Ended June 30, 2016						
	Validus Re Segment	Talbot Segment	Western World Segment	AlphaCat & Consolidated Variable Interest Entities	Corporate & Investments	Eliminations	Total
Underwriting revenues							
Gross premiums written	\$977,478	\$562,384	\$150,930	\$266,253		\$(20,212)	\$1,936,833
Reinsurance premiums ceded	(95,691)	(114,619)	(9,145)	(4,821)		20,212	(204,064)
Net premiums written	881,787	447,765	141,785	261,432		—	1,732,769
Change in unearned premiums	(390,834)	(39,424)	(14,630)	(142,890)		—	(587,778)
Net premiums earned	490,953	408,341	127,155	118,542		—	1,144,991
Other insurance related (loss) income	(165)	290	477	9,066		(8,187)	1,481
Total underwriting revenues	490,788	408,631	127,632	127,608		(8,187)	1,146,472
Underwriting deductions							
Losses and loss expenses	215,007	209,411	83,875	23,284		—	531,577
Policy acquisition costs	84,823	87,956	29,610	12,687		83	215,159
General and administrative expenses	35,051	77,596	23,533	14,017	34,055	(8,356)	175,896
Share compensation expenses	5,676	6,792	1,123	274	8,099	—	21,964
Total underwriting deductions	340,557	381,755	138,141	50,262	42,154	(8,273)	944,596
Underwriting income (loss)	\$150,231	\$26,876	\$(10,509)	\$77,346	\$(42,154)	\$86	\$201,876
Other items (a)				1,212	59,405		60,617
Dividends on preferred shares					—		—
Net investment income				4,543	64,772	(597)	68,718
(Income) attributable to AlphaCat investors				(10,714)	—		(10,714)
Net (income) attributable to noncontrolling interest				(58,724)	—		(58,724)
Segmental income (loss)	\$150,231	\$26,876	\$(10,509)	\$13,663	\$82,023	\$(511)	
Net income available to Validus common shareholders							\$261,773

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



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	Six Months Ended June 30, 2015						
	Validus Re Segment	Talbot Segment	Western World Segment	AlphaCat & Consolidated Variable Interest Entities	Corporate & Investments	Eliminations	Total
Underwriting revenues							
Gross premiums written	\$ 1,009,113	\$ 563,123	\$ 136,501	\$ 164,600		\$ (27,945 )	\$ 1,845,392
Reinsurance premiums ceded	(133,155 )	(128,321 )	(8,674 )	(4,538 )		27,945	(246,743 )
Net premiums written	875,958	434,802	127,827	160,062		—	1,598,649
Change in unearned premiums	(358,320 )	(6,775 )	5,173	(90,149 )		—	(450,071 )
Net premiums earned	517,638	428,027	133,000	69,913		—	1,148,578
Other insurance related income (loss)	749	94	539	11,456		(11,190 )	1,648
Total underwriting revenues	518,387	428,121	133,539	81,369		(11,190 )	1,150,226
Underwriting deductions							
Losses and loss expenses	236,533	174,098	97,288	(844 )		—	507,075
Policy acquisition costs	85,920	96,763	13,896	7,177		(1,022 )	202,734
General and administrative expenses	38,290	72,049	19,550	16,059	32,698	(10,386 )	168,260
Share compensation expenses	4,974	5,981	971	299	6,071	—	18,296
Total underwriting deductions	365,717	348,891	131,705	22,691	38,769	(11,408 )	896,365
Underwriting income (loss)	\$ 152,670	\$ 79,230	\$ 1,834	\$ 58,678	\$ (38,769 )	\$ 218	\$ 253,861
Other items (a)				(5,753 )	(32,808 )		(38,561 )
Dividends on preferred shares					—		—
Net investment income				3,350	61,290		64,640
(Income) attributable to AlphaCat investors				—	—		—
Net (income) attributable to noncontrolling interest				(40,739 )	—		(40,739 )
Segmental income (loss)	\$ 152,670	\$ 79,230	\$ 1,834	\$ 15,536	\$ (10,287 )	\$ 218	
Net income available to Validus							\$ 239,201

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

(loss).

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

Gross Premiums Written							
Three Months Ended June 30, 2016							
	Validus Re	Talbot	Western World	AlphaCat	Eliminations	Total	%
United States	\$129,087	\$39,135	\$86,971	\$37,338	\$ (417 )	\$292,114	38.2 %
Worldwide excluding United States (a)	16,975	30,028	—	6,496	(136 )	53,363	7.0 %
Australia and New Zealand	1,926	2,063	—	867	21	4,877	0.6 %
Europe	3,267	6,855	—	(145 )	216	10,193	1.3 %
Latin America and Caribbean	5,992	27,597	—	—	(2,511 )	31,078	4.1 %
Japan	39,053	3,965	—	1,721	(7 )	44,732	5.9 %
Canada	1,821	2,470	—	223	(36 )	4,478	0.6 %
Rest of the world (b)	3,259	29,806	—	—	(457 )	32,608	4.3 %
Sub-total, non United States	72,293	102,784	—	9,162	(2,910 )	181,329	23.8 %
Worldwide including United States (a)	35,561	34,198	—	52,394	(380 )	121,773	15.9 %
Other locations non-specific (c)	48,869	119,950	—	11	(4 )	168,826	22.1 %
Total	\$285,810	\$296,067	\$86,971	\$98,905	\$ (3,711 )	\$764,042	100.0 %
Gross Premiums Written							
Three Months Ended June 30, 2015							
	Validus Re	Talbot	Western World	AlphaCat	Eliminations	Total	%
United States	\$171,006	\$40,036	\$79,554	\$23,800	\$ (428 )	\$313,968	43.3 %
Worldwide excluding United States (a)	12,322	30,231	—	2,173	69	44,795	6.2 %
Australia and New Zealand	1,643	1,173	—	624	25	3,465	0.5 %
Europe	16,282	10,584	—	1,073	(84 )	27,855	3.8 %
Latin America and Caribbean	7,684	28,693	—	—	(3,919 )	32,458	4.5 %
Japan	37,800	2,843	—	1,671	(45 )	42,269	5.8 %
Canada	597	2,299	—	294	(48 )	3,142	0.4 %
Rest of the world (b)	3,026	24,982	—	—	(294 )	27,714	3.8 %
Sub-total, non United States	79,354	100,805	—	5,835	(4,296 )	181,698	25.0 %
Worldwide including United States (a)	37,967	32,704	—	32,410	(2,021 )	101,060	13.9 %
Other locations non-specific (c)	9,093	119,501	—	750	98	129,442	17.8 %
Total	\$297,420	\$293,046	\$79,554	\$62,795	\$ (6,647 )	\$726,168	100.0 %

(a) Represents risks in two or more geographic zones.

(b) Represents risks in one geographic zone.

The Other locations non-specific category refers to business for which an analysis of exposure by geographic zone (c) is not applicable since these exposures can span multiple geographic areas and, in some instances, are not fixed locations.



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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)

	Gross Premiums Written						
	Six Months Ended June 30, 2016						
	Validus Re	Talbot	Western World	AlphaCat	Eliminations	Total	%
United States	\$424,481	\$65,245	\$150,930	\$62,729	\$ (1,555 )	\$701,830	36.2 %
Worldwide excluding United States (a)	47,239	65,532	—	22,507	(611 )	134,667	7.0 %
Australia and New Zealand	6,849	4,375	—	4,949	(113 )	16,060	0.8 %
Europe	25,734	20,716	—	3,306	(708 )	49,048	2.5 %
Latin America and Caribbean	19,574	51,404	—	—	(5,537 )	65,441	3.4 %
Japan	39,925	4,582	—	3,221	(31 )	47,697	2.5 %
Canada	3,497	3,562	—	223	(87 )	7,195	0.4 %
Rest of the world (b)	19,947	57,290	—	—	(2,342 )	74,895	3.9 %
Sub-total, non United States	162,765	207,461	—	34,206	(9,429 )	395,003	20.5 %
Worldwide including United States (a)	147,338	62,652	—	167,767	(9,214 )	368,543	19.0 %
Other locations non-specific (c)	242,894	227,026	—	1,551	(14 )	471,457	24.3 %
Total	\$977,478	\$562,384	\$150,930	\$266,253	\$ (20,212 )	\$1,936,833	100.0 %
	Gross Premiums Written						
	Six Months Ended June 30, 2015						
	Validus Re	Talbot	Western World	AlphaCat	Eliminations	Total	%
United States	\$510,020	\$68,094	\$136,501	\$36,945	\$ (1,882 )	\$749,678	40.7 %
Worldwide excluding United States (a)	47,288	65,173	—	8,006	(933 )	119,534	6.5 %
Australia and New Zealand	11,507	3,049	—	624	(126 )	15,054	0.8 %
Europe	41,017	23,798	—	2,512	(904 )	66,423	3.6 %
Latin America and Caribbean	16,932	51,385	—	—	(7,813 )	60,504	3.3 %
Japan	39,184	3,597	—	1,671	(58 )	44,394	2.4 %
Canada	2,782	3,997	—	488	(124 )	7,143	0.4 %
Rest of the world (b)	21,680	47,988	—	—	(2,542 )	67,126	3.6 %
Sub-total, non United States	180,390	198,987	—	13,301	(12,500 )	380,178	20.6 %
Worldwide including United States (a)	122,811	54,498	—	110,304	(13,659 )	273,954	14.8 %
Other locations non-specific (c)	195,892	241,544	—	4,050	96	441,582	23.9 %
Total	\$1,009,113	\$563,123	\$136,501	\$164,600	\$ (27,945 )	\$1,845,392	100.0 %

(a) Represents risks in two or more geographic zones.

(b) Represents risks in one geographic zone.

The Other locations non-specific category refers to business for which an analysis of exposure by geographic zone (c) is not applicable since these exposures can span multiple geographic areas and, in some instances, are not fixed locations.



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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)

19. Subsequent events

Quarterly Dividend

On August 3, 2016, the Company announced a quarterly cash dividend of \$0.35 per each common share, payable on September 30, 2016 to holders of record on September 15, 2016 and a cash dividend of \$0.3753472 per depositary share on the outstanding Series A Preferred Shares, payable on September 15, 2016 to the holders of record on September 1, 2016.

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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 six months ended June 30, 2016 and 2015 and the Company's consolidated financial condition, liquidity and capital resources as at June 30, 2016 and December 31, 2015. This discussion and analysis should be read in conjunction with the Company's unaudited Consolidated Financial Statements and notes thereto included in this filing and the Company's audited Consolidated Financial Statements and related notes for the fiscal year ended December 31, 2015, the discussions of critical accounting policies and the qualitative and quantitative disclosure about market risk, as well as management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

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

Executive Overview

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

The Company's strategy is to concentrate primarily on short-tail risks, which has been an area where management believes prices and terms provide an attractive risk-adjusted return and the management team has proven expertise. The Company's profitability in any given period is based upon premium and investment revenues, less net losses and loss expenses, acquisition expenses and operating expenses. The Company's insurance and reinsurance portfolio, as measured by gross premium written, was comprised of 31% insurance and 69% reinsurance for the six months ended June 30, 2016 (2015: 33% insurance and 67% reinsurance), compared to 46% insurance and 54% reinsurance for the year ended December 31, 2015. The change in portfolio composition was driven primarily by the seasonality of reinsurance renewals. Financial results in the insurance and reinsurance industry are influenced by the frequency and/or severity of claims and losses, including as a result of catastrophic events, changes in interest rates, financial markets and general economic conditions, the supply of insurance and reinsurance capacity and changes in legal, regulatory and judicial environments.

Business Outlook and Trends

We underwrite global property insurance and reinsurance and have large aggregate exposures to natural and man-made disasters. The occurrence of claims from catastrophic events results in substantial volatility, and can have material adverse effects on the Company's financial condition and results and its ability to write new business. This volatility affects results for the period in which the loss occurs because U.S. accounting principles do not permit reinsurers to reserve for such catastrophic events until they occur. Catastrophic events of significant magnitude historically have been relatively infrequent, although management believes the property catastrophe reinsurance market has experienced a higher level of worldwide catastrophic losses in terms of both frequency and severity in the period from 1992 to the present. We also expect that increases in the values and concentrations of insured property will increase the severity of such occurrences in the future. The Company seeks to reflect these types of trends when

pricing contracts.

Property and other reinsurance premiums have historically risen in the aftermath of significant catastrophic losses. As loss reserves are established, industry surplus is depleted and the industry's capacity to write new business diminishes. The global property and casualty insurance and reinsurance industry has historically been highly cyclical. Since 2007, increased capital provided by new entrants or by the commitment of capital by existing insurers and reinsurers increased the supply of insurance and reinsurance which resulted in a softening of rates on most lines. From 2010 to 2012, there was an increased level of catastrophe activity, principally the Chilean earthquake, Deepwater Horizon, the Tohoku earthquake, the New Zealand earthquakes and Superstorm Sandy, but the Company continues to see increased competition and decreased premium rates in most classes of business. In the absence of significant catastrophes in recent years, the market supply of capital is greater than the demand and therefore we expect to see continued pressure on rates in the near term.

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During the January 2016 renewal season, the Validus Re and AlphaCat segments underwrote \$610.5 million in gross premiums written (excluding U.S. agriculture premiums and net of intercompany eliminations between Validus Re and AlphaCat), an increase of 12.9% from the prior year renewal period. This increase was primarily driven by an increase in AlphaCat AUM and new business in the casualty and specialty lines, offset by non-renewed business in the property and marine lines due to rate reductions. The U.S. property lines experienced rate declines in the low single-digits, while rate declines in the international property lines were more challenging, with rates down closer to 10%. The marine lines experienced rate declines in the mid-single digits due to the worldwide reduction in oil prices. During the mid year 2016 renewal period, the U.S. property market saw a continuation of the rate trend observed at the January 1 renewals where rate declines were in the low single-digits. However, the rate environment in the international property market proved to be more challenging as market participants actively pursued diversification of exposure, often at the expense of profit, which resulted in average rate reductions of about 10%.

Business written by the Talbot and Western World segments is distributed more evenly throughout the year. Through June 30, 2016, the Talbot segment experienced a whole account rate decrease of approximately 6.2% driven primarily by decreases in energy classes. The Western World segment experienced a whole account rate increase of approximately 1.4% through June 30, 2016.

Financial Measures

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

	June 30, 2016	December 31, 2015
Book value per diluted common share plus accumulated dividends	\$55.27	\$52.49
Book value per diluted common share	\$44.41	\$42.33
Tangible book value per diluted common share	\$40.65	\$38.63

Book value per diluted common share plus accumulated dividends is considered by management to be the primary indicator of financial performance, as we believe growth in book value on a diluted basis, plus the dividends that have accumulated, ultimately translates into the return that a shareholder will receive. Book value per diluted common share plus accumulated dividends increased by \$2.78, or 5.3%, from \$52.49 at December 31, 2015 to \$55.27 at June 30, 2016. Cash dividends per common share are an integral part of the value created for shareholders. The Company paid quarterly cash dividends of \$0.35 per common share during the six months ended June 30, 2016. On August 3, 2016, the Company announced a quarterly cash dividend of \$0.35 per common share payable on September 30, 2016 to holders of record on September 15, 2016 and a cash dividend of \$0.3753472 per depository share on the outstanding Series A preferred shares, payable on September 15, 2016 to the holders of record on September 1, 2016.

Book value per diluted common share plus accumulated dividends is calculated based on total shareholders' equity available to Validus excluding the liquidation value of the preferred shares of \$150.0 million, plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares and options and warrants outstanding (assuming their exercise), plus accumulated dividends. Book value per diluted common share plus accumulated dividends is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures."

Book value per diluted common share is considered by management to be a measure of returns to common shareholders, as we believe growth in book value on a diluted basis ultimately translates into growth in stock price. Book value per diluted common share after dividends paid, increased by \$2.08, or 4.9%, from \$42.33 at December 31, 2015 to \$44.41 at June 30, 2016. Growth in book value per diluted common share inclusive of dividends was 1.7% and 1.2% for the three months ended June 30, 2016 and 2015, respectively, and 6.6% and 6.1% for the six months ended June 30, 2016 and 2015, respectively. Book value per diluted common share is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures." All outstanding warrants expired on December 12, 2015 and no further warrants are anticipated to be issued.

Tangible book value per diluted common share is considered by management to be a measure of returns to common shareholders excluding intangible assets and goodwill, as we believe growth in tangible book value on a diluted basis

ultimately translates into growth in the tangible value of the Company. Tangible book value per diluted common share increased by \$2.02, or 5.2%, from \$38.63 at December 31, 2015 to \$40.65 at June 30, 2016. Tangible book value per diluted common share is calculated based on total shareholders' equity available to Validus excluding the liquidation value of the preferred shares of \$150.0 million, less intangible assets and goodwill, plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares and options and warrants outstanding (assuming their exercise). Tangible book value per diluted common share is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures."

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	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
(Dollars in thousands)	2016	2015	2016	2015
Underwriting income	\$58,957	\$109,660	\$201,876	\$253,861
Net operating income available to Validus common shareholders	\$54,900	\$101,717	\$172,278	\$238,591
Annualized return on average equity	10.2%	7.2%	14.2%	13.1%
Annualized net operating return on average equity	5.9%	11.1%	9.3%	13.1%

Underwriting income measures the performance of the Company's core underwriting function, excluding revenues and expenses such as net investment income, finance expenses, tax (expense) benefit, income (loss) from operating affiliates, (income) attributable to AlphaCat investors, net realized and change in net unrealized gains (losses) on investments, income (loss) from investment affiliate, foreign exchange gains (losses), other income (loss), non-recurring items and net (income) 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 was \$59.0 million and \$109.7 million for the three months ended June 30, 2016 and 2015, respectively, and \$201.9 million and \$253.9 million for the six months ended June 30, 2016 and 2015, respectively. Underwriting income is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures."

Net operating income available to Validus common shareholders is defined as net income (loss) excluding net realized and change in net unrealized gains (losses) on investments, income (loss) from investment affiliate, foreign exchange gains (losses), other income (loss), non-recurring items, operating (income) attributable to noncontrolling interest and dividends on preferred shares. This measure focuses on the underlying fundamentals of the Company's operations without the influence of gains (losses) from the sale of investments, translation of non-U.S. dollar currencies, non-recurring items, (income) attributable to noncontrolling interest and dividends on preferred shares. Net operating income available to Validus common shareholders was \$54.9 million and \$101.7 million for the three months ended June 30, 2016 and 2015, respectively, and \$172.3 million and \$238.6 million for the six months ended June 30, 2016 and 2015, respectively. Net operating income available to Validus common shareholders is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures."

Annualized return on average equity represents the return generated on common shareholders' equity during the period. Annualized return on average equity is calculated by dividing the net income available to Validus common shareholders 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, excluding the liquidation value of the preferred shares of \$150.0 million. The Company's objective is to generate superior returns on capital that appropriately reward shareholders for the risks assumed. The annualized return on average equity was 10.2% and 7.2% for the three months ended June 30, 2016 and 2015, respectively, and 14.2% and 13.1% for the six months ended June 30, 2016 and 2015, respectively.

Annualized net operating return on average equity represents the operating return generated on common shareholders' equity during the period. Annualized net operating return on average equity is calculated by dividing the net operating income available to Validus common shareholders 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, excluding the liquidation value of the preferred shares of \$150.0 million. The annualized net operating return on average equity was 5.9% and 11.1% for the three months ended June 30, 2016 and 2015, respectively, and 9.3% and 13.1% for the six months ended June 30, 2016 and 2015, respectively.

Annualized net operating return on average equity is a non-GAAP financial measure, which are described in the section entitled "Non-GAAP Financial Measures."

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## Second Quarter 2016 Summarized Results of Operations - Consolidated

The following table presents results of operations for the three months ended June 30, 2016 and 2015:

(Dollars in thousands)	Three Months Ended June 30,			
	2016	Change	2015	
Underwriting revenues				
Gross premiums written	\$764,042	\$37,874	\$726,168	
Reinsurance premiums ceded	(36,229 )	19,189	(55,418 )	
Net premiums written	727,813	57,063	670,750	
Change in unearned premiums	(154,090 )	(56,028 )	(98,062 )	
Net premiums earned	573,723	1,035	572,688	
Other insurance related income	745	37	708	
Total underwriting revenues	574,468	1,072	573,396	
Underwriting deductions				
Losses and loss expenses	307,130	40,984	266,146	
Policy acquisition costs	107,966	3,643	104,323	
General and administrative expenses	89,688	5,663	84,025	
Share compensation expenses	10,727	1,485	9,242	
Total underwriting deductions	515,511	51,775	463,736	
Underwriting income (a)	\$58,957	\$(50,703)	\$109,660	
Net investment income	39,257	5,646	33,611	
Finance expenses	(14,166 )	4,516	(18,682 )	
Dividends on preferred shares	—	—	—	
Tax expense	(1,706 )	843	(2,549 )	
Income from operating affiliates	—	(1,738 )	1,738	
(Income) attributable to AlphaCat investors	(6,114 )	(6,114 )	—	
Net (income) attributable to noncontrolling interest	(21,328 )	733	(22,061 )	
Net operating income available to Validus common shareholders (a)	\$54,900	\$(46,817)	\$101,717	
Supplemental information:				
Losses and loss expenses				
Current period excluding items below	\$284,704	\$(19,086)	\$303,790	
Current period—notable loss events	36,915	(11,159 )	48,074	
Current period—non-notable loss events	48,292	63,292	(15,000 )	
Change in prior accident years	(62,781 )	7,937	(70,718 )	
Total losses and loss expenses	\$307,130	\$40,984	\$266,146	
Selected ratios:				
Net premiums written / Gross premiums written	95.3	% 2.9	92.4	%
Losses and loss expense ratio				
Current period excluding items below	49.6	% (3.4 )	53.0	%
Current period—notable loss events	6.4	% (2.0 )	8.4	%
Current period—non-notable loss events	8.4	% 11.0	(2.6 )	%
Change in prior accident years	(10.9 )	% 1.4	(12.3 )	%
Losses and loss expenses	53.5	% 7.0	46.5	%
Policy acquisition costs	18.8	% 0.6	18.2	%

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General and administrative expenses (b)	17.6	% 1.3	16.3	%
Expense ratio	36.4	% 1.9	34.5	%
Combined ratio	89.9	% 8.9	81.0	%

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

(a) 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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## Second Quarter 2016 Summarized Results of Operations - Consolidated

Highlights for the second quarter are as follows:

Gross premiums written for the three months ended June 30, 2016 were \$764.0 million compared to \$726.2 million for the three months ended June 30, 2015, an increase of \$37.9 million, or 5.2%. The increase was primarily driven by an increase in the AlphaCat, Western World and Talbot segments, partially offset by a decrease in the Validus Re segment discussed further as follows:

Gross premiums written in the AlphaCat segment, on behalf of the Company's variable interest entities ("VIEs"), were \$98.9 million for the three months ended June 30, 2016, compared to \$62.8 million for the three months ended June 30, 2015, an increase of \$36.1 million or 57.5%, primarily due to an increase in the capital base of the AlphaCat ILS Funds.

