VALIDUS HOLDINGS LTD
Form 10-Q
August 07, 2015

Table of Contents

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

Form 10-Q

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

For the quarterly period ended June 30, 2015

Commission file number 001-33606

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

As of August 5, 2015 there were 82,755,657 outstanding Common Shares, $0.175 par value per share, of the registrant.

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Validus Holdings, Ltd.
Consolidated Balance Sheets
As at June 30, 2015 (unaudited) and December 31, 2014
(Expressed in thousands of U.S. dollars, except share and per share information)

	June 30, 2015 (unaudited)	December 31, 2014
Assets		
Fixed maturities, at fair value (amortized cost: 2015—$5,462,612; 2014—$5,534,494)	$5,459,304	$5,532,731
Short-term investments, at fair value (amortized cost: 2015—$1,337,914; 2014—$1,051,222)	1,338,051	1,051,074
Other investments, at fair value (cost: 2015—$901,581; 2014—$879,176)	893,707	813,011
Cash and cash equivalents	433,710	577,240
Restricted cash	140,019	173,003
Total investments and cash	8,264,791	8,147,059
Investments in affiliates	374,121	261,483
Premiums receivable	1,276,020	707,647
Deferred acquisition costs	253,225	161,295
Prepaid reinsurance premiums	161,516	81,983
Securities lending collateral	7,021	470
Loss reserves recoverable	376,665	377,466
Paid losses recoverable	40,198	38,078
Income taxes recoverable	13,787	—
Deferred tax asset	23,079	23,821
Receivable for investments sold	29,131	18,318
Intangible assets	124,092	126,924
Goodwill	196,758	195,897
Accrued investment income	23,894	24,865
Other assets	260,998	164,633
Total assets	$11,425,296	$10,329,939
Liabilities		
Reserve for losses and loss expenses	$3,187,177	$3,234,394
Unearned premiums	1,519,491	990,564
Reinsurance balances payable	95,705	127,128
Securities lending payable	7,487	936
Deferred tax liability	8,063	5,541
Payable for investments purchased	105,871	68,574
Accounts payable and accrued expenses	167,776	318,245
Notes payable to operating affiliates	1,381,313	671,465
Senior notes payable	247,360	247,306
Debentures payable	538,032	539,277
Total liabilities	$7,258,275	$6,203,430

Commitments and contingent liabilities		
Redeemable noncontrolling interest	—	79,956
Shareholders' equity		
Common shares, 571,428,571 authorized, par value $0.175 (Issued: 2015—158,379,505; 2014—155,554,224; Outstanding: 2015—83,295,795; 2014—83,869,845)	$27,716	$27,222
Treasury shares (2015—75,083,710; 2014—71,684,379)	(13,140)	(12,545)
Additional paid-in-capital	1,097,527	1,207,493
Accumulated other comprehensive loss	(9,066)	(8,556)
Retained earnings	2,553,894	2,374,344
Total shareholders' equity available to Validus	3,656,931	3,587,958
Noncontrolling interest	510,090	458,595
Total shareholders' equity	$4,167,021	$4,046,553
Total liabilities, noncontrolling interests and shareholders' equity	$11,425,296	$10,329,939