Gross premiums written for the three months ended June 30, 2016 in the Western World segment were \$87.0 million compared to \$79.6 million for the three months ended June 30, 2015, an increase of \$7.4 million or 9.3%, primarily driven by an increase in the property lines as a result of continued enhancements to the underwriting platform.

Gross premiums written for the three months ended June 30, 2016 in the Talbot segment were \$296.1 million compared to \$293.0 million for the three months ended June 30, 2015, an increase of \$3.0 million or 1.0%.

Gross premiums written for the three months ended June 30, 2016 in the Validus Re segment were \$285.8 million compared to \$297.4 million for the three months ended June 30, 2015, a decrease of \$11.6 million or 3.9%. The decrease was primarily driven by a decrease in the property lines due to the timing of renewals, current market conditions and increased cessions to AlphaCat, partially offset by an increase in the specialty lines.

Underwriting revenues for the three months ended June 30, 2016 were \$574.5 million compared to \$573.4 million for the three months ended June 30, 2015, an increase of \$1.1 million or 0.2%.

Losses and loss expenses for the three months ended June 30, 2016 were \$307.1 million compared to \$266.1 million for the three months ended June 30, 2015, an increase of \$41.0 million or 15.4%, primarily as a result of increased non-notable loss events incurred during the three months ended June 30, 2016.

Gross losses and loss expenses from the Canadian Wildfires notable loss event, defined as consolidated net losses which aggregate to a threshold greater than or equal to \$30.0 million, were \$73.5 million for the three months ended June 30, 2016. Net of reinsurance recoveries of \$36.6 million, the Company's share of net losses and loss expenses from the loss event was \$36.9 million, or 6.4 percentage points of the loss ratio during the three months ended June 30, 2016. Net of losses of \$6.4 million attributable to AlphaCat investors and noncontrolling interest and reinstatement premiums of \$3.6 million, the net loss attributable to the Company was \$26.9 million. During the three months ended June 30, 2015, the Company incurred a single notable loss event, Pemex, which resulted in an estimated net loss attributable to the Company of \$48.1 million, or 8.4 percentage points of the loss ratio. Including reinstatement premiums of \$0.4 million, the net loss attributable to the Company was \$48.5 million.

Gross losses and loss expenses from the Texas Hailstorms, Kumamoto Earthquake and Jubilee Oil non-notable loss events, defined as consolidated net losses which aggregate to a threshold greater than or equal to \$15.0 million but less than \$30.0 million, were \$92.5 million for the three months ended June 30, 2016. Net of reinsurance recoveries of \$44.2 million, the Company's aggregate share of net losses and loss expenses from non-notable loss events was \$48.3 million, or 8.4 percentage points of the loss ratio. Net of losses of \$5.5 million attributable to AlphaCat investors and noncontrolling interest and reinstatement premiums of \$9.7 million, the net loss attributable to the Company was \$33.1 million. Losses and loss expenses from non-notable loss events for the three months ended June 30, 2015 were \$(15.0) million, or (2.6) percentage points of the loss ratio which represented a reserve release on the first quarter 2015 non-notable loss event, Windstorm Niklas.

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Loss ratios by line of business were as follows:

	Three Months Ended		
	June 30,		
	2016	Change	2015
Property	53.1 %	41.5	11.6 %
Marine	35.1 %	(29.7 )	64.8 %
Specialty	60.3 %	(6.8 )	67.1 %
Liability	66.1 %	(4.5 )	70.6 %
All lines	53.5 %	7.0	46.5 %

The loss ratio for the three months ended June 30, 2016 was 53.5% which included \$62.8 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 10.9 percentage points compared to a loss ratio for the three months ended June 30, 2015 of 46.5% which included \$70.7 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 12.3 percentage points. The favorable development of \$62.8 million for the three months ended June 30, 2016 was primarily due to favorable development on non-event reserves of \$56.3 million and favorable development on prior years from events of \$6.5 million. The term events refers to aggregate notable and non-notable losses incurred.

The combined ratio for the three months ended June 30, 2016 was 89.9% compared to 81.0% for the three months ended June 30, 2015.

Policy acquisition costs for the three months ended June 30, 2016 were \$108.0 million compared to \$104.3 million for the three months ended June 30, 2015, an increase of \$3.6 million or 3.5%, primarily driven by an increase in the Western World segment due to the impact of the acquisition fair value adjustments during the three months ended June 30, 2015.

Underwriting income for the three months ended June 30, 2016 was \$59.0 million compared to \$109.7 million for the three months ended June 30, 2015, a decrease of \$50.7 million or 46.2% primarily as a result of the changes in underwriting revenues and deductions described above.

Net operating income available to Validus common shareholders for the three months ended June 30, 2016 was \$54.9 million compared to \$101.7 million for the three months ended June 30, 2015, a decrease of \$46.8 million, or 46.0%.

Net income available to Validus common shareholders for the three months ended June 30, 2016 was \$95.0 million compared to \$65.8 million for the three months ended June 30, 2015, an increase of \$29.2 million, or 44.3%.

Annualized return on average equity was 10.2% and annualized net operating return on average equity was 5.9% for the three months ended June 30, 2016 compared to 7.2% and 11.1%, respectively, for the three months ended June 30, 2015.

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## Segment Reporting

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

## Second Quarter 2016 Results of Operations - Validus Re Segment

The following table presents underwriting income for the three months ended June 30, 2016 and 2015:

(Dollars in thousands)	Three Months Ended June 30,		
	2016	Change	2015
Underwriting revenues			
Gross premiums written	\$285,810	\$(11,610)	\$297,420
Reinsurance premiums ceded	(3,196 )	16,182	(19,378 )
Net premiums written	282,614	4,572	278,042
Change in unearned premiums	(35,492 )	(22,000 )	(13,492 )
Net premiums earned	247,122	(17,428 )	264,550
Other insurance related income	150	(284 )	434
Total underwriting revenues	247,272	(17,712 )	264,984
Underwriting deductions			
Losses and loss expenses	132,139	8,734	123,405
Policy acquisition costs	42,564	(1,262 )	43,826
General and administrative expenses	17,872	(909 )	18,781
Share compensation expenses	2,775	379	2,396
Total underwriting deductions	195,350	6,942	188,408
Underwriting income (a)	\$51,922	\$(24,654)	\$76,576
Supplemental information:			
Losses and loss expenses			
Current period excluding items below	\$112,676	\$(21,419)	\$134,095
Current period—notable loss events	17,884	(17,305 )	35,189
Current period—non-notable loss events	32,456	47,456	(15,000 )
Change in prior accident years	(30,877 )	2	(30,879 )
Total losses and loss expenses	\$132,139	\$8,734	\$123,405
Selected ratios:			
Net premiums written / Gross premiums written	98.9	% 5.4	93.5 %
Losses and loss expense ratio			
Current period excluding items below	45.7	% (5.0 )	50.7 %
Current period—notable loss events	7.2	% (6.1 )	13.3 %
Current period—non-notable loss events	13.1	% 18.8	(5.7 )%
Change in prior accident years	(12.5 )	% (0.8 )	(11.7 )%
Losses and loss expenses	53.5	% 6.9	46.6 %
Policy acquisition costs	17.2	% 0.6	16.6 %
General and administrative expenses (b)	8.4	% 0.4	8.0 %
Expense ratio	25.6	% 1.0	24.6 %
Combined ratio	79.1	% 7.9	71.2 %

(a) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Non-GAAP measures may be defined or calculated differently by other companies.

These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Further discussion of these measures is presented in the section entitled “Non-GAAP Financial Measures.”

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

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## Gross Premiums Written

Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written Three Months Ended June 30,						
(Dollars in thousands)	2016		Change		2015	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$216,034	75.6 %	\$(30,591)	(7.3 )	\$246,625	82.9 %
Marine	7,806	2.7 %	1,261	0.5	6,545	2.2 %
Specialty	61,970	21.7 %	17,720	6.8	44,250	14.9 %
Total	\$285,810	100.0%	\$(11,610)		\$297,420	100.0%

The decrease in gross premiums written in the property lines of \$30.6 million was primarily due to reductions in our participation and non-renewals on various programs due to the current rate environment, timing differences on the renewal of certain contracts and increased AlphaCat cessions and was partially offset by an increase in reinstatement premiums. The increase in gross premiums written in the specialty lines of \$17.7 million was primarily as a result of new casualty business written during the three months ended June 30, 2016 of \$23.0 million, partially offset by decreases in the agriculture lines of \$8.2 million arising from earned premium adjustments and final contract estimate adjustments.

## Reinsurance Premiums Ceded

Reinsurance Premiums Ceded Three Months Ended June 30,			
(Dollars in thousands)	2016	Change	2015
Property	\$8,892	\$(8,730 )	\$17,622
Marine	(868 )	(2,349 )	1,481
Specialty	(4,828 )	(5,103 )	275
Total	\$3,196	\$(16,182)	\$19,378

Reinsurance premiums ceded in the property lines decreased by \$8.7 million primarily due to a reduction in the Company's main proportional retrocession program. The decrease in reinsurance premiums ceded in the marine and specialty lines of \$2.3 million and \$5.1 million, respectively, was primarily due to adjustments on existing business.

## Net Premiums Written

Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Three Months Ended June 30,						
(Dollars in thousands)	2016		Change		2015	
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	\$207,142	95.9 %	\$(21,861)	3.0	\$229,003	92.9 %
Marine	8,674	111.1 %	3,610	33.7	5,064	77.4 %
Specialty	66,798	107.8 %	22,823	8.4	43,975	99.4 %
Total	\$282,614	98.9 %	\$4,572	5.4	\$278,042	93.5 %

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.

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## Net Premiums Earned

	Net Premiums Earned		
	Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Property	\$105,228	\$(1,965 )	\$107,193
Marine	31,097	(13,319 )	44,416
Specialty	110,797	(2,144 )	112,941
Total	\$247,122	\$(17,428)	\$264,550

The decrease in marine lines net premiums earned of \$13.3 million was primarily due to lower gross premiums written during the twelve months ended June 30, 2016 compared to the twelve months ended June 30, 2015 along with adjustments to existing business.

## Losses and Loss Expenses

	Losses and Loss Expense		
	Ratio - All Lines		
	Three Months Ended June		
	30,		
	2016	Change	2015
All lines—current period excluding items below	45.7 %	(5.0 )	50.7 %
All lines—current period—notable loss events	7.2 %	(6.1 )	13.3 %
All lines—current period—non-notable loss events	38.5 %	18.8	(5.7) %
All lines—change in prior accident years	(12.5)%	(0.8 )	(11.7)%
All lines—loss ratio	53.5 %	6.9	46.6 %
	Losses and Loss Expenses - All		
	Lines		
	Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
All lines—current period excluding items below	\$112,676	\$(21,419)	\$134,095
All lines—current period—notable loss events	17,884	(17,305 )	35,189
All lines—current period—non-notable loss events	94,792	47,456	(15,000 )
All lines—change in prior accident years	(30,877 )	2	(30,879 )
All lines—losses and loss expenses	\$132,139	\$8,734	\$123,405

## Notable Loss Events

Gross losses and loss expenses from the Canadian Wildfires notable loss event were \$54.2 million for the three months ended June 30, 2016. Net of reinsurance recoveries of \$36.3 million, the Company's share of net losses and loss expenses was \$17.9 million, which represented 7.2 percentage points of the loss ratio. Net of reinstatement premiums of \$3.1 million, the effect of this event on underwriting income was a reduction of \$14.8 million. Losses and loss expenses from a single notable loss event, Pemex, were \$35.2 million for the three months ended June 30, 2015, which represented 13.3 percentage points of the loss ratio. Net of \$9.1 million of reinstatement premiums, the effect of this event on underwriting income was a reduction of \$26.1 million.

## Non-notable Loss Events

Gross losses and loss expenses from non-notable loss events were \$76.7 million for the three months ended June 30, 2016. Net of reinsurance recoveries of \$44.2 million, the Company's share of net losses and loss expenses was \$32.5 million, which represented 13.1 percentage points of the loss ratio. The Texas Hailstorms, Kumamoto Earthquake and Jubilee Oil loss events, net of reinstatement premiums of \$8.5 million, resulted in an aggregate reduction of underwriting income of \$24.0 million. Losses and loss expenses from non-notable loss events during the three months ended June 30, 2015 were \$(15.0) million, or (5.7) percentage points of the loss ratio, representing a reserve release on the first quarter 2015 non-notable loss event, Windstorm Niklas.



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## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended June 30,			
	2016	Change	2015	
Property—current period excluding items below \$10.0 million	20.3 %	(8.3 )	28.6 %	
Property—current period—notable loss events	17.0 %	17.0	0.0 %	
Property—current period—non-notable loss events	21.0 %	35.0	(14.0) %	
Property—change in prior accident years	(9.0) %	5.9	(14.9) %	
Property—loss ratio	49.3 %	49.6	(0.3 )%	
	Losses and Loss Expenses - Property Lines Three Months Ended June 30,			
(Dollars in thousands)	2016	Change	2015	
Property—current period excluding items below \$10.0 million	\$21,361	\$(9,251 )	\$30,612	
Property—current period—notable loss events	17,884	17,884	—	
Property—current period—non-notable loss events	22,079	37,079	(15,000 )	
Property—change in prior accident years	(9,468 )	6,460	(15,928 )	
Property—losses and loss expenses	\$51,856	\$52,172	\$(316 )	

The property lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 8.3 percentage points, representing a lower level of attritional losses in the three months ended June 30, 2016 compared to the three months ended June 30, 2015, which included losses of \$10.0 million from flooding in Texas that was below the non-notable loss event threshold.

During the three months ended June 30, 2016, the property lines incurred \$17.9 million of losses and loss expenses from a single notable loss event, the Canadian Wildfires, which represented 17.0 percentage points of the property lines loss ratio. There were no notable loss events during the three months ended June 30, 2015. Losses and loss expenses on non-notable loss events, the Kumamoto Earthquake and the Texas Hailstorms, were \$22.1 million, or 21.0 percentage points of the property lines loss ratio during the three months ended June 30, 2016. Net of reinstatement premiums of \$1.8 million, the effect of these loss events on underwriting income was a reduction of \$20.3 million. During the three months ended June 30, 2015, the property lines incurred \$(15.0) million, or (14.0) percentage points of the property lines loss ratio of losses and loss expenses from non-notable loss events arising from a reserve release on the first quarter 2015 non-notable loss event, Windstorm Niklas. The favorable development on prior accident years for the three months ended June 30, 2016 and 2015 of \$9.5 million and \$15.9 million, respectively, was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Marine Lines Three Months Ended June 30,			
	2016	Change	2015	
Marine—current period excluding items below \$10.0 million	52.3 %	9.6	42.7 %	
Marine—current period—notable loss events	0.0 %	(75.5 )	75.5 %	
Marine—current period—non-notable loss events	21.5 %	2.2	0.0 %	
Marine—change in prior accident years	(32.2)%	(7.2 )	(25.0)%	
Marine—loss ratio	22.3 %	(70.9 )	93.2 %	



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	Losses and Loss Expenses - Marine Lines		
	Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Marine—current period excluding items below	\$16,269	\$(2,702 )	\$18,971
Marine—current period—notable loss events	—	(33,524 )	33,524
Marine—current period—non-notable loss events	670	670	—
Marine—change in prior accident years	(10,018 )	1,081	(11,099 )
Marine—losses and loss expenses	\$6,921	\$(34,475)	\$41,396

The marine lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, increased by 9.6 percentage points, primarily due to the decrease in net premiums earned in the current quarter as noted above. During the three months ended June 30, 2015, the marine lines incurred \$33.5 million of losses and loss expenses from a single notable loss event, Pemex, which represented 75.5 percentage points of the marine lines loss ratio. Net of \$9.1 million of reinstatement premiums, the effect of this event on underwriting income was a reduction of \$24.4 million. Losses and loss expenses from a single non-notable loss event, Jubilee Oil, were \$0.7 million, or 2.2 percentage points of the marine lines loss ratio for the three months ended June 30, 2016. There were no non-notable loss events for the three months ended June 30, 2015. The favorable development of \$10.0 million and \$11.1 million on prior accident years for the three months ended June 30, 2016 and 2015, respectively, was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Specialty Lines		
	Three Months Ended June 30,		
	2016	Change	2015
Specialty—current period excluding items below	67.7 %	(7.1 )	74.8 %
Specialty—current period—notable loss events	0.0 %	(1.5 )	1.5 %
Specialty—current period—non-notable loss events	8.8 %	8.8	0.0 %
Specialty—change in prior accident years	(10.3)%	(6.9 )	(3.4 )%
Specialty—loss ratio	66.2 %	(6.7 )	72.9 %

	Losses and Loss Expenses - Specialty Lines		
	Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Specialty—current period excluding items below	\$75,046	\$(9,466)	\$84,512
Specialty—current period—notable loss events	—	(1,665 )	1,665
Specialty—current period—non-notable loss events	9,707	9,707	—
Specialty—change in prior accident years	(11,391 )	(7,539 )	(3,852 )
Specialty—losses and loss expenses	\$73,362	\$(8,963)	\$82,325

The specialty lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 7.1 percentage points, representing a lower level of attritional losses in the current quarter. During the three months ended June 30, 2015, the specialty lines incurred \$1.7 million of losses and loss expenses from a single notable loss event, Pemex, which represented 1.5 percentage points of the specialty lines loss ratio. Losses and loss expenses from a single non-notable loss event, Jubilee Oil, were \$9.7 million, or 8.8 percentage points of the specialty lines loss ratio for the three months ended June 30, 2016. There were no non-notable loss events for the three months ended June 30, 2015. The favorable loss reserve development on prior accident years for the three months ended June 30, 2016 of \$11.4 million was primarily due to favorable development on attritional losses and agriculture losses. The favorable development on prior accident years for the three months ended June 30, 2015 of \$3.9 million was primarily due to favorable development on attritional losses.



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## Policy Acquisition Costs

(Dollars in thousands)	Policy Acquisition Costs Three Months Ended June 30,					
	2016		Change	2015		
	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	\$18,269	17.4 %	\$(172 )	0.2	\$18,441	17.2 %
Marine	5,281	17.0 %	(2,497 )	(0.5 )	7,778	17.5 %
Specialty	19,014	17.2 %	1,407	1.6	17,607	15.6 %
Total	\$42,564	17.2 %	\$(1,262)	0.6	\$43,826	16.6 %

The acquisition cost ratio for the marine lines decreased by 0.5 percentage points primarily due to adjustments to existing business and profit commissions. The acquisition costs ratio for the specialty lines increased by 1.6 percentage points primarily due an increase in financial, trade credit, and mortgage lines which carry higher acquisition costs.

## Underwriting Income Before General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Underwriting Income Before General and Administrative and Share Compensation Expenses Three Months Ended June 30,		
	2016	Change	2015
	Property	\$35,103	\$(53,965)
Marine	18,895	23,653	(4,758 )
Specialty	18,421	5,412	13,009
Other insurance related income	150	(284 )	434
Total	\$72,569	\$(25,184)	\$97,753

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

## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	General and Administrative and Share Compensation Expenses Three Months Ended June 30,					
	2016		Change	2015		
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$17,872	7.2 %	\$(909)	0.1	\$18,781	7.1 %
Share compensation expenses	2,775	1.2 %	379	0.3	2,396	0.9 %
Total	\$20,647	8.4 %	\$(530)	0.4	\$21,177	8.0 %

General and administrative expenses and share compensation expenses were comparable for the three months ended June 30, 2016 and 2015.

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## 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 June 30, 2016 and 2015.

	Three Months Ended		
	June 30,		
	2016	Change	2015
Losses and loss expense ratio	53.5%	6.9	46.6%
Policy acquisition cost ratio	17.2%	0.6	16.6%
General and administrative expense ratio (a)	8.4 %	0.4	8.0 %
Expense ratio	25.6%	1.0	24.6%
Combined ratio	79.1%	7.9	71.2%

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

The increase in the combined ratio for the three months ended June 30, 2016 of 7.9 percentage points compared to the three months ended June 30, 2015 was due to the movement in the underlying ratios as discussed above.

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## Second Quarter 2016 Results of Operations - Talbot Segment

The following table presents underwriting income for the three months ended June 30, 2016 and 2015:

(Dollars in thousands)	Three Months Ended June 30,			
	2016	Change	2015	
Underwriting revenues				
Gross premiums written	\$296,067	\$3,021	\$293,046	
Reinsurance premiums ceded	(27,161 )	10,085	(37,246 )	
Net premiums written	268,906	13,106	255,800	
Change in unearned premiums	(67,357 )	(16,995 )	(50,362 )	
Net premiums earned	201,549	(3,889 )	205,438	
Other insurance related income	279	239	40	
Total underwriting revenues	201,828	(3,650 )	205,478	
Underwriting deductions				
Losses and loss expenses	109,310	13,340	95,970	
Policy acquisition costs	43,613	(4,046 )	47,659	
General and administrative expenses	39,061	3,506	35,555	
Share compensation expenses	3,270	246	3,024	
Total underwriting deductions	195,254	13,046	182,208	
Underwriting income (a)	\$6,574	\$(16,696)	\$23,270	
Supplemental information:				
Losses and loss expenses				
Current period excluding items below	\$116,824	\$(1,847 )	\$118,671	
Current period—notable loss events	11,703	(1,182 )	12,885	
Current period—non-notable loss events	9,111	9,111	—	
Change in prior accident years	(28,328 )	7,258	(35,586 )	
Total losses and loss expenses	\$109,310	\$13,340	\$95,970	
Selected ratios:				
Net premiums written / Gross premiums written	90.8	% 3.5	87.3	%
Losses and loss expense ratio				
Current period excluding items below	58.0	% 0.3	57.7	%
Current period—notable loss events	5.8	% (0.5 )	6.3	%
Current period—non-notable loss events	4.5	% 4.5	—	%
Change in prior accident years	(14.1 )	% 3.2	(17.3 )	%
Losses and loss expenses	54.2	% 7.5	46.7	%
Policy acquisition costs	21.6	% (1.6 )	23.2	%
General and administrative expenses (b)	21.1	% 2.3	18.8	%
Expense ratio	42.7	% 0.7	42.0	%
Combined ratio	96.9	% 8.2	88.7	%

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are (a) 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

Business Mix - Ratio of Gross Premiums Written by  
Line of Business to Total Gross Premiums Written  
Three Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$111,646	37.8 %	\$2,828	0.7	\$108,818	37.1 %
Marine	85,992	29.0 %	(3,717 )	(1.6 )	89,709	30.6 %
Specialty	98,429	33.2 %	3,910	0.9	94,519	32.3 %
Total	\$296,067	100.0%	\$3,021		\$293,046	100.0%

Talbot gross premiums written for the three months ended June 30, 2016 translated at 2015 exchange rates would have been \$299.6 million, an increase of \$6.6 million on the prior year period.

The decrease in gross premiums written in the marine lines of \$3.7 million was driven primarily by a decrease in the upstream energy class as a result of reductions in our participation and non-renewals on various programs due to the current rate environment. The increase in gross premiums written in the specialty lines of \$3.9 million was primarily due to upwards premium adjustments on prior year policies.

## Reinsurance Premiums Ceded

Reinsurance Premiums  
Ceded  
Three Months Ended June  
30,

(Dollars in thousands)	2016	Change	2015
Property	\$19,733	\$(2,589 )	\$22,322
Marine	4,729	(6,120 )	10,849
Specialty	2,699	(1,376 )	4,075
Total	\$27,161	\$(10,085)	\$37,246

The decrease in reinsurance premiums ceded during the three months ended June 30, 2016 in the marine lines of \$6.1 million was primarily due to a higher balance for the three months ended June 30, 2015, which included \$9.5 million of reinstatement premiums from Pemex, a 2015 notable loss event.

## Net Premiums Written

Net Retention - Ratio of Net Premiums Written to Gross Premiums Written  
Three Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	\$91,913	82.3 %	\$5,417	2.8	\$86,496	79.5 %
Marine	81,263	94.5 %	2,403	6.6	78,860	87.9 %
Specialty	95,730	97.3 %	5,286	1.6	90,444	95.7 %
Total	\$268,906	90.8 %	\$13,106	3.5	\$255,800	87.3 %

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

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## Net Premiums Earned

	Net Premiums Earned		
	Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Property	\$54,859	\$(1,080)	\$55,939
Marine	73,922	(3,874 )	77,796
Specialty	72,768	1,065	71,703
Total	\$201,549	\$(3,889)	\$205,438

The changes in net premiums earned were consistent with the pattern of net premiums written for the three months ended June 30, 2016 compared to the three months ended June 30, 2015.

## Losses and Loss Expenses

	Losses and Loss Expense			
	Ratio - All Lines			
	Three Months Ended June			
	30,			
	2016	Change	2015	
All lines—current period excluding items below \$1 million	58.0	% 0.3	57.7	%
All lines—current period—notable loss events	5.8	% (0.5 )	6.3	%
All lines—current period—non-notable loss events	4.5	% 4.5	0.0	%
All lines—change in prior accident years	(14.1)	% 3.2	(17.3)	%
All lines—loss ratio	54.2	% 7.5	46.7	%
	Losses and Loss Expenses - All			
	Lines			
	Three Months Ended June 30,			
(Dollars in thousands)	2016	Change	2015	
All lines—current period excluding items below \$1 million	\$116,824	\$(1,847 )	\$118,671	
All lines—current period—notable loss events	11,703	(1,182 )	12,885	
All lines—current period—non-notable loss events	9,111	9,111	—	
All lines—change in prior accident years	(28,328 )	7,258	(35,586 )	
All lines - losses and loss expenses	\$109,310	\$13,340	\$95,970	

## Notable Loss Events

Gross losses and loss expenses from the Canadian Wildfires notable loss event were \$12.0 million for the three months ended June 30, 2016. Net of reinsurance recoveries of \$0.3 million, the Company's share of net losses and loss expenses was \$11.7 million for the three months ended June 30, 2016, which represented 5.8 percentage points of the loss ratio. Net of reinstatement premiums of \$0.5 million, the effect of this event on underwriting income was a reduction of \$11.2 million. Losses and loss expenses from a single notable loss event, Pemex, were \$12.9 million for the three months ended June 30, 2015, which represented 6.3 percentage points of the loss ratio. Including reinstatement premiums payable, the effect of this event on underwriting income was a reduction of \$22.4 million.

## Non-notable Loss Events

Losses and loss expenses from non-notable loss events for the three months ended June 30, 2016 were \$9.1 million, which represented 4.5 percentage points of the loss ratio. The Texas Hailstorms, Kumamoto Earthquake and Jubilee Oil loss events, net of reinstatement premiums of \$1.1 million, resulted in an aggregate reduction of underwriting income of \$8.0 million. There were no losses and loss expenses from non-notable loss events during the three months ended June 30, 2015.



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## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended June 30,			
	2016	Change	2015	
Property—current period excluding items below	63.8	% 5.2	58.6	%
Property—current period—notable loss events	21.3	% 20.5	0.8	%
Property—current period—non-notable loss events	7.8	% 7.8	0.0	%
Property—change in prior accident years	(18.4)	% 11.4	(29.8)	%
Property—loss ratio	74.5	% 44.9	29.6	%

	Losses and Loss Expenses - Property Lines Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015

Property—current period excluding items below	\$34,973	\$2,165	\$32,808
Property—current period—notable loss events	11,703	11,277	426
Property—current period—non-notable loss events	4,274	4,274	—
Property—change in prior accident years	(10,094 )	6,589	(16,683 )
Property—losses and loss expenses	\$40,856	\$24,305	\$16,551

The property lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, increased by 5.2 percentage points, representing a higher level of attritional losses in the current quarter.

During the three months ended June 30, 2016, the property lines incurred \$11.7 million of losses and loss expenses from a single notable loss event, the Canadian Wildfires, which represented 21.3 percentage points of the property lines loss ratio. Net of reinstatement premiums of \$0.5 million, the effect of this event on underwriting income was a reduction of \$11.2 million. During the three months ended June 30, 2015, the property lines incurred \$0.4 million of losses and loss expenses from a single notable loss event, Pemex, which represented 0.8 percentage points of the property lines loss ratio. Net of reinstatement premiums, the effect of this event on underwriting income was a reduction of \$0.3 million. Losses and loss expenses on non-notable loss events, the Kumamoto Earthquake and the Texas Hailstorms, were \$4.3 million, or 7.8 percentage points of the property lines loss ratio during the three months ended June 30, 2016. Net of reinstatement premiums, the effect of this event on underwriting income was a reduction of \$4.2 million. There were no non-notable loss events during the three months ended June 30, 2015.

The favorable development on prior accident years for the three months ended June 30, 2016 of \$10.1 million included favorable development on event reserves of \$6.0 million and non-event reserves of \$4.1 million. The favorable development on prior accident years for the three months ended June 30, 2015 of \$16.7 million was primarily due to favorable development on attritional losses and certain events, including the Thailand floods, which was a 2011 notable loss event.

	Losses and Loss Expense Ratio - Marine Lines Three Months Ended June 30,			
	2016	Change	2015	
Marine—current period excluding items below	46.1	% (4.2 )	50.3	%
Marine—current period—notable loss events	0.0	% (16.0 )	16.0	%
Marine—current period—non-notable loss events	6.5	% 6.5	0.0	%
Marine—change in prior accident years	(12.1)	% 5.7	(17.8)	%
Marine—loss ratio	40.5	% (8.0 )	48.5	%



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	Losses and Loss Expenses - Marine Lines Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Marine—current period excluding items below	\$34,013	\$(5,097)	\$39,110
Marine—current period—notable loss events	—	(12,459)	12,459
Marine—current period—non-notable loss events	4,837	4,837	—
Marine—change in prior accident years	(8,928 )	4,882	(13,810 )
Marine—losses and loss expenses	\$29,922	\$(7,837)	\$37,759

The marine lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 4.2 percentage points, representing a lower level of attritional losses in the current quarter. During the three months ended June 30, 2015, the marine lines incurred \$12.5 million of losses and loss expenses from a single notable loss event, Pemex, which represented 16.0 percentage points of the marine lines loss ratio. Including reinstatement premiums payable, the effect of this event on underwriting income was a reduction of \$22.0 million. Losses and loss expenses from a single non-notable loss event, Jubilee Oil, were \$4.8 million, or 6.5 percentage points of the marine lines loss ratio during the three months ended June 30, 2016. Net of reinstatement premiums, the effect of this event on underwriting income was a reduction of \$3.8 million. There were no non-notable loss events during the three months ended June 30, 2015. The favorable development on prior accident years for the three months ended June 30, 2016 and 2015 of \$8.9 million and \$13.8 million, respectively, was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Specialty Lines Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Specialty—current period excluding items below	65.8 %	0.6	65.2 %
Specialty—current period—notable loss events	0.0 %	0.0	0.0 %
Specialty—current period—non-notable loss events	0.0 %	0.0	0.0 %
Specialty—change in prior accident years	(12.8)%	(5.7 )	(7.1) %
Specialty—loss ratio	53.0 %	(5.1 )	58.1 %

	Losses and Loss Expenses - Specialty Lines Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Specialty—current period excluding items below	\$47,838	\$1,085	\$46,753
Specialty—current period—notable loss events	—	—	—
Specialty—current period—non-notable loss events	—	—	—
Specialty—change in prior accident years	(9,306 )	(4,213 )	(5,093 )
Specialty—losses and loss expenses	\$38,532	\$(3,128)	\$41,660

The specialty lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, increased by 0.6 percentage points, representing higher attritional losses in the current quarter. The favorable development on prior accident years for the three months ended June 30, 2016 and 2015 of \$9.3 million and \$5.1 million, respectively, was primarily due to favorable development on attritional losses.

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## Policy Acquisition Costs

(Dollars in thousands)	Policy Acquisition Costs					
	2016		Change	2015		
	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	\$9,057	16.5 %	\$836	1.8 %	\$8,221	14.7 %
Marine	17,582	23.8 %	(4,555 )	(4.7 )	22,137	28.5 %
Specialty	16,974	23.3 %	(327 )	(0.8 )	17,301	24.1 %
Total	\$43,613	21.6 %	\$(4,046)	(1.6 )	\$47,659	23.2 %

The marine acquisition cost ratio decreased by 4.7 percentage points primarily attributable to lower net earned premiums for the three months ended June 30, 2016 compared to the three months ended June 30, 2015, which included reinstatement premiums from Pemex, a 2015 notable loss event.

## Underwriting Income Before General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Underwriting Income Before General and Administrative and Share Compensation Expenses		
	Three Months Ended June 30,		
	2016	Change	2015
Property	\$4,946	\$(26,221)	\$31,167
Marine	26,418	8,518	17,900
Specialty	17,262	4,520	12,742
Other insurance related income	279	239	40
Total	\$48,905	\$(12,944)	\$61,849

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

## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	General and Administrative and Share Compensation Expenses					
	Three Months Ended June 30,					
	2016	Change	2015			
Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	
General and administrative expenses	\$39,061	19.5 %	\$3,506	2.2 %	\$35,555	17.3 %
Share compensation expenses	3,270	1.6 %	246	0.1 %	3,024	1.5 %
Total	\$42,331	21.1 %	\$3,752	2.3 %	\$38,579	18.8 %

General and administrative expenses for the three months ended June 30, 2016 translated at 2015 exchange rates would have been \$41.0 million, an increase of \$5.4 million. This increase was primarily due to a greater retention of costs within the segment and an increase in Lloyd's related costs. Share compensation expenses were comparable for the three months ended June 30, 2016 and 2015.

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## 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 June 30, 2016 and 2015.

	Three Months Ended		
	June 30,		2015
	2016	Change	
Losses and loss expense ratio	54.2%	7.5	46.7%
Policy acquisition cost ratio	21.6%	(1.6 )	23.2%
General and administrative expense ratio (a)	21.1%	2.3	18.8%
Expense ratio	42.7%	0.7	42.0%
Combined ratio	96.9%	8.2	88.7%

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

The increase in the combined ratio for the three months ended June 30, 2016 of 8.2 percentage points compared to the three months ended June 30, 2015 was due to the movement in the underlying ratios as discussed above.

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## Second Quarter 2016 Results of Operations - Western World Segment

The following table presents underwriting income for the three months ended June 30, 2016 and 2015:

(Dollars in thousands)	Three Months Ended June 30,			
	2016	Change	2015	
Underwriting revenues				
Gross premiums written	\$86,971	\$7,417	\$79,554	
Reinsurance premiums ceded	(5,006 )	435	(5,441 )	
Net premiums written	81,965	7,852	74,113	
Change in unearned premiums	(16,309 )	(7,314 )	(8,995 )	
Net premiums earned	65,656	538	65,118	
Other insurance related income	189	(87 )	276	
Total underwriting revenues	65,845	451	65,394	
Underwriting deductions				
Losses and loss expenses	44,229	(2,542 )	46,771	
Policy acquisition costs	15,410	5,793	9,617	
General and administrative expenses	11,458	2,535	8,923	
Share compensation expenses	542	48	494	
Total underwriting deductions	71,639	5,834	65,805	
Underwriting loss (a)	\$(5,794 )	\$(5,383 )	\$(411 )	
Supplemental information:				
Losses and loss expenses				
Current period excluding items below	\$46,762	\$(4,262 )	\$51,024	
Current period—notable loss events	—	—	—	
Current period—non-notable loss events	625	625	—	
Change in prior accident years	(3,158 )	1,095	(4,253 )	
Total losses and loss expenses	\$44,229	\$(2,542 )	\$46,771	
Selected ratios:				
Net premiums written / Gross premiums written	94.2	% 1.0	93.2	%
Losses and loss expense ratio				
Current period excluding items below	71.2	% (7.1 )	78.3	%
Current period—notable loss events	—	% —	—	%
Current period—non-notable loss events	1.0	% 1.0	—	%
Change in prior accident years	(4.8 )	% 1.7	(6.5 )	%
Losses and loss expenses	67.4	% (4.4 )	71.8	%
Policy acquisition costs	23.5	% 8.7	14.8	%
General and administrative expenses (b)	18.2	% 3.7	14.5	%
Expense ratio	41.7	% 12.4	29.3	%
Combined ratio	109.1	% 8.0	101.1	%

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are (a) 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

Business Mix - Ratio of Gross Premiums Written by  
Line of Business to Total Gross Premiums Written  
Three Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$26,218	30.1 %	\$10,332	10.1 %	\$15,886	20.0 %
Liability	60,753	69.9 %	(2,915 )	(10.1)	63,668	80.0 %
Total	\$86,971	100.0%	\$7,417		\$79,554	100.0%

The increase in gross premiums written in the property lines of \$10.3 million was primarily due to additional business written in the commercial package property, brokerage property and program flood classes of \$3.2 million, \$2.9 million and \$1.9 million, respectively, as a result of the continued build out of the underwriting platform in short tail lines. Gross premiums written in the liability lines consist largely of commercial package liability, program and other liability business. The decrease in gross premiums written in the liability lines of \$2.9 million was driven by the discontinuation of underperforming programs and brokerage general liability lines.

## Reinsurance Premiums Ceded

Reinsurance Premiums  
Ceded  
Three Months Ended  
June 30,

(Dollars in thousands)	2016	Change	2015
Property	\$2,153	\$782	\$1,371
Liability	2,853	(1,217)	4,070
Total	\$5,006	\$(435)	\$5,441

Reinsurance premiums ceded were comparable for the three months ended June 30, 2016 and 2015.

## Net Premiums Written

Net Retention - Ratio of Net Premiums Written to Gross Premiums  
Written  
Three Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	\$ 24,065	91.8 %	\$ 9,550	0.4	\$ 14,515	91.4 %
Liability	57,900	95.3 %	(1,698 )	1.7	59,598	93.6 %
Total	\$ 81,965	94.2 %	\$ 7,852	1.0	\$ 74,113	93.2 %

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

## Net Premiums Earned

Net Premiums Earned  
Three Months Ended June  
30,

(Dollars in thousands)	2016	Change	2015
Property	\$14,177	\$3,450	\$10,727
Liability	51,479	(2,912 )	54,391
Total	\$65,656	\$538	\$65,118

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 June 30,		
	2016	Change	2015
All lines—current period excluding items below	71.2 %	(7.1 )	78.3 %
All lines—current period—notable loss events	0.0 %	0.0	0.0 %
All lines—current period—non-notable loss events	1.0 %	1.0	0.0 %
All lines—change in prior accident years (a)	(4.8 )%	1.7	(6.5 )%
All lines—loss ratio (a)	67.4 %	(4.4 )	71.8 %
	Losses and Loss Expenses - All Lines Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
All lines—current period excluding items below	\$46,762	\$(4,262)	\$51,024
All lines—current period—notable loss events	—	—	—
All lines—current period—non-notable loss events	625	625	—
All lines—change in prior accident years (a)	(3,158 )	1,095	(4,253 )
All lines—losses and loss expenses (a)	\$44,229	\$(2,542)	\$46,771

Upon closing the acquisition, an adjustment of \$15,586 was made to increase net reserves to reflect fair value. This (a) adjustment was amortized to income through a reduction in losses and loss expenses of \$2,892 during the three months ended June 30, 2015, benefiting the loss ratio by 4.4 percentage points. The remaining fair value adjustment of \$4,864 was fully amortized during the year ended December 31, 2015.

## Notable Loss Events

There were no notable loss events for the three months ended June 30, 2016 or 2015.

## Non-notable Loss Events

Losses and loss expenses from the Texas Hailstorms non-notable loss event were \$0.6 million, or 1.0 percentage point of the loss ratio for the three months ended June 30, 2016. There were no losses and loss expenses from non-notable loss events during the three months ended June 30, 2015.

## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Three Months Ended June 30,		
	2016	Change	2015
Property—current period excluding items below	78.6 %	(7.6 )	86.2 %
Property—current period—notable loss events	0.0 %	0.0	0.0 %
Property—current period—non-notable loss events	4.4 %	4.4	0.0 %
Property—change in prior accident years (a)	(11.2 )%	(3.1 )	(8.1 )%
Property—loss ratio (a)	71.8 %	(6.3 )	78.1 %
	Losses and Loss Expenses - Property Lines Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Property—current period excluding items below	\$11,133	\$1,890	\$9,243
Property—current period—notable loss events	—	—	—

Property—current period—non-notable loss events	625	625	—
Property—change in prior accident years (a)	(1,582 )	(716 )	(866 )
Property—losses and loss expenses (a)	\$10,176	\$1,799	\$8,377

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 \$76 during the three months ended June 30, 2015, increasing the loss ratio by 0.7 percentage points. The remaining fair value adjustment of \$127 was fully amortized during the year ended December 31, 2015.

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The property lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 7.6 percentage points, representing a lower level of attritional losses in the current quarter.

During the three months ended June 30, 2016, the property lines incurred \$0.6 million of losses, or 4.4 percentage points of the property lines loss ratio, resulting from the Texas Hailstorms non-notable loss event and \$6.3 million of losses, or 44.4 percentage points of the property lines loss ratio, from other U.S.-based weather events including floods. There were no notable or non-notable loss events during the three months ended June 30, 2015. The favorable development on prior accident years for the three months ended June 30, 2016 and 2015 of \$1.6 million and \$0.9 million, respectively, primarily relates to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Liability Lines Three Months Ended June 30,		
	2016	Change	2015
Liability—current period excluding items below	69.2 %	(7.6 )	76.8 %
Liability—current period—notable loss events	0.0 %	0.0	0.0 %
Liability—current period—non-notable loss events	69.2 %	0.0	0.0 %
Liability—change in prior accident years (a)	(3.1 )%	3.1	(6.2 )%
Liability—loss ratio (a)	66.1 %	(4.5 )	70.6 %
	Losses and Loss Expenses - Liability Lines Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Liability—current period excluding items above	\$35,629	\$(6,152)	\$41,781
Liability—current period—notable loss events	—	—	—
Liability—current period—non-notable loss events	—	—	—
Liability—change in prior accident years (a)	(1,576 )	1,811	(3,387 )
Liability—losses and loss expenses (a)	\$34,053	\$(4,341)	\$38,394

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 \$2,968 during the three months ended June 30, 2015, benefiting the loss ratio by 5.5 percentage points. The remaining fair value adjustment of \$4,991 was fully amortized during the year ended December 31, 2015.

The liability lines current quarter loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 7.6 percentage points as Western World discontinued writing business in several underperforming classes during the fourth quarter of 2014. The favorable loss reserve development during the three months ended June 30, 2016 of \$1.6 million was due to favorable development on attritional losses, whereas the favorable loss reserve development of \$3.4 million during the three months ended June 30, 2015 was primarily due to the amortization of the fair value adjustment as noted in the table footnote above.