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

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Comprehensive Income
For the Three and Six Months Ended June 30, 2015 and 2014 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended		Six Months Ended	
	June 30, 2015 (unaudited)	June 30, 2014 (unaudited)	June 30, 2015 (unaudited)	June 30, 2014 (unaudited)
Revenues				
Gross premiums written	$726,968	$655,674	$1,846,466	$1,667,665
Reinsurance premiums ceded	(54,896)	(50,565)	(245,736)	(245,473)
Net premiums written	672,072	605,109	1,600,730	1,422,192
Change in unearned premiums	(98,490)	(139,106)	(449,394)	(473,232)
Net premiums earned	573,582	466,003	1,151,336	948,960
Net investment income	33,608	21,286	64,629	44,648
Net realized gains on investments	2,244	7,858	6,413	11,598
Change in net unrealized (losses) gains on investments	(17,530)	45,427	54,674	101,120
Income from investment affiliate	284	779	3,060	6,127
Other insurance related income and other income	2,540	5,235	7,372	19,065
Foreign exchange (losses) gains	(3,236)	3,158	(6,787)	(3,320)
Total revenues	591,492	549,746	1,280,697	1,128,198
Expenses				
Losses and loss expenses	266,146	158,745	507,075	321,416
Policy acquisition costs	104,425	78,953	203,061	164,602
General and administrative expenses	82,963	73,842	167,991	148,287
Share compensation expenses	9,242	8,341	18,296	15,488
Finance expenses	17,735	16,126	37,587	32,026
Transaction expenses	—	3,252	—	3,252
Total expenses	480,511	339,259	934,010	685,071
Income before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	110,981	210,487	346,687	443,127
Tax expense	(2,549)	(1,391)	(5,114)	(1,351)
Income from operating affiliates	4,104	4,892	6,557	9,819
(Income) attributable to operating affiliate investors	(30,879)	(25,316)	(54,085)	(57,026)
Net income	$81,657	$188,672	$294,045	$394,569
Net (income) attributable to noncontrolling interest	(17,644)	(35,305)	(56,621)	(78,814)
Net income available to Validus	$64,013	$153,367	$237,424	$315,755
Other comprehensive income (loss)				
Change in foreign currency translation adjustments	2,763	2,615	(256)	3,077
Change in minimum pension liability, net of tax	422	—	157	—
Change in fair value of cash flow hedge	390	—	(411)	—
Other comprehensive income (loss)	$3,575	$2,615	$(510)	$3,077

Comprehensive income available to Validus	$67,588	$155,982	$236,914	$318,832
Earnings per share				
Weighted average number of common shares and common share equivalents outstanding				
Basic	84,003,549	90,952,523	83,627,396	92,202,261
Diluted	87,313,154	95,276,836	87,448,142	96,538,178
Basic earnings per share available to common shareholders	$0.75	$1.67	$2.81	$3.39
Earnings per diluted share available to common shareholders	$0.73	$1.61	$2.72	$3.27
Cash dividends declared per share	$0.32	$0.30	$0.64	$0.60

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

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Shareholders' Equity
For the Six Months Ended June 30, 2015 and 2014 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	June 30, 2015 (unaudited)	June 30, 2014 (unaudited)
Common shares		
Balance - Beginning of period	$27,222	$27,036
Common shares issued, net	494	125
Balance - End of period	$27,716	$27,161
Treasury shares		
Balance - Beginning of period	$(12,545)	$(10,228)
Repurchase of common shares	(595)	(939)
Balance - End of period	$(13,140)	$(11,167)
Additional paid-in capital		
Balance - Beginning of period	$1,207,493	$1,677,894
Common shares issued, net	14,366	(4,510)
Repurchase of common shares	(142,628)	(196,400)
Share compensation expenses	18,296	15,488
Balance - End of period	$1,097,527	$1,492,472
Accumulated other comprehensive (loss) income		
Balance - Beginning of period	$(8,556)	$(617)
Other comprehensive (loss) income	(510)	3,077
Balance - End of period	$(9,066)	$2,460
Retained earnings		
Balance - Beginning of period	$2,374,344	$2,010,009
Dividends	(57,874)	(59,584)
Net income	294,045	394,569
Net (income) attributable to noncontrolling interest	(56,621)	(78,814)
Balance - End of period	$2,553,894	$2,266,180
Total shareholders' equity available to Validus	$3,656,931	$3,777,106
Noncontrolling interest	$510,090	$575,347
Total shareholders' equity	$4,167,021	$4,352,453