## Policy Acquisition Costs

	Policy Acquisition Costs Three Months Ended June 30,					
	2016		Change		2015	
(Dollars in thousands)	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	\$3,381	23.8 %	\$2,656	17.0	\$725	6.8 %
Liability	12,029	23.4 %	3,137	7.1	8,892	16.3 %
Total (a)	\$15,410	23.5 %	\$5,793	8.7	\$9,617	14.8 %

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 \$6,584 during the three months ended June 30, 2015 benefiting the policy acquisition cost ratio by 10.1 percentage points. The acquisition cost ratio for the property and liability lines increased by 17.0 and 7.1 percentage points, respectively, primarily due to the impact of the acquisition fair value adjustments during the three months ended June 30, 2015 as noted in footnote (a) above.

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## Underwriting Income Before General and Administrative and Share Compensation Expenses

	Underwriting Income Before General and Administrative and Share Compensation Expenses Three Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Property	\$620	\$(1,005)	\$1,625
Liability	5,397	(1,708)	7,105
Other insurance related income	189	(87)	276
Total	\$6,206	\$(2,800)	\$9,006

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

## General and Administrative and Share Compensation Expenses

	General and Administrative and Share Compensation Expenses Three Months Ended June 30,					
(Dollars in thousands)	2016	Change		2015		
		% of Net Expenses	% of Net Premiums Earned		% of Net Expenses	% of Net Premiums Earned
General and administrative expenses	\$11,458	17.4 %	\$2,535	3.7	\$8,923	13.7 %
Share compensation expenses	542	0.8 %	48	—	494	0.8 %
Total	\$12,000	18.2 %	\$2,583	3.7	\$9,417	14.5 %

The increase in general and administrative expenses of \$2.5 million for the three months ended June 30, 2016 compared to the three months ended June 30, 2015 was primarily due to increases in staff related costs associated with the opening of new offices in Arizona, Atlanta and New York. Share compensation expenses were comparable for the three months ended June 30, 2016 and 2015.

## Selected Underwriting Ratios

The following table presents the losses and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the three months ended June 30, 2016 and 2015.

	Three Months Ended June 30,			
	2016	Change	2015	
Losses and loss expense ratio	67.4 %	(4.4)	71.8 %	%
Policy acquisition cost ratio	23.5 %	8.7	14.8 %	%
General and administrative expense ratio (a)	18.2 %	3.7	14.5 %	%
Expense ratio	41.7 %	12.4	29.3 %	%
Combined ratio	109.1 %	8.0	101.1 %	%

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

The increase in the combined ratio for the three months ended June 30, 2016 of 8.0% percentage points compared to the three months ended June 30, 2015 was due to the movement in the underlying ratios as discussed above.

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## Second Quarter 2016 Results of Operations - AlphaCat Segment

The following table presents Validus' share of the AlphaCat segment income on an asset manager basis for the three months ended June 30, 2016 and 2015:

(Dollars in thousands)	Three Months Ended June		
	2016	Change	2015
Revenues			
Third party	\$3,091	\$(1,232 )	\$4,323
Related party	328	(806 )	1,134
Total revenues	3,419	(2,038 )	5,457
Expenses			
General and administrative expenses	2,751	421	2,330
Share compensation expenses	133	(17 )	150
Finance expenses	75	(2,459 )	2,534
Foreign exchange gains	4	(11 )	15
Total expenses	2,963	(2,066 )	5,029
Income before investments from AlphaCat Funds and Sidecars	\$456	\$28	\$428
Investment income from AlphaCat Funds and Sidecars (b)			
AlphaCat Sidecars	541	(732 )	1,273
AlphaCat ILS Funds - Lower Risk (c)	2,075	181	1,894
AlphaCat ILS Funds - Higher Risk (c)	692	(1,684 )	2,376
BetaCat ILS Funds	1,113	1,053	60
PaCRe	—	(1,738 )	1,738
Total investment income from AlphaCat Funds and Sidecars	4,421	(2,920 )	7,341
Validus' share of AlphaCat income	\$4,877	\$(2,892 )	\$7,769

## Supplemental information:

## Gross premiums written

AlphaCat Sidecars	\$(14 )	\$(3,255 )	\$3,241
AlphaCat ILS Funds - Lower Risk (c)	50,234	4,547	45,687
AlphaCat ILS Funds - Higher Risk (c)	42,010	28,143	13,867
AlphaCat Direct (d)	6,675	6,675	—
Total	\$98,905	\$36,110	\$62,795

In presenting the Company's results, management has included and discussed the results of AlphaCat, which are presented on an asset manager basis. Validus' share of AlphaCat income is a non-GAAP measure and is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP.

(a) Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

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

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

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





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## Revenues

Revenues earned for the three months ended June 30, 2016 were \$3.4 million, of which \$0.3 million was earned from related parties, compared to \$5.5 million for the three months ended June 30, 2015, of which \$1.1 million was earned from related parties. The decrease was primarily as a result of lower performance fees due to losses arising from notable and non-notable loss events during the three months ended June 30, 2016.

## Expenses

Total expenses for the three months ended June 30, 2016 were \$3.0 million, compared to \$5.0 million for the three months ended June 30, 2015, a decrease of \$2.1 million. The decrease was primarily due to reduced placement fees incurred in relation to raising new capital during the three months ended June 30, 2016.

## Investment income from AlphaCat Funds and Sidecars

Investment income available to Validus common shareholders from the AlphaCat Funds and Sidecars decreased by \$2.9 million, primarily due to the wind down of PaCRe, which was off-risk effective January 1, 2016. Excluding PaCRe, investment income available to Validus from the AlphaCat Funds and Sidecars decreased by \$1.2 million during the three months ended June 30, 2016 compared to the three months ended June 30, 2015. The decrease was primarily due to Validus' share of the net losses and loss expenses of \$1.5 million from notable and non-notable loss events during the three months ended June 30, 2016.

## Assets Under Management

(Dollars in thousands)	Assets Under Management (a)		
	July 1, 2016	Change	January 1, 2016
Assets Under Management - Related Party			
AlphaCat Sidecars	\$8,045	\$(27,371 )	\$35,416
AlphaCat ILS Funds - Lower Risk (b)	175,832	11,818	164,014
AlphaCat ILS Funds - Higher Risk (b)	76,287	10,823	65,464
AlphaCat Direct (c)	—	—	—
BetaCat ILS Funds	63,453	1,704	61,749
Total	\$323,617	\$(3,026 )	\$326,643
Assets Under Management - Third Party			
AlphaCat Sidecars	\$30,078	\$(124,308)	\$154,386
AlphaCat ILS Funds - Lower Risk (b)	1,226,709	124,247	1,102,462
AlphaCat ILS Funds - Higher Risk (b)	564,513	129,662	434,851
AlphaCat Direct (c)	365,558	(2,262 )	367,820
BetaCat ILS Funds	—	—	—
Total	2,186,858	127,339	2,059,519
Total Assets Under Management	\$2,510,475	\$124,313	\$2,386,162

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

Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of greater than 7%.

(b) Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.

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

AlphaCat's assets under management were \$2.5 billion as at July 1, 2016, compared to \$2.4 billion as at January 1, 2016. Third party assets under management were \$2.2 billion as at July 1, 2016, compared to \$2.1 billion as at January 1, 2016. During the three months ended July 1, 2016, a total of \$206.3 million of capital was raised, of which \$190.2 million was raised from third parties. During the three months ended July 1, 2016, \$25.8 million was returned to investors. Of this, \$23.7 million was returned to third party investors.



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## Second Quarter 2016 Consolidated Non-Segment Results

The following table presents non-segment income and expense items on a consolidated basis for the three months ended June 30, 2016 and 2015:

(Dollars in thousands)	Three Months Ended June 30,		
	2016	Change	2015
Investment income			
Net investment income (a)	\$36,849	\$4,995	\$31,854
Operating expenses			
General and administrative expenses	17,872	780	17,092
Share compensation expenses	4,007	829	3,178
Finance expenses (a)	13,979	(1,165 )	15,144
Tax expense	1,706	(843 )	2,549
Total operating expenses	37,564	(399 )	37,963
Other items			
Net realized gains on investments (a)	2,520	416	2,104
Change in net unrealized gains (losses) on investments (a)	30,052	63,978	(33,926 )
(Loss) income from investment affiliate	(589 )	(873 )	284
Foreign exchange gains (losses) (a)	6,621	9,858	(3,237 )
Other income (loss)	79	687	(608 )
Total other items	38,683	74,066	(35,383 )
Total corporate and investment information	\$37,968	\$79,460	\$(41,492)

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

## Net Investment Income

(Dollars in thousands)	Net Investment Income Three Months Ended June 30,		
	2016	Change	2015
Managed investments			
Fixed maturities and short-term investments	\$30,621	\$1,188	\$29,433
Other investments	8,026	4,012	4,014
Cash and cash equivalents	380	(47 )	427
Securities lending income	12	6	6
Total gross investment income	39,039	5,159	33,880
Investment expenses	(2,190 )	(164 )	(2,026 )
Total managed net investment income	\$36,849	\$4,995	\$31,854

The increase in managed net investment income for the three months ended June 30, 2016 was \$5.0 million or 15.7% and was primarily due to increased yield on certain investment funds within other investments. Managed net investment income from other investments includes distributed and undistributed net income from certain investment funds.

The Company's managed yield-bearing portfolio had an annualized effective yield of 2.34% for the three months ended June 30, 2016 compared to 2.02% for the three months ended June 30, 2015, an increase of 32 basis points. Investment yield is calculated by dividing total managed net investment income by the average balance of the yield bearing assets managed by the Company's portfolio managers. Average assets for the period ended is the average of the beginning, ending and intervening quarter end asset balances.



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General and Administrative and Share Compensation Expenses

Corporate general and administrative expenses for the three months ended June 30, 2016 were \$17.9 million compared to \$17.1 million for the three months ended June 30, 2015, an increase of \$0.8 million or 4.6%. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses for the Corporate function and other costs relating to the Company as a whole.

Corporate share compensation expenses for the three months ended June 30, 2016 were \$4.0 million compared to \$3.2 million for the three months ended June 30, 2015, an increase of \$0.8 million or 26.1%.

Finance Expenses

Finance expenses for the three months ended June 30, 2016 were \$14.0 million compared to \$15.1 million for the three months ended June 30, 2015, a decrease of \$1.2 million or 7.7% due to reduced credit facility expenses.

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

Net realized gains on managed investments for the three months ended June 30, 2016 were \$2.5 million compared to \$2.1 million for the three months ended June 30, 2015, a favorable movement of \$0.4 million. The net realized gains primarily resulted from the sale of managed fixed maturity investments.

The change in net unrealized gains on managed investments for the three months ended June 30, 2016 was \$30.1 million compared to losses of \$33.9 million for the three months ended June 30, 2015, a favorable movement of \$64.0 million. The favorable movement was primarily due to the impact of declining interest rates on our fixed maturity investments during the three months ended June 30, 2016 as compared to the three months ended June 30, 2015.

(Loss) Income From Investment Affiliate

The (loss) income from investment affiliate relates to the income earned from the Company's investments in the Aquiline Financial Services Fund II L.P. and Fund III L.P. For further details, refer to Note 6, "Investments in affiliates," to the Consolidated Financial Statements in Part I, Item 1.

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## Foreign Exchange Gains (Losses)

The Company's reporting currency is the U.S. dollar. As a significant portion of the Company's operations are transacted in currencies other than the U.S. dollar, fluctuations in foreign exchange rates may affect year-to-year comparisons. The Company's largest foreign currency fluctuation exposure is to the following currencies, with the movement in each currency against the U.S. dollar for the three months ended June 30, 2016 and 2015 shown in the table below:

	Three Months	
	Ended June 30,	
U.S. dollar (weakened) strengthened against:	2016	2015
British Pound sterling	7.6 %	(5.3)%
Euro	2.4 %	(3.2)%
Canadian dollar	(0.3)%	(1.3)%
Swiss franc	1.5 %	(3.6)%
Australian dollar	3.0 %	(0.9)%
New Zealand dollar	(3.1)%	10.3 %
Singapore dollar	(0.3)%	(1.6)%
Japanese yen	(8.2)%	2.5 %
South African rand	— %	0.5 %

Foreign exchange gains for the three months ended June 30, 2016 were \$6.6 million compared to losses of \$3.2 million for the three months ended June 30, 2015, a favorable movement of \$9.9 million primarily due to the U.S. dollar strengthening against several currencies, notably the British Pound sterling, the Euro, and the Australian dollar. The Company currently hedges foreign currency exposure by substantively balancing assets (primarily cash and premium receivables) with liabilities (primarily case reserves and event IBNR) for certain major non-U.S. dollar currencies, or by entering into forward foreign currency contracts. Consequently, the Company aims to have a limited exposure to foreign exchange fluctuations.

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## Year to Date 2016 Summarized Consolidated Results of Operations and Financial Condition

The following table presents results of operations for the six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Six Months Ended June 30,			
	2016	Change	2015	
Underwriting revenues				
Gross premiums written	\$1,936,833	\$91,441	\$1,845,392	
Reinsurance premiums ceded	(204,064 )	42,679	(246,743 )	
Net premiums written	1,732,769	134,120	1,598,649	
Change in unearned premiums	(587,778 )	(137,707 )	(450,071 )	
Net premiums earned	1,144,991	(3,587 )	1,148,578	
Other insurance related income	1,481	(167 )	1,648	
Total underwriting revenues	1,146,472	(3,754 )	1,150,226	
Underwriting deductions				
Losses and loss expenses	531,577	24,502	507,075	
Policy acquisition costs	215,159	12,425	202,734	
General and administrative expenses	175,896	7,636	168,260	
Share compensation expenses	21,964	3,668	18,296	
Total underwriting deductions	944,596	48,231	896,365	
Underwriting income (a)	\$201,876	\$(51,985)	\$253,861	
Net investment income	68,718	4,078	64,640	
Finance expenses	(29,369 )	10,280	(39,649 )	
Dividends on preferred shares	—	—	—	
Tax benefit (expense)	412	5,526	(5,114 )	
(Loss) income from operating affiliates	(23 )	(5,745 )	5,722	
(Income) attributable to AlphaCat investors	(10,714 )	(10,714 )	—	
Net (income) attributable to noncontrolling interest	(58,622 )	(17,753 )	(40,869 )	
Net operating income available to Validus common shareholders (a)	\$172,278	\$(66,313)	\$238,591	
Supplemental information:				
Losses and loss expenses				
Current period excluding items below	\$562,890	\$(50,388)	\$613,278	
Current period—notable loss events	36,915	(11,159 )	48,074	
Current period—non-notable loss events	48,292	48,292	—	
Change in prior accident years	(116,520 )	37,757	(154,277 )	
Total losses and loss expenses	\$531,577	\$24,502	\$507,075	
Selected ratios:				
Net premiums written / Gross premiums written	89.5	% 2.9	86.6	%
Losses and loss expense ratio				
Current period excluding items below	49.2	% (4.1 )	53.3	%
Current period—notable loss events	3.2	% (1.0 )	4.2	%
Current period—non-notable loss events	4.2	% 4.2	—	%
Change in prior accident years	(10.2	)% 3.2	(13.4	)%
Losses and loss expenses	46.4	% 2.3	44.1	%
Policy acquisition costs	18.8	% 1.1	17.7	%

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General and administrative expenses (b)	17.3	%	1.1	16.2	%
Expense ratio	36.1	%	2.2	33.9	%
Combined ratio	82.5	%	4.5	78.0	%

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are (a) 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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## Year to Date 2016 Summarized Consolidated Results of Operations and Financial Condition

Highlights for the year to date include the following:

Gross premiums written for the six months ended June 30, 2016 were \$1,936.8 million compared to \$1,845.4 million for the six months ended June 30, 2015, an increase of \$91.4 million, or 5.0%. The increase was primarily driven by an increase in the AlphaCat and Western World segments, partially offset by decreases in the Talbot and Validus Re segments discussed further as follows:

Gross premiums written for the six months ended June 30, 2016 in the AlphaCat segment, on behalf of the Company's VIEs, were \$266.3 million, compared to \$164.6 million for the six months ended June 30, 2015, an increase of \$101.7 million or 61.8%, primarily due to an increase in the capital base of the AlphaCat ILS Funds.

Gross premiums written for the six months ended June 30, 2016 in the Western World segment were \$150.9 million compared to \$136.5 million for the six months ended June 30, 2015, an increase of \$14.4 million or 10.6%, primarily driven by an increase in the property lines.

Gross premiums written for the six months ended June 30, 2016 in the Validus Re segment were \$977.5 million compared to \$1,009.1 million for the six months ended June 30, 2015, a decrease of \$31.6 million or 3.1%. The decrease was primarily attributable to decreases in the property and marine lines as a result of current market conditions and increased cessions to AlphaCat, partially offset by increased specialty business.

Gross premiums written for the six months ended June 30, 2016 in the Talbot segment were \$562.4 million compared to \$563.1 million for the six months ended June 30, 2015, a decrease of \$0.7 million or 0.1%.

Underwriting revenues for the six months ended June 30, 2016 were \$1,146.5 million compared to \$1,150.2 million for the six months ended June 30, 2015, a decrease of \$3.8 million or 0.3%.

Losses and loss expenses for the six months ended June 30, 2016 were \$531.6 million compared to \$507.1 million for the six months ended June 30, 2015, an increase of \$24.5 million or 4.8%, primarily as a result of non-notable loss events occurring during the six months ended June 30, 2016.

Gross losses and loss expenses from the Canadian Wildfires notable loss event were \$73.5 million for the six months ended June 30, 2016. Net of reinsurance recoveries of \$36.6 million, the Company's share of net losses and loss expenses from this event were \$36.9 million, or 3.2 percentage points of the loss ratio during the six months ended June 30, 2016. Net of losses of \$6.4 million attributable to AlphaCat investors and noncontrolling interest and reinstatement premiums of \$3.6 million, the net loss attributable to the Company was \$26.9 million. During the six months ended June 30, 2015, the Company incurred a single notable loss event, Pemex, which resulted in an estimated net loss attributable to the Company of \$48.1 million, or 4.2 percentage points of the loss ratio. Including reinstatement premiums of \$0.4 million, the net loss attributable to the Company was \$48.5 million.

Gross losses and loss expenses from the Texas Hailstorms, Kumamoto Earthquake and Jubilee Oil non-notable loss events were \$92.5 million for the six months ended June 30, 2016. Net of reinsurance recoveries of \$44.2 million, the Company's share of net losses and loss expenses from the non-notable loss events, were \$48.3 million, or 4.2 percentage points of the loss ratio. Net of losses of \$5.5 million attributable to AlphaCat investors and noncontrolling interest and reinstatement premiums of \$9.7 million, the net loss attributable to the Company was \$33.1 million.

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

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Loss ratios by line of business were as follows:

	Six Months Ended		
	June 30,		
	2016	Change	2015
Property	31.5%	15.8	15.7%
Marine	49.3%	(1.1 )	50.4%
Specialty	58.4%	(5.1 )	63.5%
Liability	64.1%	(9.9 )	74.0%
All lines	46.4%	2.3	44.1%

The loss ratio for the six months ended June 30, 2016 was 46.4% which included \$116.5 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 10.2 percentage points compared to a loss ratio for the six months ended June 30, 2015 of 44.1% which included \$154.3 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 13.4 percentage points. The favorable development of \$116.5 million for the six months ended June 30, 2016 was primarily due to favorable development on non-event reserves of \$127.8 million, partially offset by unfavorable development on event reserves of \$11.3 million. The term events refers to aggregate notable and non-notable losses incurred.

• Combined ratio for the six months ended June 30, 2016 was 82.5% compared to 78.0% for the six months ended June 30, 2015.

Policy acquisition costs for the six months ended June 30, 2016 were \$215.2 million compared to \$202.7 million for the six months ended June 30, 2015, an increase of \$12.4 million or 6.1%, primarily driven by an increase in the Western World segment due to the impact of the acquisition fair value adjustments during the six months ended June 30, 2015.

Underwriting income for the six months ended June 30, 2016 was \$201.9 million compared to \$253.9 million for the six months ended June 30, 2015, a decrease of \$52.0 million or 20.5% primarily as a result of the changes in underwriting revenues and deductions as described above.

Net operating income available to Validus common shareholders for the six months ended June 30, 2016 was \$172.3 million compared to \$238.6 million for the six months ended June 30, 2015, a decrease of \$66.3 million, or 27.8%.

Net income available to Validus common shareholders for the six months ended June 30, 2016 was \$261.8 million compared to \$239.2 million for the six months ended June 30, 2015, an increase of \$22.6 million, or 9.4%.

Annualized return on average equity was 14.2% and annualized net operating return on average equity was 9.3% for the six months ended June 30, 2016 compared to 13.1% and 13.1%, respectively, for the six months ended June 30, 2015.