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

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2015 and 2014 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	June 30, 2015 (unaudited)	June 30, 2014 (unaudited)
Cash flows provided by (used in) operating activities		
Net income	$294,045	$394,569
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Share compensation expenses	18,296	15,488
Loss (gain) on deconsolidation/sale of subsidiary	1,777	(2,081)
Amortization of discount on senior notes	54	54
Income from investment affiliate	(3,060)	(6,127)
Net realized gains on investments	(6,413)	(11,598)
Change in net unrealized gains on investments	(54,674)	(101,120)
Amortization of intangible assets	2,832	2,080
Income from operating affiliates	(6,557)	(9,819)
Foreign exchange losses (gains) included in net income	7,729	(11,629)
Amortization of premium on fixed maturities	12,395	8,116
Change in:		
Premiums receivable	(567,553)	(514,339)
Deferred acquisition costs	(91,930)	(76,373)
Prepaid reinsurance premiums	(79,533)	(75,040)
Loss reserves recoverable	644	32,983
Paid losses recoverable	(2,253)	20,322
Income taxes recoverable	(13,931)	—
Deferred tax asset	908	—
Accrued investment income	984	864
Other assets	(37,684)	31,388
Reserve for losses and loss expenses	(46,973)	(172,189)
Unearned premiums	528,927	548,272
Reinsurance balances payable	(31,619)	5,979
Deferred tax liability	2,329	1,539
Accounts payable and accrued expenses	(157,581)	(63,896)
Net cash (used in) provided by operating activities	(228,841)	17,443
Cash flows provided by (used in) investing activities		
Proceeds on sales of investments	2,237,966	1,956,442
Proceeds on maturities of investments	186,594	384,259
Purchases of fixed maturities	(2,337,990)	(1,906,212)
Purchases of short-term investments, net	(375,299)	(99,677)
Purchases of other investments, net	(21,970)	(54,716)
(Increase) decrease in securities lending collateral	(6,551)	2,071
Investment in operating affiliates	(10,400)	—
Redemption from operating affiliates	27,264	57,025

Investment in investment affiliates	(23,115)	—
Decrease in restricted cash	32,984	15,371
Proceeds on sale of subsidiary, net of cash	—	16,459
Net cash (used in) provided by investing activities	(290,517)	371,022
Cash flows provided by (used in) financing activities		
Proceeds on issuance of notes payable to operating affiliates	1,155,284	320,454
Repayments on notes payable to operating affiliates	(621,444)	(364,877)
Issuance (redemption) of common shares, net	14,860	(4,385)
Purchases of common shares under share repurchase program	(143,223)	(197,339)
Dividends paid	(58,740)	(61,036)
Increase (decrease) in securities lending payable	6,551	(2,071)
Third party investment in redeemable noncontrolling interest	55,700	57,000
Third party redemption of redeemable noncontrolling interest	(19,395)	(10,496)
Net cash provided by (used in) financing activities	389,593	(262,750)
Effect of foreign currency rate changes on cash and cash equivalents	(13,765)	13,097
Net (decrease) increase in cash	(143,530)	138,812
Cash and cash equivalents - beginning of period	$577,240	$734,148
Cash and cash equivalents - end of period	$433,710	$872,960
Taxes paid during the period	$14,192	$597
Interest paid during the period	$27,248	$27,224

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

Table of Contents

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

1. Basis of preparation and consolidation

These unaudited Consolidated Financial Statements (the "Consolidated Financial Statements") include Validus Holdings, Ltd. and its wholly and majority owned subsidiaries (together the "Company") and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report on Form 10-Q should be read in conjunction with the financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission (the "SEC").

In the opinion of management, these Consolidated Financial Statements reflect all adjustments (including normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position and results of operations as at the end of and for the periods presented. The Consolidated Statement of Cash Flows for the six months ended June 30, 2014 includes a revision to increase net cash provided by investing activities by $28,748. There are no changes to the sub-totals of net cash used in operating activities, financing activities or the effect of foreign currency rate changes on cash and cash equivalents. This revision resulted in an increase in net cash of $28,748 for the six months ended June 30, 2014.

The effect of this revision does not impact any per-share amounts or other components of equity or net assets in the statement of financial position in the prior period presented. The Company does not believe this revision is material to the prior period. The Company has revised these prior period amounts to provide comparability with current period cash flows. All significant intercompany accounts and transactions have been eliminated. The results of operations for any interim period are not necessarily indicative of the results for a full year.

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

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

The term "ASC" used in these notes refers to Accounting Standard Codification issued by the U.S. Financial Accounting Standards Board ("FASB").

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

2. Recent accounting pronouncements

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standard Update 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09). The guidance in this Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The original effective date for the amendments in this Update was for interim and annual reporting periods beginning after December 15, 2016; however, on July 9, 2015, the FASB delayed the effective date by one year. As such, the new effective date is for interim and annual reporting periods beginning after December 15, 2017. The FASB also decided to allow entities to choose to adopt the standard as of the original effective date. Earlier adoption is not permitted. The Company is currently evaluating the impact of this guidance on the Company’s Consolidated Financial Statements.

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

In April 2015, the FASB issued Accounting Standard Update 2015-03, “Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs” (ASU 2015-03). The amendments in this Update simplify the presentation of debt issuance costs and require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The Company has evaluated the impact of this guidance and it will not have a material impact on the Company's Consolidated Financial Statements.

In May 2015, the FASB issued Accounting Standard Update 2015-07, "Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" (ASU 2015-07). The amendments in this Update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2015. Earlier application is permitted. The Company has evaluated the impact of this guidance and it will not have a material impact on the Company's Consolidated Financial Statements.

In May 2015, the FASB issued Accounting Standard Update 2015-09, “Financial Services - Insurance (Topic 944) - Disclosures about Short-Duration Contracts” (ASU 2015-09). The amendments in this Update enhance annual disclosures relating to reserves for losses and loss expenses by requiring the following: (1) net incurred and paid claims development information by accident year; (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the reserve for losses and loss expenses; (3) for each accident year presented, total IBNR plus expected development on case reserves included in the reserve for losses and loss expenses, accompanied by a description of reserving methodologies and any changes thereto; (4) for each accident year presented, quantitative information about claim frequency (unless impracticable) accompanied by a qualitative description of methodologies used for determining claim frequency information and any changes thereto; and (5) the average annual percentage payout of incurred claims by age for the same number of accident years presented. The amendments in this Update are effective for annual periods beginning after December 15, 2015 and interim periods beginning after December 15, 2016. Early application is permitted. The Company has evaluated the impact of this guidance and it will not have a material impact on the Company's Consolidated Financial Statements.

Table of Contents

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

3. Investments
(a) Fixed maturity, short-term and other investments
The Company's investments in fixed maturities, short-term investments and other investments are classified as trading and carried at fair value, with related changes in net unrealized gains or losses included in earnings.
The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments as at June 30, 2015 were as follows:

	Amortized Cost (or Cost)	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and government agency	$ 817,410	$ 2,473	$ (1,130)	$ 818,753
Non-U.S. government and government agency	221,592	1,542	(695)	222,439
U.S. states, municipalities and political subdivisions	323,553	1,425	(1,118)	323,860
Agency residential mortgage-backed securities	504,922	7,627	(2,012)	510,537
Non-agency residential mortgage-backed securities	30,812	411	(499)	30,724
U.S. corporate	1,463,488	2,965	(7,845)	1,458,608
Non-U.S. corporate	495,182	2,430	(2,584)	495,028
Bank loans	487,355	1,168	(5,230)	483,293
Catastrophe bonds	153,769	182	(3,249)	150,702
Asset-backed securities	643,864	2,469	(828)	645,505
Commercial mortgage-backed securities	320,665	984	(1,794)	319,855
Total fixed maturities	5,462,612	23,676	(26,984)	5,459,304
Total short-term investments (a)	1,337,914	137	—	1,338,051
Other investments				
Fund of hedge funds	2,570	84	(921)	1,733
Hedge funds (b)	599,709	108,870	(126,158)	582,421
Private equity investments	49,309	7,576	(1,300)	55,585
Investment funds	243,794	604	—	244,398
Mutual funds	6,199	3,371	—	9,570
Total other investments	901,581	120,505	(128,379)	893,707
Total investments including assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$ 7,702,107	$ 144,318	$ (155,363)	$ 7,691,062
Assets managed on behalf of operating affiliates (a)	(1,008,445)	—	—	(1,008,445)
Catastrophe bonds	(153,769)	(182)	3,249	(150,702)
Noncontrolling interest (b)	(527,850)	(91,716)	113,542	(506,024)
Total investments, excluding assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$ 6,012,043	$ 52,420	$ (38,572)	$ 6,025,891

(a) Included in the short-term investments balance are assets managed in support of AlphaCat's fully collateralized reinsurance transactions.
(b) Included in the hedge funds balance are investments held by PaCRe in which the Company has an equity interest of 10%. The remaining 90% interest is held by third party investors and included in the Consolidated Balance Sheets as noncontrolling interest.