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## Year to Date 2016 Results of Operations - Validus Re Segment

The following table presents results of operations for the six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Six Months Ended June 30,			
	2016	Change	2015	
Underwriting revenues				
Gross premiums written	\$977,478	\$(31,635)	\$1,009,113	
Reinsurance premiums ceded	(95,691 )	37,464	(133,155 )	
Net premiums written	881,787	5,829	875,958	
Change in unearned premiums	(390,834 )	(32,514 )	(358,320 )	
Net premiums earned	490,953	(26,685 )	517,638	
Other insurance related (loss) income	(165 )	(914 )	749	
Total underwriting revenues	490,788	(27,599 )	518,387	
Underwriting deductions				
Losses and loss expenses	215,007	(21,526 )	236,533	
Policy acquisition costs	84,823	(1,097 )	85,920	
General and administrative expenses	35,051	(3,239 )	38,290	
Share compensation expenses	5,676	702	4,974	
Total underwriting deductions	340,557	(25,160 )	365,717	
Underwriting income (a)	\$150,231	\$(2,439 )	\$152,670	
Supplemental information:				
Losses and loss expenses				
Current period excluding items below	\$221,228	\$(35,691)	\$256,919	
Current period—notable loss events	17,884	(17,305 )	35,189	
Current period—non-notable loss events	32,456	32,456	—	
Change in prior accident years	(56,561 )	(986 )	(55,575 )	
Total losses and loss expenses	\$215,007	\$(21,526)	\$236,533	
Selected ratios:				
Net premiums written / Gross premiums written	90.2	% 3.4	86.8	%
Losses and loss expense ratio				
Current period excluding items below	45.1	% (4.5 )	49.6	%
Current period—notable loss events	3.6	% (3.2 )	6.8	%
Current period—non-notable loss events	6.6	% 6.6	—	%
Change in prior accident years	(11.5 )	% (0.8 )	(10.7 )	%
Losses and loss expenses	43.8	% (1.9 )	45.7	%
Policy acquisition costs	17.3	% 0.7	16.6	%
General and administrative expenses (b)	8.3	% (0.1 )	8.4	%
Expense ratio	25.6	% 0.6	25.0	%
Combined ratio	69.4	% (1.3 )	70.7	%

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are (a) 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

Business Mix - Ratio of Gross Premiums Written by Line  
of Business to Total Gross Premiums Written

Six Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$408,671	41.8 %	\$(57,781)	(4.4 )	\$466,452	46.2 %
Marine	114,409	11.7 %	(25,536 )	(2.2 )	139,945	13.9 %
Specialty	454,398	46.5 %	51,682	6.6	402,716	39.9 %
Total	\$977,478	100.0%	\$(31,635)		\$1,009,113	100.0%

The decrease in gross premiums written in the property lines of \$57.8 million was primarily due to a reduction in business written in the catastrophe excess of loss lines driven by reductions in participation on various programs due to current market conditions and increased AlphaCat cessions. The decrease in gross premiums written in the marine lines of \$25.5 million was due to reductions in participation on various programs 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 \$51.7 million was primarily due to new casualty lines written during the period of \$46.6 million and business historically written in marine lines being renewed in specialty lines.

## Reinsurance Premiums Ceded

## Reinsurance Premiums Ceded

Six Months Ended June 30,

(Dollars in thousands)	2016	Change	2015
Property	\$81,388	\$(33,711)	\$115,099
Marine	6,547	(218 )	6,765
Specialty	7,756	(3,535 )	11,291
Total	\$95,691	\$(37,464)	\$133,155

Reinsurance premiums ceded in the property and specialty lines decreased by \$33.7 million and \$3.5 million, respectively, due to a reduction in the Company's main proportional retrocession program during the six months ended June 30, 2016.

## Net Premiums Written

Net Retention - Ratio of Net Premiums Written to Gross Premiums  
Written

Six Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	\$327,283	80.1 %	\$(24,070)	4.8	\$351,353	75.3 %
Marine	107,862	94.3 %	(25,318 )	(0.9 )	133,180	95.2 %
Specialty	446,642	98.3 %	55,217	1.1	391,425	97.2 %
Total	\$881,787	90.2 %	\$5,829	3.4	\$875,958	86.8 %

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.

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## Net Premiums Earned

	Net Premiums Earned		
	Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Property	\$207,380	\$(10,150)	\$217,530
Marine	65,968	(16,679 )	82,647
Specialty	217,605	144	217,461
Total	\$490,953	\$(26,685)	\$517,638

The decrease in property and marine lines net premiums earned of \$10.2 million and \$16.7 million, respectively was as a result of lower gross premiums written during the six months ended June 30, 2016, offset by the earned impact of the reduction in reinsurance premiums ceded.

## Losses and Loss Expenses

	Losses and Loss Expense		
	Ratio - All Lines		
	Six Months Ended June		
	30,		
	2016	Change	2015
All lines—current period excluding items below	45.1 %	(4.5 )	49.6 %
All lines—current period—notable loss events	3.6 %	(3.2 )	6.8 %
All lines—current period—non-notable loss events	6.6 %	6.6	0.0 %
All lines—change in prior accident years	(11.5)%	(0.8 )	(10.7)%
All lines—loss ratio	43.8 %	(1.9 )	45.7 %
	Losses and Loss Expenses - All		
	Lines		
	Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
All lines—current period excluding items below	\$221,228	\$(35,691)	\$256,919
All lines—current period—notable loss events	17,884	(17,305 )	35,189
All lines—current period—non-notable loss events	33,456	32,456	—
All lines—change in prior accident years	(56,561 )	(986 )	(55,575 )
All lines—losses and loss expenses	\$215,007	\$(21,526)	\$236,533

## Notable Loss Events

Gross losses and loss expenses from the Canadian Wildfires notable loss event were \$54.2 million for the six months ended June 30, 2016. Net of reinsurance recoveries of \$36.3 million, the Company's share of net losses and loss expenses was \$17.9 million for the six months ended June 30, 2016, which represented 3.6 percentage points of the loss ratio. Net of reinstatement premiums of \$3.1 million, the effect of this event on underwriting income was a reduction of \$14.8 million. Losses and loss expenses from a single notable loss event, Pemex, were \$35.2 million for the six months ended June 30, 2015, which represented 6.8 percentage points of the loss ratio. Net of \$9.1 million of reinstatement premiums, the effect of this event on underwriting income was a reduction of \$26.1 million.

## Non-notable Loss Events

Gross losses and loss expenses from non-notable loss events were \$76.7 million for the six months ended June 30, 2016. Net of reinsurance recoveries of \$44.2 million, the Company's share of net losses and loss expenses was \$32.5 million, which represented 6.6 percentage points of the loss ratio. The Texas Hailstorms, Kumamoto Earthquake and Jubilee Oil loss events, net of reinstatement premiums of \$8.5 million, resulted in an aggregate reduction of underwriting income of \$24.0 million. There were no losses and loss expenses from non-notable loss events during the six months ended June 30, 2015.

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## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Six Months Ended June 30,			
	2016	Change	2015	
Property—current period excluding items below	9.8 %	(3.0 )	22.8 %	
Property—current period—notable loss events	8.6 %	8.6	0.0 %	
Property—current period—non-notable loss events	10.6 %	10.6	0.0 %	
Property—change in prior accident years	(15.6)%	(1.4 )	(14.2)%	
Property—loss ratio	23.4 %	14.8	8.6 %	

	Losses and Loss Expenses - Property Lines Six Months Ended June 30,			
(Dollars in thousands)	2016	Change	2015	
Property—current period excluding items below	\$40,951	\$(8,577 )	\$49,528	
Property—current period—notable loss events	17,884	17,884	—	
Property—current period—non-notable loss events	22,079	22,079	—	
Property—change in prior accident years	(32,300 )	(1,476 )	(30,824 )	
Property—losses and loss expenses	\$48,614	\$29,910	\$18,704	

The property lines current period loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 3.0 percentage points, representing a lower level of attritional losses in the current period.

During the six months ended June 30, 2016, the property lines incurred \$17.9 million of losses and loss expenses from a single notable loss event, the Canadian Wildfires, which represented 8.6 percentage points of the property lines loss ratio. Losses and loss expenses on non-notable loss events, the Kumamoto Earthquake and the Texas Hailstorms, were \$22.1 million, or 10.6 percentage points of the property lines loss ratio during the six months ended June 30, 2016. Net of reinstatement premiums of \$1.8 million, the effect of these loss events on underwriting income was a reduction of \$20.3 million. There were no notable or non-notable loss events during the six months ended June 30, 2015. The favorable development on prior accident years for the six months ended June 30, 2016 of \$32.3 million included favorable development on prior years from non-event reserves of \$21.5 million and event reserves of \$10.8 million, including the Chilean earthquake, a third quarter 2015 notable loss event. The favorable development on prior accident years for the six months ended June 30, 2015 of \$30.8 million was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Marine Lines Six Months Ended June 30,			
	2016	Change	2015	
Marine—current period excluding items below	50.2 %	(5.8 )	56.0 %	
Marine—current period—notable loss events	0.0 %	(40.6 )	40.6 %	
Marine—current period—non-notable loss events	1.0 %	1.0	0.0 %	
Marine—change in prior accident years	(9.8)%	9.2	(19.0)%	
Marine—loss ratio	41.4 %	(36.2 )	77.6 %	

	Losses and Loss Expenses - Marine Lines Six Months Ended June 30,			
(Dollars in thousands)	2016	Change	2015	
Marine—current period excluding items below	\$33,125	\$(13,147)	\$46,272	

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Marine—current period—notable loss events	—	(33,524 )	33,524
Marine—current period—non-notable loss events	670	670	—
Marine—change in prior accident years	(6,463 )	9,206	(15,669 )
Marine—losses and loss expenses	\$27,332	\$(36,795)	\$64,127

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The marine lines current period loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 5.8 percentage points, representing a lower level of attritional losses in the current period.

During the six months ended June 30, 2015, the marine lines incurred \$33.5 million of losses and loss expenses from a single notable loss event, Pemex, which represented 40.6 percentage points of the marine lines loss ratio. Net of \$9.1 million of reinstatement premiums, the effect of this event on underwriting income was a reduction of \$24.4 million. Losses and loss expenses from a single non-notable loss event, Jubilee Oil, were \$0.7 million, or 1.0 percentage point of the marine lines loss ratio for the six months ended June 30, 2016. The favorable development of \$6.5 million on prior accident years for the six months ended June 30, 2016 was primarily due to favorable development on non-event reserves of \$18.5 million, and was partially offset by unfavorable development on event reserves of \$12.0 million, whereas the favorable development of \$15.7 million on prior accident years for the six months ended June 30, 2015 was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Specialty Lines Six Months Ended June 30,		
	2016	Change	2015
Specialty—current period excluding items below	67.6 %	(6.5 )	74.1 %
Specialty—current period—notable loss events	0.0 %	(0.8 )	0.8 %
Specialty—current period—non-notable loss events	4.5 %	4.5	0.0 %
Specialty—change in prior accident years	(8.2 )%	(4.0 )	(4.2 )%
Specialty—loss ratio	63.9 %	(6.8 )	70.7 %

	Losses and Loss Expenses - Specialty Lines Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Specialty—current period excluding items below	\$ 147,152	\$(13,967)	\$ 161,119
Specialty—current period—notable loss events	—	(1,665 )	1,665
Specialty—current period—non-notable loss events	9,707	9,707	—
Specialty—change in prior accident years	(17,798 )	(8,716 )	(9,082 )
Specialty—losses and loss expenses	\$ 139,061	\$(14,641)	\$ 153,702

The specialty lines current period loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 6.5 percentage points, representing a lower level of attritional losses in the current period. During the six months ended June 30, 2015, the specialty lines incurred \$1.7 million of losses and loss expenses from a single notable loss event, Pemex, which represented 0.8 percentage points of the specialty lines loss ratio. Losses and loss expenses from a single non-notable loss event, Jubilee Oil, were \$9.7 million, or 4.5 percentage points of the specialty lines loss ratio for the six months ended June 30, 2016. The favorable loss reserve development on prior accident years for the six months ended June 30, 2016 of \$17.8 million was primarily due to favorable development on attritional losses and agriculture losses. The favorable development on prior accident years for the six months ended June 30, 2015 of \$9.1 million was primarily due to favorable development on attritional losses.

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## Policy Acquisition Costs

(Dollars in thousands)	Policy Acquisition Costs Six Months Ended June 30,					
	2016		Change		2015	
	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	\$37,213	17.9 %	\$537	1.0 %	\$36,676	16.9 %
Marine	10,193	15.5 %	(5,413 )	(3.4 )	15,606	18.9 %
Specialty	37,417	17.2 %	3,779	1.7 %	33,638	15.5 %
Total	\$84,823	17.3 %	\$(1,097)	0.7 %	\$85,920	16.6 %

The acquisition cost ratio for the marine lines decreased by 3.4 percentage points primarily due to adjustments to existing business and the impact of reinstatement premiums. The acquisition costs ratio for the specialty lines increased by 1.7 percentage points primarily due an increase in financial, trade credit, and mortgage lines which carry higher acquisition costs.

## Underwriting Income Before General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Underwriting Income Before General and Administrative and Share Compensation Expenses Six Months Ended June 30,		
	2016	Change	2015
	Property	\$121,553	\$(40,597)
Marine	28,443	25,529	2,914
Specialty	41,127	11,006	30,121
Other insurance related (loss) income	(165 )	(914 )	749
Total	\$190,958	\$(4,976 )	\$195,934

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

## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	General and Administrative and Share Compensation Expenses Six Months Ended June 30,					
	2016		Change		2015	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$35,051	7.1 %	\$(3,239)	(0.3 )	\$38,290	7.4 %
Share compensation expenses	5,676	1.2 %	702	0.2 %	4,974	1.0 %
Total	\$40,727	8.3 %	\$(2,537)	(0.1 )	\$43,264	8.4 %

General and administrative expenses decreased by \$3.2 million, or 8.5%, primarily due to reductions in office related expenses and staff costs. Share compensation expenses were comparable for the six months ended June 30, 2016 and 2015.

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## 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 six months ended June 30, 2016 and 2015.

	Select Underwriting Ratios	
	Six Months Ended June 30,	
	2016	Change 2015
Losses and loss expense ratio	43.8%	(1.9 ) 45.7%
Policy acquisition cost ratio	17.3%	0.7 16.6%
General and administrative expense ratio (a)	8.3 %	(0.1 ) 8.4 %
Expense ratio	25.6%	0.6 25.0%
Combined ratio	69.4%	(1.3 ) 70.7%

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

The decrease in the combined ratio for the six months ended June 30, 2016 of 1.3 percentage points compared to the six months ended June 30, 2015 was due to the movement in the underlying ratios as discussed above.

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## Year to Date 2016 Results of Operations - Talbot Segment

The following table presents results of operations for the six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Six Months Ended June 30,		
	2016	Change	2015
Underwriting revenues			
Gross premiums written	\$562,384	\$(739 )	\$563,123
Reinsurance premiums ceded	(114,619 )	13,702	(128,321 )
Net premiums written	447,765	12,963	434,802
Change in unearned premiums	(39,424 )	(32,649 )	(6,775 )
Net premiums earned	408,341	(19,686 )	428,027
Other insurance related income	290	196	94
Total underwriting revenues	408,631	(19,490 )	428,121
Underwriting deductions			
Losses and loss expenses	209,411	35,313	174,098
Policy acquisition costs	87,956	(8,807 )	96,763
General and administrative expenses	77,596	5,547	72,049
Share compensation expenses	6,792	811	5,981
Total underwriting deductions	381,755	32,864	348,891
Underwriting income (a)	\$26,876	\$(52,354)	\$79,230

## Supplemental information:

Losses and loss expenses			
Current period excluding items below	\$239,645	\$(8,841 )	\$248,486
Current period—notable loss events	11,703	(1,182 )	12,885
Current period—non-notable loss events	9,111	9,111	—
Change in prior accident years	(51,048 )	36,225	(87,273 )
Total losses and loss expenses	\$209,411	\$35,313	\$174,098

## Selected ratios:

Net premiums written / Gross premiums written	79.6	% 2.4	77.2	%
Losses and loss expense ratio				
Current period excluding items below	58.7	% 0.6	58.1	%
Current period—notable loss events	2.9	% (0.1 )	3.0	%
Current period—non-notable loss events	2.2	% 2.2	—	%
Change in prior accident years	(12.5 )	% 7.9	(20.4 )	%
Losses and loss expenses	51.3	% 10.6	40.7	%
Policy acquisition costs	21.5	% (1.1 )	22.6	%
General and administrative expenses (b)	20.7	% 2.5	18.2	%
Expense ratio	42.2	% 1.4	40.8	%
Combined ratio	93.5	% 12.0	81.5	%

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are (a) 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

Business Mix - Ratio of Gross Premiums Written by  
Line of Business to Total Gross Premiums Written  
Six Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$181,413	32.2 %	\$934	0.1	\$180,479	32.1 %
Marine	174,212	31.0 %	(25,866)	(4.5)	200,078	35.5 %
Specialty	206,759	36.8 %	24,193	4.4	182,566	32.4 %
Total	\$562,384	100.0%	\$(739)		\$563,123	100.0%

Talbot gross premiums written for the six months ended June 30, 2016 translated at 2015 exchange rates would have been \$569.1 million, an increase of \$6.0 million on the prior year period.

The decrease in gross premiums written in the marine lines of \$25.9 million includes an increase in premium estimates of \$9.9 million, which had no impact on earned premium. After the impact of these changes in estimates, the decrease was primarily driven by decreases in the upstream energy class as a result of reductions in our participation and non-renewals on various programs due to the current rate environment. The increase in gross premiums written in the specialty lines of \$24.2 million includes an increase in premium estimates of \$21.0 million, which had no impact on earned premium. After the impact of these changes in estimates, the increase was primarily driven by increases in the contingency and accident and health classes as a result of increased renewals and upwards premium adjustments, respectively.

## Reinsurance Premiums Ceded

Reinsurance Premiums Ceded  
Six Months Ended June 30,

(Dollars in thousands)	2016	Change	2015
Property	\$53,789	\$(8,788)	\$62,577
Marine	26,101	(2,577)	28,678
Specialty	34,729	(2,337)	37,066
Total	\$114,619	\$(13,702)	\$128,321

The decrease in reinsurance premiums ceded in the property lines of \$8.8 million was due primarily to a decrease in proportional premium adjustments on prior period policies and an overall decrease in reinstatement premiums during the six months ended June 30, 2016 compared to the six months ended June 30, 2015. The decrease in reinsurance premiums ceded in the marine lines of \$2.6 million was primarily due to a higher balance for the six months ended June 30, 2015, which was primarily attributable to \$9.5 million of reinstatement premiums from Pemex, a 2015 notable loss event and was partially offset by reinstatement premiums on other events and favorable adjustments on prior period contracts.

## Net Premiums Written

Net Retention - Ratio of Net Premiums Written to Gross  
Premiums Written  
Six Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	\$127,624	70.3 %	\$9,722	5.0	\$117,902	65.3 %
Marine	148,111	85.0 %	(23,289)	(0.7)	171,400	85.7 %
Specialty	172,030	83.2 %	26,530	3.5	145,500	79.7 %

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Total \$447,765 79.6 % \$12,963 2.4 \$434,802 77.2 %

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.

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## Net Premiums Earned

	Net Premiums Earned		
	Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Property	\$ 115,855	\$ 4,712	\$ 111,143
Marine	143,793	(26,260 )	170,053
Specialty	148,693	1,862	146,831
Total	\$ 408,341	\$ (19,686)	\$ 428,027

Excluding the impact of the changes in estimates noted above on gross premiums written, which had no impact on earned premium, the changes in the net premiums earned were consistent with the pattern of net premiums written for the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

## Losses and Loss Expenses

	Losses and Loss Expense			
	Ratio - All Lines			
	Six Months Ended June			
	30,			
	2016	Change	2015	
All lines—current period excluding items below	58.7 %	0.6	58.1 %	
All lines—current period—notable loss events	2.9 %	(0.1 )	3.0 %	
All lines—current period—non-notable loss events	2.2 %	2.2	0.0 %	
All lines—change in prior accident years	(12.5)%	7.9	(20.4)%	
All lines—loss ratio	51.3 %	10.6	40.7 %	
	Losses and Loss Expenses - All			
	Lines			
	Six Months Ended June 30,			
(Dollars in thousands)	2016	Change	2015	
All lines—current period excluding items below	\$ 239,645	\$ (8,841 )	\$ 248,486	
All lines—current period—notable loss events	11,703	(1,182 )	12,885	
All lines—current period—non-notable loss events	9,111	9,111	—	
All lines—change in prior accident years	(51,048 )	36,225	(87,273 )	
All lines—losses and loss expenses	\$ 209,411	\$ 35,313	\$ 174,098	

## Notable Loss Events

Gross losses and loss expenses from the Canadian Wildfires notable loss event were \$12.0 million for the six months ended June 30, 2016. Net of reinsurance recoveries of \$0.3 million, the Company's share of net losses and loss expenses was \$11.7 million, which represented 2.9 percentage points of the loss ratio. Net of reinstatement premiums of \$0.5 million, the effect of this event on underwriting income was a reduction of \$11.2 million. Losses and loss expenses from a single notable loss event, Pemex, were \$12.9 million for the six months ended June 30, 2015, which represented 3.0 percentage points of the loss ratio. Including reinstatement premiums payable, the effect of this event on underwriting income was a reduction of \$22.4 million.

## Non-notable Loss Events

Losses and loss expenses from non-notable loss events for the six months ended June 30, 2016 were \$9.1 million, which represented 2.2 percentage points of the loss ratio. The Texas Hailstorms, Kumamoto Earthquake and Jubilee Oil loss events, net of reinstatement premiums of \$1.1 million, resulted in an aggregate reduction of underwriting income of \$8.0 million. There were no losses and loss expenses from non-notable loss events during the six months ended June 30, 2015.



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## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Six Months Ended June 30,			
	2016	Change	2015	
Property—current period excluding items below	59.4 %	(3.7 )	63.1 %	
Property—current period—notable loss events	10.1 %	9.7	0.4 %	
Property—current period—non-notable loss events	3.7 %	3.7	0.0 %	
Property—change in prior accident years	(24.6)%	9.1	(33.7)%	
Property—loss ratio	48.6 %	18.8	29.8 %	

	Losses and Loss Expenses - Property Lines Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Property—current period excluding items below	\$68,874	\$(1,306 )	\$70,180
Property—current period—notable loss events	11,703	11,277	426
Property—current period—non-notable loss events	4,374	4,274	—
Property—change in prior accident years	(28,540 )	8,895	(37,435 )
Property—losses and loss expenses	\$56,311	\$23,140	\$33,171

The property lines current period loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 3.7 percentage points, representing a lower level of attritional losses incurred in the current period.

During the six months ended June 30, 2016, the property lines incurred \$11.7 million of losses and loss expenses from a single notable loss event, the Canadian Wildfires, which represented 10.1 percentage points of the property lines loss ratio. Net of reinstatement premiums of \$0.5 million, the effect of this event on underwriting income was a reduction of \$11.2 million. During the six months ended June 30, 2015, the property lines incurred \$0.4 million of losses and loss expenses from a single notable loss event, Pemex, which represented 0.4 percentage points of the property lines loss ratio. Net of reinstatement premiums of \$0.1 million, the effect of this event on underwriting income was a reduction of \$0.3 million. Losses and loss expenses on non-notable loss events, the Kumamoto Earthquake and the Texas Hailstorms, were \$4.3 million, or 3.7 percentage points of the property lines loss ratio during the six months ended June 30, 2016. There were no non-notable loss events during the six months ended June 30, 2015.

The favorable development on prior accident years for the six months ended June 30, 2016 of \$28.5 million included favorable development on event reserves of \$8.7 million and non-event reserves of \$19.8 million. The favorable development on prior accident years for the six months ended June 30, 2015 of \$37.4 million was primarily due to favorable development on attritional losses and certain events, including the Thailand floods, which was a 2011 notable loss event.

	Losses and Loss Expense Ratio - Marine Lines Six Months Ended June 30,			
	2016	Change	2015	
Marine—current period excluding items below	53.6 %	2.4	51.2 %	
Marine—current period—notable loss events	0.0 %	(7.3 )	7.3 %	
Marine—current period—non-notable loss events	3.4 %	3.4	0.0 %	
Marine—change in prior accident years	(4.1 )%	17.3	(21.4)%	
Marine—loss ratio	52.9 %	15.8	37.1 %	



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	Losses and Loss Expenses - Marine Lines Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Marine—current period excluding items below	\$77,156	\$(9,831 )	\$86,987
Marine—current period—notable loss events	—	(12,459 )	12,459
Marine—current period—non-notable loss events	4,837	4,837	—
Marine—change in prior accident years	(5,964 )	30,360	(36,324 )
Marine—losses and loss expenses	\$76,029	\$12,907	\$63,122

The marine lines current period loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, increased by 2.4 percentage points, primarily due to the decrease in net premiums earned during the six months ended June 30, 2016 as noted above. During the six months ended June 30, 2015, the marine lines incurred \$12.5 million of losses and loss expenses from a single notable loss event, Pemex, which represented 7.3 percentage points of the marine lines loss ratio. Including reinstatement premiums payable, the effect of this event on underwriting income was a reduction of \$22.0 million. Losses and loss expenses on a single non-notable loss event, Jubilee Oil, were \$4.8 million, or 3.4 percentage points of the marine lines loss ratio during the six months ended June 30, 2016. There were no non-notable loss events during the six months ended June 30, 2015. The favorable development on prior accident years for the six months ended June 30, 2016 of \$6.0 million was comprised of favorable development on attritional losses of \$25.1 million partially offset by adverse development of \$19.1 million on prior years events. The adverse development was driven by reserves established following the receipt of a loss advice on an individual marine policy that incepted during the second half of 2015. The favorable development on prior accident years for the six months ended June 30, 2015 of \$36.3 million was primarily due to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Specialty Lines Six Months Ended June 30,		
	2016	Change	2015
Specialty—current period excluding items below	62.9 %	0.7	62.2 %
Specialty—current period—notable loss events	0.0 %	0.0	0.0 %
Specialty—current period—non-notable loss events	0.0 %	0.0	0.0 %
Specialty—change in prior accident years	(11.1)%	(1.9 )	(9.2 )%
Specialty—loss ratio	51.8 %	(1.2 )	53.0 %

	Losses and Loss Expenses - Specialty Lines Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Specialty—current period excluding items above	\$93,615	\$2,296	\$91,319
Specialty—current period—notable loss events	—	—	—
Specialty—current period—non-notable loss events	—	—	—
Specialty—change in prior accident years	(16,544 )	(3,030 )	(13,514 )
Specialty—losses and loss expenses	\$77,071	\$(734 )	\$77,805

The specialty lines current period loss ratio, excluding the impact of the change in prior accident years, increased by 0.7 percentage points, representing a higher level of attritional losses in the current period. The favorable development of \$16.5 million and \$13.5 million on prior accident years for the six months ended June 30, 2016 and 2015, respectively, was primarily due to favorable development on attritional losses.

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## Policy Acquisition Costs

(Dollars in thousands)	Policy Acquisition Costs					
	2016		Change		2015	
	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	\$17,474	15.1 %	\$1,385	0.6 %	\$16,089	14.5 %
Marine	36,097	25.1 %	(9,392 )	(1.6 )	45,489	26.7 %
Specialty	34,385	23.1 %	(800 )	(0.9 )	35,185	24.0 %
Total	\$87,956	21.5 %	\$(8,807)	(1.1 )	\$96,763	22.6 %

The marine acquisition cost ratio decreased by 1.6 percentage points primarily attributable to lower net earned premiums for the six months ended June 30, 2016 compared to the six months ended June 30, 2015, which included reinstatement premiums from Pemex, a 2015 notable loss event.

## Underwriting Income Before General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Underwriting Income Before General and Administrative and Share Compensation Expenses		
	2016	Change	2015
	Property	\$42,070	\$(19,813)
Marine	31,667	(29,775 )	61,442
Specialty	37,237	3,396	33,841
Other insurance related income	290	196	94
Total	\$111,264	\$(45,996)	\$157,260

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

## General and Administrative and Share Compensation Expenses

(Dollars in thousands)	General and Administrative and Share Compensation Expenses					
	2016		Change		2015	
	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned	Expenses	% of Net Premiums Earned
General and administrative expenses	\$77,596	19.0 %	\$5,547	2.2 %	\$72,049	16.8 %
Share compensation expenses	6,792	1.7 %	811	0.3 %	5,981	1.4 %
Total	\$84,388	20.7 %	\$6,358	2.5 %	\$78,030	18.2 %

General and administrative expenses for the six months ended June 30, 2016 translated at 2015 exchange rates would have been \$81.8 million, an increase of \$9.8 million. This increase was primarily due to a greater retention of costs within the segment and an increase in Lloyd's related costs. Share compensation expenses were comparable for the six months ended June 30, 2016 and 2015.

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## 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 six months ended June 30, 2016 and 2015.

	Select Underwriting Ratios		
	Six Months Ended		
	June 30,		
	2016	Change	2015
Losses and loss expense ratio	51.3%	10.6	40.7%
Policy acquisition cost ratio	21.5%	(1.1 )	22.6%
General and administrative expense ratio (a)	20.7%	2.5	18.2%
Expense ratio	42.2%	1.4	40.8%
Combined ratio	93.5%	12.0	81.5%

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

The increase in the combined ratio for the six months ended June 30, 2016 of 12.0 percentage points compared to the six months ended June 30, 2015 was due to the movement in the underlying ratios as discussed above.

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## Year to Date 2016 Results of Operations - Western World Segment

The following table presents results of operations for the six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Six Months Ended June 30,			
	2016	Change	2015	
Underwriting revenues				
Gross premiums written	\$150,930	\$14,429	\$136,501	
Reinsurance premiums ceded	(9,145 )	(471 )	(8,674 )	
Net premiums written	141,785	13,958	127,827	
Change in unearned premiums	(14,630 )	(19,803 )	5,173	
Net premiums earned	127,155	(5,845 )	133,000	
Other insurance related income	477	(62 )	539	
Total underwriting revenues	127,632	(5,907 )	133,539	
Underwriting deductions				
Losses and loss expenses	83,875	(13,413 )	97,288	
Policy acquisition costs	29,610	15,714	13,896	
General and administrative expenses	23,533	3,983	19,550	
Share compensation expenses	1,123	152	971	
Total underwriting deductions	138,141	6,436	131,705	
Underwriting (loss) income (a)	\$(10,509 )	\$(12,343 )	\$1,834	
Supplemental information:				
Losses and loss expenses				
Current period excluding items below	\$90,834	\$(17,039)	\$107,873	
Current period—notable loss events	—	—	—	
Current period—non-notable loss events	625	625	—	
Change in prior accident years	(7,584 )	3,001	(10,585 )	
Total losses and loss expenses	\$83,875	\$(13,413)	\$97,288	
Selected ratios:				
Net premiums written / Gross premiums written	93.9	% 0.3	93.6	%
Losses and loss expense ratio				
Current period excluding items below	71.5	% (9.6 )	81.1	%
Current period—notable loss events	—	% —	—	%
Current period—non-notable loss events	0.5	% 0.5	—	%
Change in prior accident years	(6.0 )	% 2.0	(8.0 )	%
Losses and loss expenses	66.0	% (7.1 )	73.1	%
Policy acquisition costs	23.3	% 12.8	10.5	%
General and administrative expense (b)	19.3	% 3.9	15.4	%
Expense ratio	42.6	% 16.7	25.9	%
Combined ratio	108.6	% 9.6	99.0	%

Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are (a) 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

Business Mix - Ratio of Gross Premiums Written by  
Line of Business to Total Gross Premiums Written  
Six Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total	Gross Premiums Written	% of Total
Property	\$41,644	27.6 %	\$16,372	9.1	\$25,272	18.5 %
Liability	109,286	72.4 %	(1,943 )	(9.1 )	111,229	81.5 %
Total	\$150,930	100.0%	\$14,429		\$136,501	100.0%

The property lines consist largely of commercial package property, program and brokerage business. The increase in gross premiums written in the property lines of \$16.4 million was primarily due to increases in the commercial package property, brokerage property and program flood classes of \$4.3 million, \$6.8 million and \$2.4 million, respectively, as a result of the continued build out of the underwriting platform in short tail lines. Gross premiums written in the liability lines consist largely of commercial package liability, program and other liability business. The decrease in gross premiums written in the liability lines of \$1.9 million was driven by reductions in underperforming programs and brokerage general liability lines that have been discontinued.

## Reinsurance Premiums Ceded

Reinsurance Premiums  
Ceded  
Six Months Ended June  
30,

(Dollars in thousands)	2016	Change	2015
Property	\$3,707	\$1,770	\$1,937
Liability	5,438	(1,299 )	6,737
Total	\$9,145	\$471	\$8,674

Reinsurance premiums ceded were driven by the factors highlighted above in respect of gross premiums written for the six months ended June 30, 2016 and 2015.

## Net Premiums Written

Net Retention - Ratio of Net Premiums Written to Gross  
Premiums Written  
Six Months Ended June 30,

(Dollars in thousands)	2016		Change		2015	
	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	\$37,937	91.1 %	\$14,602	(1.2 )	\$23,335	92.3 %
Liability	103,848	95.0 %	(644 )	1.1	104,492	93.9 %
Total	\$141,785	93.9 %	\$13,958	0.3	\$127,827	93.6 %

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

Net Premiums Earned  
Six Months Ended June 30,

(Dollars in thousands)	2016	Change	2015
Property	\$26,372	\$4,950	\$21,422
Liability	100,783	(10,795 )	111,578



Total \$127,155 \$(5,845) \$133,000

Net premiums earned were driven by factors highlighted above in respect of gross premiums written and reinsurance premiums ceded. Net premiums earned exceeded net premiums written for the six months ended June 30, 2015 as Western World discontinued writing business in several underperforming classes during the three months ended December 31, 2014, including binding authority commercial auto business, a large bar and tavern program and certain brokerage general liability habitational accounts.

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## Losses and Loss Expenses

	Losses and Loss Expense Ratio - All Lines Six Months Ended June 30, 2016    Change 2015		
All lines—current period excluding items below	71.5 %	(9.6 )	81.1 %
All lines—current period—notable loss events	0.0 %	0.0	0.0 %
All lines—current period—non-notable loss events	0.5 %	0.5	0.0 %
All lines—change in prior accident years (a)	(6.0 )%	2.0	(8.0 )%
All lines—loss ratio (a)	66.0 %	(7.1 )	73.1 %

	Losses and Loss Expenses - All Lines Six Months Ended June 30, 2016    Change 2015		
(Dollars in thousands)			
All lines—current period excluding items below	\$90,834	\$(17,039)	\$107,873
All lines—current period—notable loss events	—	—	—
All lines—current period—non-notable loss events	625	625	—
All lines—change in prior accident years (a)	(7,584 )	3,001	(10,585 )
All lines—losses and loss expenses (a)	\$83,875	\$(13,413)	\$97,288

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 \$6,115 during the six months ended June 30, 2015, benefiting the loss ratio by 4.6 percentage points. The remaining fair value adjustment of \$4,864 was fully amortized during the year ended December 31, 2015.

## Notable Loss Events

There were no notable loss events for the six months ended June 30, 2016 or 2015.

## Non-notable Loss Events

Losses and loss expenses from the Texas Hailstorm non-notable loss event were \$0.6 million, representing 0.5 percentage points of the loss ratio for the six months ended June 30, 2016. There were no losses and loss expenses from non-notable loss events during the six months ended June 30, 2015.

## Losses and Loss Expenses by Line of Business

	Losses and Loss Expense Ratio - Property Lines Six Months Ended June 30, 2016    Change 2015		
Property—current period excluding items below	78.2 %	(7.3 )	85.5 %
Property—current period—notable loss events	0.0 %	0.0	0.0 %
Property—current period—non-notable loss events	2.4 %	2.4	0.0 %
Property—change in prior accident years (a)	(7.7 )%	9.1	(16.8 )%
Property—loss ratio (a)	72.9 %	4.2	68.7 %

	Losses and Loss Expenses - Property Lines Six Months Ended June 30, 2016    Change 2015		
(Dollars in thousands)			
Property—current period excluding items below	\$20,629	\$2,316	\$18,313
Property—current period—notable loss events	—	—	—
Property—current period—non-notable loss events	625	625	—

Property—change in prior accident years (a) (2,023 ) 1,571 (3,594 )  
Property—losses and loss expenses (a) \$19,231 \$4,512 \$14,719

Upon closing the acquisition, an adjustment of \$409 was made to decrease net reserves to reflect fair value. This  
(a) adjustment was amortized to income through an increase in losses and loss expenses of \$161 during the six months  
ended June 30, 2015, increasing the loss ratio by 0.8 percentage points. The remaining fair value adjustment of  
\$127 was fully amortized during the year ended December 31, 2015.

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The property lines current period loss ratio, excluding the impact of notable and non-notable loss events and the change in prior accident years, decreased by 7.3 percentage points, representing a lower level of attritional losses in the current period.

During the six months ended June 30, 2016, the property lines incurred \$0.6 million of losses, or 2.4 percentage points of the property lines loss ratio, resulting from the Texas Hailstorms non-notable loss event and \$8.5 million of losses, or 32.2 percentage points of the property lines loss ratio, from other U.S.-based weather events including floods.

There were no non-notable loss events during the six months ended June 30, 2015. The favorable development on prior accident years for the six months ended June 30, 2016 and 2015 of \$2.0 million and \$3.6 million, respectively, primarily related to favorable development on attritional losses.

	Losses and Loss Expense Ratio - Liability Lines Six Months Ended June 30,		
	2016	Change	2015
Liability—current period excluding items below	69.6 %	(10.7 )	80.3 %
Liability—current period—notable loss events	0.0 %	0.0	0.0 %
Liability—current period—non-notable loss events	0.0 %	0.0	0.0 %
Liability—change in prior accident years (a)	(5.5 )%	0.8	(6.3 )%
Liability—loss ratio (a)	64.1 %	(9.9 )	74.0 %

	Losses and Loss Expenses - Liability Lines Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Liability—current period excluding items above	\$70,205	\$(19,355)	\$89,560
Liability—current period—notable loss events	—	—	—
Liability—current period—non-notable loss events	—	—	—
Liability—change in prior accident years (a)	(5,561 )	1,430	(6,991 )
Liability—losses and loss expenses (a)	\$64,644	\$(17,925)	\$82,569

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 \$6,276 during the six months ended June 30, 2015, benefiting the loss ratio by 5.6 percentage points. The remaining fair value adjustment of \$4,991 was fully amortized during the year ended December 31, 2015.

The liability lines current period loss ratio, excluding the impact of the change in prior accident years, decreased by 10.7 percentage points as Western World discontinued writing business in several underperforming classes during the fourth quarter of 2014. The favorable loss reserve development during the six months ended June 30, 2016 of \$5.6 million was due to favorable development on attritional losses, whereas the favorable loss reserve development of \$7.0 million during the six months ended June 30, 2015 was primarily due to the amortization of the fair value adjustment as noted in the table footnote above.

## Policy Acquisition Costs

	Policy Acquisition Costs Six Months Ended June 30,					
(Dollars in thousands)	2016		Change		2015	
	Policy	% of Net	Policy	% of Net	Policy	% of Net
	Acquisition	Premiums	Acquisition	Premiums	Acquisition	Premiums
	Costs	Earned	Costs	Earned	Costs	Earned
Property	\$6,283	23.8 %	\$4,734	16.6	\$1,549	7.2 %
Liability	23,327	23.1 %	10,980	12.0	12,347	11.1 %
Total (a)	\$29,610	23.3 %	\$15,714	12.8	\$13,896	10.5 %

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 \$16,992 during the six months ended June 30, 2015, benefiting the policy acquisition cost ratio by 12.8 percentage points. The acquisition cost ratio for the property and liability lines increased by 16.6 and 12.0 percentage points, respectively, primarily due to the impact of the acquisition fair value adjustments during the six months ended June 30, 2015 as noted in footnote (a) above.

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## Underwriting Income Before General and Administrative and Share Compensation Expenses

	Underwriting Income Before General and Administrative and Share Compensation Expenses Six Months Ended June 30,		
(Dollars in thousands)	2016	Change	2015
Property	\$858	\$(4,296)	\$5,154
Liability	12,812	(3,850)	16,662
Other insurance related income	477	(62)	539
Total	\$14,147	\$(8,208)	\$22,355

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

## General and Administrative and Share Compensation Expenses

	General and Administrative and Share Compensation Expenses Six Months Ended June 30,					
(Dollars in thousands)	2016	Change		2015		
		% of Net Expenses	% of Net Premiums Earned		% of Net Expenses	% of Net Premiums Earned
General and administrative expenses	\$23,533	18.4 %	\$3,983	3.7 %	\$19,550	14.7 %
Share compensation expenses	1,123	0.9 %	152	0.2 %	971	0.7 %
Total	\$24,656	19.3 %	\$4,135	3.9 %	\$20,521	15.4 %

The increase in general and administrative expenses of \$4.0 million for the six months ended June 30, 2016 compared to the six months ended June 30, 2015 was primarily due to increases in staff related costs associated with the opening of new offices in Arizona, Atlanta and New York. Share compensation expenses were comparable for the six months ended June 30, 2016 and 2015.

## Selected Underwriting Ratios

The following table presents the losses and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the six months ended June 30, 2016 and 2015.

	Six Months Ended June 30,			
	2016	Change	2015	
Losses and loss expense ratio	66.0 %	(7.1)	73.1 %	
Policy acquisition cost ratio	23.3 %	12.8	10.5 %	
General and administrative expense ratio (a)	19.3 %	3.9	15.4 %	
Expense ratio	42.6 %	16.7	25.9 %	
Combined ratio	108.6 %	9.6	99.0 %	

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

The increase in the combined ratio for the six months ended June 30, 2016 of 9.6 percentage points compared to the six months ended June 30, 2015 was due to the movement in the underlying ratios as discussed above.

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## Year to Date 2016 Results of Operations - AlphaCat Segment

The following table presents Validus' share of the AlphaCat segment income on an asset manager basis for the six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Six Months Ended June 30,		
	2016	Change	2015
Revenues			
Third party	\$7,818	\$(1,042 )	\$8,860
Related party	1,219	(1,101 )	2,320
Total revenues	9,037	(2,143 )	11,180
Expenses			
General and administrative expenses	4,233	(526 )	4,759
Share compensation expenses	274	(25 )	299
Finance expenses	883	(6,079 )	6,962
Foreign exchange gains	12	10	2
Total expenses	5,402	(6,620 )	12,022
Income (loss) before investments from AlphaCat Funds and Sidecars	\$3,635	\$4,477	\$(842 )
Investment income (loss) from AlphaCat Funds and Sidecars (b)			
AlphaCat Sidecars	665	(1,776 )	2,441
AlphaCat ILS Funds - Lower Risk (c)	4,582	1,402	3,180
AlphaCat ILS Funds - Higher Risk (c)	3,128	(1,673 )	4,801
BetaCat ILS Funds	1,676	1,442	234
PaCRE	(23 )	(5,745 )	5,722
Total investment income from AlphaCat Funds and Sidecars	10,028	(6,350 )	16,378
Validus' share of AlphaCat income	\$13,663	\$(1,873 )	\$15,536

## Supplemental information:

## Gross premiums written

AlphaCat Sidecars	\$(66 )	\$(43,413 )	\$43,347
AlphaCat ILS Funds - Lower Risk (c)	110,192	21,757	88,435
AlphaCat ILS Funds - Higher Risk (c)	138,330	105,512	32,818
AlphaCat Direct (d)	17,797	17,797	—
Total	\$266,253	\$101,653	\$164,600

In presenting the Company's results, management has included and discussed the results of AlphaCat, which are presented on an asset manager basis. Validus' share of AlphaCat income is a non-GAAP measure and is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP.

- (a) Non-GAAP measures may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."
- (b) The investment income from the AlphaCat funds and sidecars is based on equity accounting.
- Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of greater than 7%. Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.
- (d) AlphaCat Direct includes direct investments from third party investors in AlphaCat Re.





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## Revenues

Revenues earned for the six months ended June 30, 2016 were \$9.0 million, of which \$1.2 million were earned from related parties, compared to \$11.2 million for the six months ended June 30, 2015, of which \$2.3 million were earned from related parties. The overall decrease in revenues of \$2.1 million was primarily due to lower performance fees due to losses arising from notable and non-notable loss events during the six months ended June 30, 2016.

## Expenses

Total expenses for the six months ended June 30, 2016 were \$5.4 million, compared to \$12.0 million for the six months ended June 30, 2015, a decrease of \$6.6 million. The decrease was primarily attributable to reduced placement fees incurred in relation to raising new capital during the six months ended June 30, 2016.

## Investment income from AlphaCat Funds and Sidecars

Investment income available to Validus common shareholders from the AlphaCat Funds and Sidecars decreased by \$6.4 million, primarily due to the wind down of PaCRe, which was off-risk effective January 1, 2016. Excluding PaCRe, investment income available to Validus from the AlphaCat Funds and Sidecars was \$10.1 million for the six months ended June 30, 2016 as compared to \$10.7 million for the six months ended June 30, 2015, a decrease of \$0.6 million. The decrease was primarily due to Validus' share of the net losses and loss expenses of \$1.5 million from notable and non-notable loss events during the six months ended June 30, 2016.