Table of Contents

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

The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments as at December 31, 2014 were as follows:

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

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

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

9

Table of Contents

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

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

	June 30, 2015		December 31, 2014	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
AAA	$2,420,994	44.3 %	$2,494,239	45.1 %
AA	541,469	9.9 %	848,226	15.4 %
A	1,097,340	20.1 %	1,086,091	19.6 %
BBB	663,198	12.1 %	505,208	9.1 %
Total investment-grade fixed maturities	4,723,001	86.4 %	4,933,764	89.2 %
BB	289,471	5.3 %	362,972	6.6 %
B	247,369	4.6 %	145,240	2.6 %
CCC	3,737	0.1 %	12,733	0.2 %
CC	3,190	0.1 %	3,926	0.1 %
C	—	0.0 %	1,344	0.0 %
D/NR	192,536	3.5 %	72,752	1.3 %
Total non-investment grade fixed maturities	736,303	13.6 %	598,967	10.8 %
Total fixed maturities	$5,459,304	100.0 %	$5,532,731	100.0 %

The amortized cost and estimated fair value amounts for fixed maturities held at June 30, 2015 and December 31, 2014 are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	June 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$278,555	$279,860	$312,843	$313,248
Due after one year through five years	2,980,225	2,978,036	3,163,225	3,159,200
Due after five years through ten years	541,425	535,074	497,175	491,870
Due after ten years	162,144	159,713	112,858	111,655
	3,962,349	3,952,683	4,086,101	4,075,973
Asset-backed and mortgage-backed securities	1,500,263	1,506,621	1,448,393	1,456,758
Total fixed maturities	$5,462,612	$5,459,304	$5,534,494	$5,532,731

(b) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Fixed maturities and short-term investments	$31,163	$22,207	$60,402	$45,504
Other investments	4,014	—	7,202	—
Restricted cash and cash and cash equivalents	451	996	886	2,953
Securities lending income	6	2	9	4
Total gross investment income	35,634	23,205	68,499	48,461
Investment expenses	(2,026)	(1,919)	(3,870)	(3,813)
Total net investment income	$33,608	$21,286	$64,629	$44,648

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

Table of Contents

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

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

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Fixed maturities, short-term and other investments				
Gross realized gains	$6,269	$9,813	$12,578	$15,109
Gross realized (losses)	(4,025)	(1,955)	(6,165)	(3,511)
Net realized gains on investments	2,244	7,858	6,413	11,598
Change in net unrealized (losses) gains on investments (a)	(17,530)	45,427	54,674	101,120
Total net realized and change in net unrealized (losses) gains on investments including assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	(15,286)	53,285	61,087	112,718
Assets managed on behalf of operating affiliates	—	—	—	—
Catastrophe bonds	573	1,184	2,909	1,988
Noncontrolling interest (a)	(15,431)	(33,207)	(50,511)	(75,209)
Total net realized and change in net unrealized (losses) gains on investments excluding assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$(30,144)	$21,262	$13,485	$39,497

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

(d) Pledged investments

The following tables outline investments and cash pledged as collateral under the Company's credit facilities. For further details on the credit facilities, please refer to Note 12: “Debt and financing arrangements.”