## Assets Under Management

(Dollars in thousands)	Assets Under Management (a)		
	July 1, 2016	Change	January 1, 2016
<b>Assets Under Management - Related Party</b>			
AlphaCat Sidecars	\$8,045	\$(27,371 )	\$35,416
AlphaCat ILS Funds - Lower Risk (b)	175,832	11,818	164,014
AlphaCat ILS Funds - Higher Risk (b)	76,287	10,823	65,464
AlphaCat Direct (c)	—	—	—
BetaCat ILS Funds	63,453	1,704	61,749
Total	\$323,617	\$(3,026 )	\$326,643
<b>Assets Under Management - Third Party</b>			
AlphaCat Sidecars	\$30,078	\$(124,308)	\$154,386
AlphaCat ILS Funds - Lower Risk (b)	1,226,709	124,247	1,102,462
AlphaCat ILS Funds - Higher Risk (b)	564,513	129,662	434,851
AlphaCat Direct (c)	365,558	(2,262 )	367,820
BetaCat ILS Funds	—	—	—
Total	2,186,858	127,339	2,059,519
Total Assets Under Management	\$2,510,475	\$124,313	\$2,386,162

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

Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of greater than 7%.

(b) Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.

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

AlphaCat's assets under management were \$2.5 billion as at July 1, 2016, compared to \$2.4 billion as at January 1, 2016. Third party assets under management were \$2.2 billion as at July 1, 2016, compared to \$2.1 billion as at January 1, 2016. During the six months ended July 1, 2016, a total of \$255.5 million of capital was raised, of which \$235.9 million was raised from third parties. During the six months ended July 1, 2016, \$172.3 million was returned to investors, of which \$143.9 million was returned to third party investors.



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## Year to Date 2016 Consolidated Non-Segment Results

The following table presents non-segment income and expense items on a consolidated basis for the six months ended June 30, 2016 and 2015:

(Dollars in thousands)	Six Months Ended June 30,		
	2016	Change	2015
Investment income			
Net investment income (a)	\$64,772	\$3,482	\$61,290
Operating expenses			
General and administrative expenses	34,055	1,357	32,698
Share compensation expenses	8,099	2,028	6,071
Finance expenses (a)	28,320	(2,160 )	30,480
Tax (benefit) expenses	(412 )	(5,526 )	5,114
Total operating expenses	70,062	(4,301 )	74,363
Other items			
Net realized gains on investments (a)	1,434	(4,850 )	6,284
Change in net unrealized gains on investments (a)	77,130	76,387	743
(Loss) income from investment affiliate	(4,702 )	(7,762 )	3,060
Foreign exchange gains (losses) (a)	12,695	19,388	(6,693 )
Other income (loss)	756	1,364	(608 )
Total other items	87,313	84,527	2,786
Total corporate and investment information	\$82,023	\$92,310	\$(10,287)

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

## Net Investment Income

(Dollars in thousands)	Net Investment Income		
	Six Months Ended June 30,		
	2016	Change	2015
Managed investments			
Fixed maturities and short-term investments	\$58,638	\$1,532	\$57,106
Other investments	8,898	1,696	7,202
Cash and cash equivalents	1,245	402	843
Securities lending income	17	8	9
Total gross investment income	68,798	3,638	65,160
Investment expenses	(4,026 )	(156 )	(3,870 )
Total managed net investment income	\$64,772	\$3,482	\$61,290

The increase in managed net investment income for the six months ended June 30, 2016 of \$3.5 million, or 5.7%, was primarily due to increased yield on certain investment funds within other investments. Managed net investment income from other investments includes distributed and undistributed net income from certain investment funds.

The Company's managed yield-bearing portfolio had an annualized effective yield of 2.06% for the six months ended June 30, 2016 compared to 1.93% for the six months ended June 30, 2015, an increase of 13 basis points. Investment yield is calculated by dividing total managed net investment income by the average balance of the yield bearing assets managed by the Company's portfolio managers. Average assets for the period ended is the average of the beginning, ending and intervening quarter end asset balances.

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## General and Administrative and Share Compensation Expenses

Corporate general and administrative expenses for the six months ended June 30, 2016 were \$34.1 million compared to \$32.7 million for the six months ended June 30, 2015, an increase of \$1.4 million or 4.2%. 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 six months ended June 30, 2016 were \$8.1 million compared to \$6.1 million for the six months ended June 30, 2015, an increase of \$2.0 million or 33.4%. The increase was primarily due to performance share award adjustments.

## Finance Expenses

Finance expenses for the six months ended June 30, 2016 were \$28.3 million compared to \$30.5 million for the six months ended June 30, 2015, a decrease of \$2.2 million or 7.1%. The decrease was primarily due to reduced credit facility expenses.

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

Net realized gains on managed investments for the six months ended June 30, 2016 were \$1.4 million compared to \$6.3 million for the six months ended June 30, 2015, a decrease of \$4.9 million. The decrease in net realized gains primarily resulted from the sale of managed fixed maturities.

The change in net unrealized gains on managed investments for the six months ended June 30, 2016 was \$77.1 million compared to \$0.7 million for the six months ended June 30, 2015, an increase of \$76.4 million. The increase was primarily due to the impact of declining interest rates on our fixed maturity investments during the six months ended June 30, 2016 compared to the six months ended June 30, 2015.

## (Loss) income From Investment Affiliate

The (loss) income from investment affiliate relates to the income earned from the Company's investments in Aquiline Financial Services Fund II L.P. and Fund III L.P. For further details, refer to Note 6, "Investments in affiliates," to the Consolidated Financial Statements in Part I, Item 1.

## Foreign Exchange Gains (Losses)

The Company's reporting currency is the U.S. dollar. As a significant portion of the Company's operations are transacted in currencies other than the U.S. dollar, fluctuations in foreign exchange rates may affect year-to-year comparisons. The Company's largest foreign currency fluctuation exposure is to the following currencies, with the movement in each currency against the U.S. dollar for the six months ended June 30, 2016 and 2015 shown in the table below:

	Six Months	
	Ended June 30,	
U.S. dollar (weakened) strengthened against:	2016	2015
British Pound sterling	10.8 %	(0.8) %
Euro	(2.2) %	8.6 %
Canadian dollar	(6.4) %	7.5 %
Swiss franc	(2.6) %	(6.0) %
Australian dollar	(1.9) %	5.9 %
New Zealand dollar	(4.2) %	14.8 %
Singapore dollar	(4.7) %	1.6 %
Japanese yen	(14.7) %	2.4 %
South African rand	(5.0) %	5.3 %

Foreign exchange gains for the six months ended June 30, 2016 were \$12.7 million compared to losses of \$6.7 million for the six months ended June 30, 2015, a favorable movement of \$19.4 million, due primarily to the U.S. dollar strengthening against the British Pound sterling.

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



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## Non-GAAP Financial Measures

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

	Three Months Ended	
	June 30,	
(Dollars in thousands)	2016	2015
Underwriting income	\$58,957	\$109,660
Net investment income	39,257	33,611
Finance expenses	(14,166 )	(18,682 )
Dividends on preferred shares	—	—
Tax expense	(1,706 )	(2,549 )
Income from operating affiliates	—	1,738
(Income) attributable to AlphaCat investors	(6,114 )	—
Net operating (income) attributable to noncontrolling interest	(21,328 )	(22,061 )
Net operating income available to Validus common shareholders	\$54,900	\$101,717
Net realized gains on investments	2,724	2,244
Change in net unrealized gains (losses) on investments	31,428	(34,676 )
(Loss) income from investment affiliate	(589 )	284
Foreign exchange gains (losses)	6,286	(2,671 )
Other income (loss)	79	(608 )
Net loss (income) attributable to noncontrolling interest	135	(500 )
Net income available to Validus common shareholders	\$94,963	\$65,790
	Six Months Ended	
	June 30,	
(Dollars in thousands)	2016	2015
Underwriting income	\$201,876	\$253,861
Net investment income	68,718	64,640
Finance expenses	(29,369 )	(39,649 )
Dividends on preferred shares	—	—
Tax benefit (expense)	412	(5,114 )
(Loss) income from operating affiliates	(23 )	5,722
(Income) attributable to AlphaCat investors	(10,714 )	—
Net operating (income) attributable to noncontrolling interest	(58,622 )	(40,869 )
Net operating income available to Validus common shareholders	\$172,278	\$238,591
Net realized gains on investments	2,140	6,413
Change in net unrealized gains (losses) on investments	78,872	(1,449 )
(Loss) income from investment affiliate	(4,702 )	3,060
Foreign exchange gains (losses)	12,531	(6,936 )
Other income (loss)	756	(608 )
Net (income) loss attributable to noncontrolling interest	(102 )	130
Net income available to Validus common shareholders	\$261,773	\$239,201

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



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

Net operating income available to Validus common shareholders indicates the performance of the Company's core underwriting function and includes net investment income, finance expenses, tax (expense) benefit, income (loss) from operating affiliates and (income) attributable to AlphaCat investors and excludes net operating (income) attributable to noncontrolling interest, dividends on preferred shares and certain other revenues and expenses such as the reconciling items in the table above. The Company believes the reporting of net operating income available to Validus common shareholders enhances the understanding of results by highlighting the underlying profitability of the Company's core insurance and reinsurance business. This profitability is influenced significantly by earned premium growth, adequacy of the Company's pricing and loss frequency and severity. Over time it is also influenced by the Company's underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance and its ability to manage its expense ratio, which it accomplishes through its management of acquisition costs and other underwriting expenses.

The Company excludes the U.S. GAAP measures noted above, in particular net realized and change in net unrealized gains and losses on investments, from its calculation of net operating income available to Validus common shareholders because the amount of these gains and losses is heavily influenced by, and fluctuates in part, according to availability of investment market opportunities. The Company believes these amounts are largely independent of its core underwriting activities and including them distorts the analysis of trends in its operations. In addition to presenting net income available to Validus common shareholders determined in accordance with U.S. GAAP, the Company believes that showing underwriting income and net operating income available to Validus common shareholders 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 in a manner similar to how management analyzes the Company's underlying business performance.

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

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

Such measures described above which are referred to as non-GAAP, may be defined or calculated differently by other companies. These measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP.



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The following tables present reconciliations of book value per diluted common share to book value per common share, the most comparable U.S. GAAP financial measure, as at June 30, 2016 and December 31, 2015:

	June 30, 2016			Book
(Dollars in thousands, except share and per share amounts)	Equity Amount	Shares	Exercise Price (a)	Value Per Share
Book value per common share				
Total shareholders' equity available to Validus common shareholders (b)	\$3,716,256	80,772,238		\$46.01
Tangible book value per common share				\$42.11
Book value per diluted common share				
Total shareholders' equity available to Validus common shareholders (b)	3,716,256	80,772,238		
Assumed exercise of outstanding stock options (c)	1,080	51,357	\$ 21.03	
Unvested restricted shares	—	2,876,998		
Book value per diluted common share	\$3,717,336	83,700,593		\$44.41
Adjustment for accumulated dividends				10.86
Book value per diluted common share plus accumulated dividends				\$55.27
Tangible book value per diluted common share				\$40.65
	December 31, 2015			
(Dollars in thousands, except share and per share amounts)	Equity Amount	Shares	Exercise Price (a)	Book Value Per Share
Book value per common share				
Total shareholders' equity available to Validus common shareholders (b)	\$3,638,975	82,900,617		\$43.90
Tangible book value per common share				\$40.06
Book value per diluted common share				
Total shareholders' equity available to Validus common shareholders (b)	3,638,975	82,900,617		
Assumed exercise of outstanding stock options (c)	1,319	65,401	\$ 20.17	
Unvested restricted shares	—	3,026,376		
Book value per diluted common share	\$3,640,294	85,992,394		\$42.33
Adjustment for accumulated dividends				10.16
Book value per diluted common share plus accumulated dividends				\$52.49
Tangible book value per diluted common share				\$38.63
(a) Weighted average exercise price for those warrants and stock options that have an exercise price lower than book value per share.				
(b) Total shareholders' equity available to Validus common shareholders excludes the liquidation value of the preferred shares of \$150,000.				
(c) Using the "as-if-converted" method, assuming all proceeds received upon exercise of warrants and stock options will be retained by the Company and the resulting common shares from exercise remain outstanding.				

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Liquidity and Capital Resources

Investments

Managed investments represent assets governed by the Company's investment policy statement ("IPS") whereas, non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company's IPS. Refer to Note 5, "Variable interest entities," to the Consolidated Financial Statements in Part I, Item 1 for further details.

As at both June 30, 2016, and December 31, 2015, the Company's managed cash and investment portfolio totaled \$6.4 billion. Refer to Note 3, "Investments," to the Consolidated Financial Statements in Part I, Item 1 for further details related to the Company's managed 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 IPS specifically requires certain minimum thresholds of cash, short-term investments, and highly-rated fixed maturity securities relative to our consolidated net reserves and estimates of probable maximum loss exposures at the 1 in 100 year threshold to provide necessary liquidity in a wide range of reasonable scenarios. As such, the Company structures its managed cash and investment portfolio to support policyholder reserves and contingent risk exposures with a liquid portfolio of high quality fixed-income investments with a comparable duration profile.

The Company's IPS requires managed investments to have an average duration in the range of 0.75 years to 3.00 years. At June 30, 2016, the average duration of the Company's managed investment portfolio was 2.19 years (December 31, 2015: 2.15 years). This duration is reviewed regularly based on changes in the duration of the Company's liabilities and in general market conditions.

The Company's IPS also requires certain minimum credit quality standards for its managed fixed maturity portfolio, including a minimum weighted average portfolio rating of A+ for securities assigned ratings. Further limits on asset classes and security types are also mandated. In addition, the Company stress-tests the downside risks within its asset portfolio using internal and external inputs and stochastic modeling processes to help define and limit asset risks to acceptable levels that are consistent with our overall ERM framework. At June 30, 2016, the Company's rated managed fixed maturity portfolio had an average credit quality rating of AA- (December 31, 2015: AA-).

The value of the Company's managed fixed maturity portfolio will fluctuate with, among other factors, changes in the interest rate environment and in overall economic conditions. Additionally, the structure of the Company's overall managed investment portfolio exposes the Company to other risks, including insolvency or reduced credit quality of corporate debt securities, prepayment, default and structural risks on asset-backed securities, mortgage-backed securities and bank loans and liquidity risks on certain other investments, including hedge funds, investment funds and private equity investments. For further details on market risks, refer to

Part I, Item 3 "Quantitative And Qualitative Disclosures About Market Risk."

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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 managed fixed maturity portfolio:

	June 30, 2016		
(Dollars in thousands)	Fair Value	% of Total	
Germany	\$58,646	10.1	%
United Kingdom	36,759	6.3	%
Supranational	35,830	6.2	%
France	15,695	2.7	%
Norway	13,057	2.3	%
Jordan	10,354	1.8	%
Other (individual jurisdictions below \$10,000)	44,909	7.7	%
Total Managed Non-U.S. Government Securities	215,250	37.1	%
European Corporate Securities	132,075	22.8	%
United Kingdom Corporate Securities	108,446	18.7	%
Other Non-U.S. Corporate Securities	123,885	21.4	%
Total Managed Non-U.S. Fixed Maturity Portfolio	\$579,656	100.0	%

At June 30, 2016, the Company did not have an aggregate exposure to any single issuer of more than 0.9% of managed cash and investments, other than with respect to government and agency securities. The top ten exposures to fixed income corporate issuers at June 30, 2016 were as follows:

	June 30, 2016			
Issuer (a)	Fair Value (b)	S&P Rating (c)	% of Total Managed Cash and Investments	
JPMorgan Chase & Co	\$55,981	BBB+	0.9	%
HSBC Holdings plc	51,668	A	0.8	%
Goldman Sachs Group	47,396	BBB+	0.7	%
Morgan Stanley	44,855	BBB+	0.7	%
Bank of America Corp	41,513	BBB	0.6	%
Citigroup Inc	39,510	BBB	0.6	%
US Bancorp	36,612	AA-	0.6	%
Anheuser-Busch Inbev NV	33,297	A-	0.5	%
Bank of New York Mellon Corp	32,276	A	0.5	%
Ford Motor Company	32,022	BBB	0.5	%
Total	\$415,130		6.4	%

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

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

Investment ratings are the median of Moody's, Standard & Poor's and Fitch, presented in Standard & Poor's (c) 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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## Reserves for Losses and Loss Expenses

Notable loss events are loss events which aggregate to over \$30.0 million on a consolidated basis. Non-notable loss events are loss events which aggregate to over \$15.0 million but less than \$30.0 million on a consolidated basis. At June 30, 2016, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in the Critical Accounting Policies and Estimates section below. 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.

June 30, 2016

(Dollars in thousands)	Gross Case Reserves	IBNR	Total Gross Reserve for Losses and Loss Expenses
Property	\$403,515	\$471,549	\$ 875,064
Marine	389,833	479,529	869,362
Specialty	273,646	530,728	804,374
Liability	200,631	373,286	573,917
Total	\$1,267,625	\$1,855,092	\$ 3,122,717

June 30, 2016

(Dollars in thousands)	Net Case Reserves	IBNR	Total Net Reserve for Losses and Loss Expenses
Property	\$354,328	\$405,042	\$ 759,370
Marine	347,628	375,303	722,931
Specialty	228,062	481,227	709,289
Liability	186,156	301,984	488,140
Total	\$1,116,174	\$1,563,556	\$ 2,679,730

The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the three months ended June 30, 2016.

(Dollars in thousands)	Three Months Ended June 30, 2016					Total
	Validus Re Segment	Talbot Segment	Western World Segment	AlphaCat Segment	Eliminations	
Reserve for losses and loss expenses, beginning of period	\$1,107,747	\$1,333,578	\$593,356	\$12,913	\$(67,294)	\$2,980,300
Loss reserves recoverable	(31,566)	(321,644)	(84,773)	—	67,294	(370,689)
Net reserves for losses and loss expenses, beginning of period	1,076,181	1,011,934	508,583	12,913	—	2,609,611
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:						
Current year	163,016	137,638	47,387	21,870	—	369,911
Prior years	(30,877)	(28,328)	(3,158)	(418)	—	(62,781)
Total incurred losses and loss expenses	132,139	109,310	44,229	21,452	—	307,130
Foreign exchange gain	(712)	(13,467)	—	(175)	—	(14,354)
Net paid losses	(78,230)	(93,670)	(50,678)	(79)	—	(222,657)
Net reserve for losses and loss expenses, end of period	1,129,378	1,014,107	502,134	34,111	—	2,679,730
Loss reserves recoverable	111,015	308,686	86,018	—	(62,732)	442,987
Reserve for losses and loss expenses, end of period	\$1,240,393	\$1,322,793	\$588,152	\$34,111	\$(62,732)	\$3,122,717



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The amount of recorded reserves represents management's best estimate of expected losses and loss expenses on premiums earned. For the three months ended June 30, 2016, favorable loss reserve development on prior accident years was \$62.8 million of which \$30.9 million related to the Validus Re segment, \$28.3 million related to the Talbot segment, \$3.2 million related to the Western World segment and \$0.4 million related to the AlphaCat segment. The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by segment for the six months ended June 30, 2016.

(Dollars in thousands)	Six Months Ended June 30, 2016					Eliminations	Total
	Validus Re Segment	Talbot Segment	Western World	AlphaCat Segment			
Reserve for losses and loss expenses, beginning of period	\$1,146,869	\$1,302,635	\$600,331	\$11,013	\$ (64,281 )		\$2,996,567
Loss reserves recoverable	(36,055 )	(293,662 )	(85,150 )	—	64,281		(350,586 )
Net reserves for losses and loss expenses, beginning of period	1,110,814	1,008,973	515,181	11,013	—		2,645,981
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:							
Current year	271,568	260,459	91,459	24,611	—		648,097
Prior years	(56,561 )	(51,048 )	(7,584 )	(1,327 )	—		(116,520 )
Total incurred losses and loss expenses	215,007	209,411	83,875	23,284	—		531,577
Foreign exchange loss (gain)	12,101	(18,130 )	—	(65 )	—		(6,094 )
Net paid losses	(208,544 )	(186,147 )	(96,922 )	(121 )	—		(491,734 )
Net reserves for losses and loss expenses, end of period	1,129,378	1,014,107	502,134	34,111	—		2,679,730
Loss reserves recoverable	111,015	308,686	86,018	—	(62,732 )		442,987
Reserve for losses and loss expenses, end of period	\$1,240,393	\$1,322,793	\$588,152	\$34,111	\$ (62,732 )		\$3,122,717

For the six months ended June 30, 2016, favorable loss reserve development on prior accident years was \$116.5 million, of which \$56.6 million related to the Validus Re segment, \$51.0 million related to the Talbot segment, \$7.6 million related to the Western World segment and \$1.3 million related to the AlphaCat segment.

Incurred losses for the three and six months ended June 30, 2016 included \$36.9 million of losses from notable loss events, of which \$17.9 million related to the Validus Re segment, \$11.7 million related to the Talbot segment, \$nil related to the Western World segment and \$7.3 million related to the AlphaCat segment. Incurred losses for the three and six months ended June 30, 2016 included \$48.3 million of losses from non-notable loss events, of which \$32.5 million related to the Validus Re segment, \$9.1 million related to the Talbot segment, \$0.6 million related to the Western World segment and \$6.1 million related to the AlphaCat 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 ("RDE"). Any RDE is included as part of the Company's overall reserve as defined and disclosed in the Critical Accounting Policies and Estimates section below. As at June 30, 2016, the Company had no RDE.

For disclosure purposes, only those notable loss events which have an ultimate loss estimate above \$30.0 million are disclosed separately and included in the reserves for notable loss event roll forward table below. To the extent that there are increased complexity and volatility factors relating to notable loss events in the aggregate, RDE may be established for a specific accident year.



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The reserves for notable loss events table below does not disclose notable loss events prior to 2014. Deepwater Horizon, a 2010 event, had closing reserves of \$11.0 million as at June 30, 2016. The New Zealand earthquakes of 2010 and 2011, had total closing reserves of \$91.0 million as at June 30, 2016. Superstorm Sandy, a 2012 event, had total closing reserves of \$61.3 million as at June 30, 2016 and Costa Concordia, also a 2012 event, had total closing reserves of \$25.8 million as at June 30, 2016.

Reserves for Notable Loss Events (Dollars in thousands)

2014 Notable Loss Event	Year Ended December 31, 2014		Year Ended December 31, 2015		Six Months Ended June 30, 2016	
	Initial Estimate (a)	Development (Favorable) Allocations (c)	Initial Estimate (a)	Development (Favorable) Allocations (c)	Initial Estimate (a)	Development (Favorable) Allocations (c)
Notable Loss Event	Unfavorable RDE (b)	Closing Reserve December 31, 2014 (d)	Unfavorable RDE (b)	Closing Reserve December 31, 2015 (d)	Unfavorable RDE (b)	Closing Reserve June 30, 2016 (d)
Tripoli Airport (e)	\$28,134	\$6,810	\$34,944	\$(1,196)	\$33,748	\$18

Notable Loss Event	Year Ended December 31, 2014		Year Ended December 31, 2015		Six Months Ended June 30, 2016	
	Paid Loss (Recovery)	Closing Reserve December 31, 2014 (d)	Paid Loss (Recovery)	Closing Reserve December 31, 2015 (d)	Paid Loss (Recovery)	Closing Reserve June 30, 2016 (d)
Tripoli Airport (e)	\$	-\$34,944	\$22,938	\$10,810	\$62	\$10,766

2015 Notable Loss Events	Initial Estimate (a)	Year Ended December 31, 2015		Six Months Ended June 30, 2016	
		Development (Favorable) Allocations (c)	Closing Estimate December 31, 2015 (d)	Development (Favorable) Allocations (c)	Closing Estimate June 30, 2016 (d)
Notable Loss Events	Unfavorable RDE (b)	Unfavorable RDE (b)	Closing Reserve December 31, 2015 (d)	Unfavorable RDE (b)	Closing Reserve June 30, 2016 (d)
Pemex	\$48,074	\$1,464	\$49,538	\$(426)	\$49,112
Tianjin	47,789	(362)	47,427	(1,644)	45,783
Total 2015 Notable Loss Events	\$95,863	\$1,102	\$96,965	\$(2,070)	\$94,895

Notable Loss Events	Year Ended December 31, 2015		Six Months Ended June 30, 2016	
	Paid Loss (Recovery)	Closing Reserve December 31, 2015 (d)	Paid Loss (Recovery)	Closing Reserve June 30, 2016 (d)
Pemex	\$44	\$49,494	\$46	\$49,022
Tianjin	—	47,427	1,657	44,126
Total 2015 Notable Loss Events	\$44	\$96,921	\$1,703	\$93,148

2016 Notable Loss Event		Six Months Ended June 30, 2016		
Notable Loss Event	Initial Estimate (a)	Development (Favorable) / Allocations of RDE (b)	Closing Estimate (c)	June 30, 2016
Canadian Wildfires	\$36,915	\$—	—	\$36,915

Notable Loss Event		Six Months Ended June 30, 2016		
Notable Loss Event		Paid Loss (Recovery)	Closing Reserve (d)	June 30, 2016
Canadian Wildfires		85	36,830	

(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, Talbot, Western World and AlphaCat segments to pay dividends, finance expenses and other holding company expenses. There are restrictions on the payment of dividends from most operating subsidiaries, primarily due to regulatory requirements in the jurisdictions in which the operating subsidiaries are domiciled. The Company believes the dividend/distribution capacity of the Company's subsidiaries will provide the Company with sufficient liquidity for the foreseeable future. The Company continues to generate substantial cash from operating activities and remains in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing capital structure to meet its short and long-term objectives.

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

(Dollars in thousands)	June 30, 2016
Validus Reinsurance, Ltd. (excluding capital supporting FAL) (a) (b)	\$3,686,639
Talbot Holdings, Ltd. (including capital supporting FAL) (b)	917,798
Other, net	45,067
Redeemable noncontrolling interest in AlphaCat	1,532,283
Noncontrolling interest in AlphaCat	212,154
Total consolidated capitalization	6,393,941
Senior notes payable	(245,261 )
Debentures payable	(537,987 )
Redeemable noncontrolling interest in AlphaCat	(1,532,283 )
Total shareholders' equity	4,078,410
Preferred shares (c)	(150,000 )
Noncontrolling interest in AlphaCat	(212,154 )
Total shareholders' equity available to Validus common shareholders (c)	\$3,716,256
(a) Validus Reinsurance, Ltd. (excluding capital supporting FAL) includes capital of \$661,480 relating to Western World Insurance Group, Inc.	
(b) Validus Reinsurance, Ltd. (excluding capital supporting FAL) excludes capital of \$737,168 which supports Talbot's FAL. This capital was included in Talbot Holdings, Ltd. (including capital supporting FAL).	
(c) Total shareholders' equity available to Validus common shareholders excludes the liquidation value of the preferred shares of \$150,000.	

## 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 six months ended June 30, 2016 and 2015 is provided in the following table:

(Dollars in thousands)	Six Months Ended June 30,		
	2016	Change	2015
Net cash provided by operating activities	\$69,443	\$36,969	\$32,474
Net cash used in investing activities	(469,003 )	(408,188 )	(60,815 )
Net cash provided by (used in) financing activities	252,217	326,455	(74,238 )
Effect of foreign currency rate changes on cash and cash equivalents	(6,968 )	1,762	(8,730 )
Net decrease in cash and cash equivalents	\$(154,311)	\$(43,002)	\$(111,309)

**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 six months ended June 30, 2016 was \$69.4 million compared to \$32.5 million during the six months ended June 30, 2015, a favorable movement of \$37.0 million. This favorable movement was primarily due to the timing of premium receipts.

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 June 30, 2016, the Company's portfolio was composed of fixed income, short-term and other investments amounting to \$8.3 billion or 92.6% of total cash and investments. For further details related to investments pledged as collateral, refer to Note 3, "Investments," to the Consolidated Financial Statements in Part I, Item 1.

Net cash used in investing activities during the six months ended June 30, 2016 was \$469.0 million compared to \$60.8 million for the six months ended June 30, 2015, representing an increase in net cash used of \$408.2 million. This increase was primarily due to increased purchases of short-term investments in the Company's non-managed portfolio on behalf of AlphaCat investors.

**Financing Activities**

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

Net cash provided by financing activities during the six months ended June 30, 2016 was \$252.2 million compared to net cash used in financing activities of \$74.2 million during the six months ended June 30, 2015, a favorable movement of \$326.5 million. This favorable movement was driven primarily by an increase in the issuance of notes payable to AlphaCat investors of \$294.7 million, an increase of \$144.9 million resulting from the issuance of preferred shares, an increase in third party investments in noncontrolling interests of \$162.1 million; partially offset by a decrease in third party investments in redeemable noncontrolling interest of \$71.5 million and an increase in third party subscriptions deployed on AlphaCat funds and sidecars of \$293.9 million.

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## Capital Resources

The following table details the Company's capital position as at June 30, 2016 and December 31, 2015.

Capitalization (Dollars in thousands)	June 30, 2016	December 31, 2015		
Senior Notes (a)	\$245,261	\$245,161		
Junior Subordinated Deferrable Debentures (JSDs) (a)	289,800	289,800		
Flagstone Junior Subordinated Deferrable Debentures (JSDs) (a)	248,187	247,868		
Total debt	\$783,248	\$782,829		
Redeemable noncontrolling interest	\$1,532,283	\$1,111,714		
Preferred shares (b)	\$150,000	\$—		
Ordinary shares, capital and surplus available to Validus	3,734,438	3,651,544		
Accumulated other comprehensive loss	(18,182 )	(12,569 )		
Noncontrolling interest	212,154	154,662		
Total shareholders' equity	\$4,078,410	\$3,793,637		
Total capitalization (c)	\$6,393,941	\$5,688,180		
Total capitalization available to Validus (d)	\$4,649,504	\$4,421,804		
Debt to total capitalization	12.2	% 13.8		%
Debt (excluding JSDs) to total capitalization	3.8	% 4.3		%
Debt and preferred shares to total capitalization	14.6	% 13.8		%
Debt to total capitalization available to Validus	16.8	% 17.7		%
Debt (excluding JSDs) to total capitalization available to Validus	5.3	% 5.5		%
Debt and preferred shares to total capitalization available to Validus	20.1	% 17.7		%

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

(b) Refer to Part I, Item 1, Note 11, "Share capital," to the Consolidated Financial Statements for further details and discussion on the Company's preferred shares.

(c) Total capitalization equals shareholders' equity plus noncontrolling interests, Senior Notes and Junior Subordinated Deferrable Debentures.

(d) Total capitalization available to Validus equals total shareholder's equity less noncontrolling interests plus Senior Notes and Junior Subordinated Deferrable Debentures.

## Shareholders' Equity

Shareholders' equity available to Validus common shareholders at June 30, 2016 was \$3.7 billion, compared to \$3.6 billion at December 31, 2015. Including \$150.0 million of preferred shares, shareholders' equity available to Validus at June 30, 2016 was \$3.9 billion, compared to \$3.6 billion at December 31, 2015.

On August 3, 2016, the Company announced a quarterly cash dividend of \$0.35 per common share, which is payable on September 30, 2016 to shareholders of record on September 15, 2016 and a cash dividend of \$0.3753472 per depositary share on the outstanding Series A preferred shares, payable on September 15, 2016 to the holders of record on September 1, 2016.

The timing and amount of any future cash dividends, however, will be at the discretion of the Board and will depend upon results of operations and cash flows, the Company's financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that the Board deems relevant.

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. On February 3, 2015, the Board of Directors of the Company approved an

increase in the Company's common share repurchase authorization to \$750.0 million.

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The Company has repurchased 79,282,495 common shares for an aggregate purchase price of \$2.6 billion from the inception of the share repurchase program to August 3, 2016. The Company had \$382.3 million remaining under its authorized share repurchase program as of August 3, 2016.

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

**Debt and Financing Arrangements**

The following table details the Company's borrowings and credit facilities as at June 30, 2016:

(Dollars in thousands)	Maturity Date / Term (a)	Commitment	Issued and Outstanding (b)
2006 Junior Subordinated Deferrable Debentures	June 15, 2036	\$ 150,000	\$ 150,000
2007 Junior Subordinated Deferrable Debentures	June 15, 2037	200,000	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	September 15, 2036	134,437	134,437
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 15, 2037	113,750	113,750
Total debentures payable		598,187	537,987
2010 Senior Notes due 2040	January 26, 2040	250,000	250,000
Total debentures and senior notes payable		848,187	787,987
\$85,000 syndicated unsecured letter of credit facility	December 9, 2020	85,000	—
\$300,000 syndicated secured letter of credit facility	December 9, 2020	300,000	105,575
\$24,000 secured bi-lateral letter of credit facility	Evergreen	24,000	11,805
AlphaCat Re secured letter of credit facility	Evergreen	20,000	20,000
IPC bi-lateral facility	Evergreen	25,000	5,666
\$236,000 Flagstone bi-lateral facility	Evergreen	236,000	195,622
Total credit and other facilities		690,000	338,668
Total debt and financing arrangements		\$ 1,538,187	\$ 1,126,655

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

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

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



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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 August 5, 2016:

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

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Recent Accounting Pronouncements

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

Critical Accounting Policies and Estimates

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 ("PSLRA") provides a "safe harbor" for forward-looking statements. Any prospectus, prospectus supplement, the Company's Annual Report to shareholders, any proxy statement, any other Form 10-K, Form 10-Q or Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements that reflect the Company's current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to the Company in general, and to the insurance and reinsurance sectors in particular. Statements that include the words "expect", "intend", "plan", "believe", "project", "anticipate", "will", "may", and similar statements of a future or forward-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, 2015, as well as the risk and other factors set forth in the Company's other filings with the SEC, as well as management's response to any of the aforementioned factors.

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

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

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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 managed fixed maturity investments are 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 investments fall 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 maturity investments increase and the Company has reinvestment risk, as funds reinvested may earn less than is necessary to match anticipated liabilities. We manage interest rate risk by selecting investments with characteristics such as duration, yield, currency and liquidity tailored to the anticipated cash outflow characteristics of the insurance and reinsurance liabilities the Company assumes.

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

(Dollars in thousands)	June 30, 2016		December 31, 2015	
	Increase (decrease) in market value		Increase (decrease) in market value	
Immediate 100 basis point increase in market interest rates	\$(127,105)	(2.3)%	\$(126,908)	(2.4)%
Immediate 100 basis point decrease in market interest	\$125,452	2.2 %	\$127,976	2.4 %

As at June 30, 2016, the Company held \$1.4 billion (December 31, 2015: \$1.3 billion), or 26.8% (December 31, 2015: 25.1%) of the Company's managed fixed maturity investments in asset-backed and mortgage-backed securities. Some of these assets are exposed to prepayment risk, which occurs when the frequency with which holders of the underlying loans prepay the outstanding principal before the maturity date changes. The adverse impact of prepayment is more evident in a declining interest rate environment. As a result, the Company will be exposed to reinvestment risk, as cash flows received by the Company will be accelerated and will be reinvested at the prevailing interest rates.

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

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

(Dollars in thousands)	June 30, 2016		December 31, 2015	
	Balance	% of Total	Balance	% of Total
Total monetary assets held in foreign currencies	\$612,970	5.2 %	\$568,153	5.4 %
Total monetary liabilities held in foreign currencies	751,370	12.1 %	732,730	13.1 %
Total non-monetary assets that do not require revaluation	17,970	0.2 %	15,937	0.2 %
Total non-monetary liabilities that do not require revaluation	92,830	1.5 %	81,718	1.5 %

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

**Credit Risk:** The Company is exposed to credit risk from the possibility that counterparties may default on their obligations. The Company's primary credit risks reside in investments 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 maturity investments to maintain a minimum weighted average portfolio credit rating of A+ on its rated managed fixed maturity investments. As at June 30, 2016, the Company's rated managed fixed maturity investments had an average credit quality rating of AA- (December 31, 2015: AA-).

In addition, the Company's IPS limits the amount of "risk assets" held as part of its managed cash and investments portfolio, including investments in investment affiliates, to a maximum of 35% of shareholders' equity available to Validus. Risk assets include non-investment grade debt securities, private equity investments, private placements that are not subject to rule 144A, hedge funds and other alternative assets. The Company's managed cash and investment portfolio, including investments in investment affiliates, had risk assets of \$859.0 million or 22.2% of shareholders' equity available to Validus as at June 30, 2016 (December 31, 2015: \$837.9 million or 23.0%).

The Company also limits its aggregate exposure to any single issuer to 3.75% or less of its total managed cash and investment portfolio, excluding government and agency securities, depending on the credit rating of the issuer. The Company did not have an aggregate exposure to any single issuer of more than 0.9% of total managed cash and investments, other than with respect to government and agency securities as at June 30, 2016 (December 31, 2015: 0.9%).

Furthermore, fixed maturity investments in below investment grade securities are limited to no more than 15% of the Company's managed cash and investment portfolio. As at June 30, 2016, 10.1% (December 31, 2015: 10.3%) of the managed cash and investment portfolio was below Baa3/BBB-.

The amount of the maximum exposure to credit risk is indicated by the carrying value of the Company's financial assets. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better rated by S&P or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At June 30, 2016, 98.7% of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses) were from reinsurers rated A- or better, or from reinsurers posting full collateral (December 31, 2015: 98.7% rated A- or better).

**Liquidity risk:** Certain of the Company's investments may become illiquid. Disruption in the credit markets may materially affect the liquidity of the Company's investments, including non-agency residential mortgage-backed securities and bank loans which represent 9.6% at June 30, 2016 (December 31, 2015: 9.4%) of managed cash and investments. If the Company requires significant amounts of cash on short notice in excess of normal cash requirements (which could include claims on a major catastrophic event) in a period of market illiquidity, the investments may be difficult to sell in a timely manner and may have to be disposed of for less than what may otherwise have been possible under other conditions. At June 30, 2016, the Company had \$777.6 million (December 31, 2015: \$855.9 million) of unrestricted, liquid assets, defined as managed unpledged cash and cash equivalents, short term investments, government and government agency securities.

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

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

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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 June 30, 2016, the Company was not a party to, or involved in any litigation or arbitration that it believes could have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

**ITEM 1A. RISK FACTORS**

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

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

The Company has repurchased 79,282,495 common shares for an aggregate purchase price of \$2.6 billion from the inception of the share repurchase program to August 3, 2016.

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

The repurchase program may be modified, extended or terminated by the Board of Directors at any time. The Company had \$382.3 million remaining under its authorized share repurchase program as of August 3, 2016.

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

For the three months ended June 30, 2016, the number of shares repurchased by the Company was 1,453,842. The share repurchases made during the three months ended June 30, 2016 resulted in a dilutive impact on book value per diluted common share of \$0.05 for the quarter.

Effect of share repurchases (Dollars in thousands, except per share amounts)	Second Quarter Share Repurchase Activity				Three Months Ended June 30, 2016
	As at March 31, 2016  (cumulative)	April	May	June	
Aggregate purchase price (a)	\$2,552,098	\$387	\$32,686	\$35,643	\$68,716
Shares repurchased	77,387,916	8,718	686,272	758,852	1,453,842
Average price (a)	\$32.98	\$44.45	\$47.63	\$46.97	\$47.27
Maximum number of shares that may yet be purchased under the program (b)		10,619,294	92,374	8,393,464	
		Share Repurchase Activity Post Quarter End			
Effect of share repurchases (Dollars in thousands, except per share amounts)	As at June 30, 2016  (cumulative)	July	August	As at August 3, 2016	Cumulative to Date Effect
Aggregate purchase price (a)	\$2,620,814	\$18,438	\$2,877	\$21,315	\$2,642,129
Shares repurchased	78,841,758	382,648	58,089	440,737	79,282,495
Average price (a)	\$33.24	\$48.18	\$49.53	\$48.36	\$33.33

(a) Share transactions are on a trade date basis through August 3, 2016 and are inclusive of commissions. Average share price is rounded to two decimal places.

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

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

Disclosure of Certain Activities Under Section 13(r) of the Securities Exchange Act of 1934

Section 13(r) of the Securities Exchange Act of 1934, as amended, requires an issuer to disclose in its annual or quarterly reports whether it or an affiliate knowingly engaged in certain activities described in that section, including certain activities related to Iran during the period covered by the report.

Effective January 16, 2016, the Office of Foreign Assets Control of the U.S. Department of the Treasury adopted General License H which authorizes non-U.S. entities that are owned or controlled by a U.S. person to engage in certain activities with Iran so long as they comply with certain specific requirements set forth therein.

Certain of our non-U.S. subsidiaries provide global marine hull policies that provide coverage for vessels navigating into and out of ports worldwide. In light of EU and U.S. modifications to Iran sanctions this year, including the issuance of General License H, and consistent with General License H, we have been notified that certain of our policyholders have begun to ship cargo to and from Iran, including transporting crude oil from Iran to another country. Since these policies insure multiple voyages and fleets containing multiple ships, we are unable to attribute gross revenues and net profits from such marine policies to these activities involving Iran. The Company intends for its non-U.S. subsidiaries to continue to provide such coverage to the extent permitted by applicable law.

Certain of our other non-U.S. subsidiaries have policies that provide excess of loss reinsurance coverage for various risks worldwide. In light of EU and U.S. modifications to Iran sanctions this year, including the issuance of General License H, and consistent with General License H, we have been notified that one of our cedants provides hull and marine, war and related coverage to a drilling contractor that operates drilling rigs located in offshore Iranian oilfields. As the reinsurance coverage provided to this cedant covers multiple global risks and multiple insureds, we are unable to attribute gross revenues and net profits from such policy to these activities involving Iran. The Company intends for its non-U.S. subsidiaries to continue to provide such coverage to the extent permitted by applicable law.



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ITEM 6. EXHIBITS

Exhibit	Description
Exhibit 4.1*	Fifth Supplemental Indenture dated as of July 13, 2016 between Validus Reinsurance, Ltd. and Wilmington Trust Company, a Delaware trust company, as trustee
Exhibit 4.2*	Fourth Supplemental Indenture dated as of July 12, 2016 between Validus UPS, Ltd. and Wilmington Trust Company, a Delaware trust company, as trustee
Exhibit 4.3*	Fourth Supplemental Indenture dated as of July 13, 2016 between Validus Reinsurance Ltd. and The Bank of New York Mellon Trust Company, National Association (as successor in interest to The Bank of New York Trust Company, National Association), as trustee
Exhibit 4.4*	Fourth Supplemental Indenture dated as of July 13, 2016 between Validus Reinsurance Ltd. and The Bank of New York Mellon Trust Company, National Association (as successor in interest to JPMorgan Chase Bank, National Association), as trustee
Exhibit 4.5*	Amendment No. 3 to Note Purchase Agreement dated as of July 13, 2016 between Validus Reinsurance, Ltd. and Validus Holdings, Ltd. as Guarantor
Exhibit 4.6	Certificate of Designations of 5.875% Non-Cumulative Preference Shares, Series A, of Validus Holdings, Ltd. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on June 13, 2016)
Exhibit 4.7	Specimen 5.875% Non-Cumulative Preference Shares, Series A (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on June 13, 2016)
Exhibit 4.8	Form of depositary receipt (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on June 13, 2016)
Exhibit 10.1*	Amended and Restated Employment Agreement dated as of June 1, 2016 between Validus Holdings, Ltd. and Michael Moore
Exhibit 10.2*	Amended and Restated Employment Agreement dated as of May 18, 2016 between Validus Holdings, Ltd. Patrick Boisvert
Exhibit 10.3*	Form of Amended Restricted Share Award Agreement for Talbot Executive Officers
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: August 5, 2016 /s/ Edward J. Noonan

Edward J. Noonan

Chief Executive Officer

Date: August 5, 2016 /s/ Jeffrey D. Sangster

Jeffrey D. Sangster

Executive Vice President and Chief Financial Officer