	June 30, 2015		
Description	Commitment	Issued and Outstanding	Investments and cash pledged as collateral
$400,000 syndicated unsecured letter of credit facility	$400,000	$—	$—
$525,000 syndicated secured letter of credit facility	525,000	260,137	391,146
$30,000 secured bi-lateral letter of credit facility	30,000	11,139	47,355
Talbot FAL facility	25,000	25,000	31,233
AlphaCat Re secured letter of credit facility	30,000	30,000	30,116
IPC bi-lateral facility	25,000	11,027	—
$230,000 Flagstone bi-lateral facility	230,000	204,833	377,215
Total	$1,265,000	$542,136	$877,065

Table of Contents

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

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

In addition, $3,445,986 of cash and cash equivalents, restricted cash, short-term investments and fixed maturities were pledged during the normal course of business as at June 30, 2015 (December 31, 2014: $3,150,295). Of those, $3,398,876 were held in trust (December 31, 2014: $3,122,074). Pledged assets are generally for the benefit of the Company's cedants and policyholders, to support AlphaCat's fully collateralized reinsurance transactions and to facilitate the accreditation of Talbot as an alien insurer/reinsurer by certain regulators.

4. Fair value measurements

(a) Classification within the fair value hierarchy

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

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

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

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

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
U.S. government and government agency	$—	$818,753	$—	$818,753
Non-U.S. government and government agency	—	222,439	—	222,439
U.S. states, municipalities and political subdivisions	—	323,860	—	323,860
Agency residential mortgage-backed securities	—	510,537	—	510,537
Non-agency residential mortgage-backed securities	—	30,724	—	30,724
U.S. corporate	—	1,458,608	—	1,458,608
Non-U.S. corporate	—	495,028	—	495,028
Bank loans	—	361,858	121,435	483,293
Catastrophe bonds	—	149,702	1,000	150,702
Asset-backed securities	—	645,505	—	645,505
Commercial mortgage-backed securities	—	319,855	—	319,855
Total fixed maturities	—	5,336,869	122,435	5,459,304
Total short-term investments (a)	1,317,526	16,978	3,547	1,338,051
Other investments				
Fund of hedge funds	—	—	1,733	1,733
Hedge funds (b)	—	—	582,421	582,421
Private equity investments	—	—	55,585	55,585
Investment funds	—	78,470	165,928	244,398
Mutual funds	—	9,570	—	9,570
Total other investments	—	88,040	805,667	893,707
Total investments including assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$1,317,526	$5,441,887	$931,649	$7,691,062
Assets managed on behalf of operating affiliates (a)	(1,008,445)	—	—	(1,008,445)
Catastrophe bonds	—	(149,702)	(1,000)	(150,702)
Noncontrolling interest (b)	—	—	(506,024)	(506,024)
Total investments, excluding assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$309,081	$5,292,185	$424,625	$6,025,891

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

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

Table of Contents

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

At December 31, 2014, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

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

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

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

At June 30, 2015, Level 3 investments excluding the catastrophe bonds and noncontrolling interests totaled $424,625 (December 31, 2014: $259,147), representing 7.0% (December 31, 2014: 4.2%) of total investments, excluding assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interests, measured at fair value on a recurring basis.

14

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

(b) Level 1 assets measured at fair value

Short term investments

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

(c) Level 2 assets measured at fair value

Fixed maturity investments

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

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

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets.

The Company considers these Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. government and government agency

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

Non-U.S. government and government agency

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

U.S. states, municipalities and political subdivisions

The Company's U.S. states, municipalities and political subdivisions portfolio contains debt securities issued by U.S. domiciled state and municipal entities. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government agency securities described above.

Table of Contents

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

Agency residential mortgage-backed securities
The Company's agency residential mortgage-backed investments are primarily priced by pricing services using a mortgage pool specific model which utilizes daily inputs from the active to be announced ("TBA") market which is very liquid, as well as the U.S. treasury market. The model also utilizes additional information, such as the weighted average maturity, weighted average coupon and other available pool level data which is provided by the sponsoring agency. Valuations are also corroborated with daily active market quotes.
Non-agency residential mortgage-backed securities
The Company's non-agency mortgage-backed investments include non-agency prime residential mortgage-backed fixed maturity investments. The Company has no fixed maturity investments classified as sub-prime held in its fixed maturity investments portfolio. Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable.
U.S. corporate
Corporate debt securities consist primarily of investment-grade debt of a wide variety of U.S. corporate issuers and industries. The Company's corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk. In certain instances, securities are individually evaluated using a spread which is added to the U.S. treasury curve or a security specific swap curve as appropriate.
Non-U.S. corporate
Non-U.S. corporate debt securities consist primarily of investment-grade debt of a wide variety of non-U.S. corporate issuers and industries. The Company's non-U.S. corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk.
Bank loans
The Company's bank loan investments consist primarily of below-investment-grade debt of a wide variety of corporate issuers and industries. The Company's bank loans are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk.
Catastrophe bonds
Catastrophe bonds are based on broker or underwriter bid indications. To the extent that these indications are based on significant unobservable inputs, the relevant bonds will be classified as a Level 3 asset.
Asset-backed securities

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

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

Commercial mortgage-backed securities

Commercial mortgage backed securities are investment-grade debt primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector.

Short term investments

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

Preferred stock

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

Investment funds

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

Also included within investment funds is the Company's share of a portfolio of Lloyd's overseas deposits, which is also classified as a Level 2 asset. The underlying deposits are managed centrally by Lloyd's and invested according to local regulatory requirements. The composition of the portfolio varies and the deposits are made across the market. The fair value of the deposits is based on the portfolio level reporting that is provided by Lloyd's.

Mutual funds

Mutual funds consist of two investment funds which are invested in various quoted investments. The fair value of units in the mutual funds is based on the net asset value of the fund as reported by the fund manager.

(d) Level 3 assets measured at fair value

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

Within the hedge fund industry, there is a general lack of transparency necessary to facilitate a detailed independent assessment of the values placed on the securities underlying the NAV provided by the fund manager or fund administrator. To address this, on a quarterly basis, we perform a number of monitoring procedures designed to assist us in the assessment of the quality of the information provided by managers and administrators. These procedures include, but are not limited to, regular review and discussion of each fund's performance with its manager and regular evaluation of fund performance against applicable benchmarks.

Table of Contents

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

Bank loans

Included in the bank loans portfolio is a collection of loan participations held through an intermediary. These investments are classified as Level 3 assets. A third party pricing service provides monthly valuation reports for each loan and participation using a combination of quotations from loan pricing services, leveraged loan indices or market price quotes obtained directly from the intermediary.

Fund of hedge funds

The fund of hedge funds includes a side pocket. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is unknown. The fund's administrator provides a monthly reported NAV with a one month delay in its valuation which was used as a basis for fair value measurement in the Company's June 30, 2015 Consolidated Balance Sheet. The fund manager has provided an estimate of the fund NAV at June 30, 2015 based on the estimated performance provided from the underlying funds. To determine the reasonableness of the estimated NAV, the Company compares the one month delayed fund administrator's NAV to the fund manager's estimated NAV that incorporates relevant valuation sources on a timely basis. Material variances are recorded in the current reporting period while immaterial variances are recorded in the following reporting period. As this valuation technique incorporates both observable and significant unobservable inputs, the fund of hedge funds is classified as a Level 3 asset.

Hedge funds

The hedge funds were valued at $582,421 at June 30, 2015 (December 31, 2014: $496,960). The hedge funds consist of investments in five Paulson & Co. managed funds (the "Paulson hedge funds") and one hedge fund assumed in the acquisition of Flagstone Reinsurance Holdings, S.A. (the "Flagstone Acquisition") (the "Flagstone hedge fund").

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

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

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

Private equity investments

The private equity funds provide quarterly or semi-annual partnership capital statements with a three or six month delay which are used as a basis for valuation in the Company's June 30, 2015 Consolidated Balance Sheet. These private equity investments vary in investment strategies and are not actively traded in any open markets. As this valuation technique can incorporate significant unobservable inputs, the private equity investments are classified as Level 3 assets.

Investment funds

Investment funds classified as Level 3 assets consists of one structured securities fund that invests across asset backed securities, residential mortgage backed securities and commercial mortgage backed securities. The fair value of units in the investment fund is based on the NAV of the fund as reported by the independent fund administrator. The fund's administrator provides a monthly reported NAV with a one-month delay in its valuation which was used as a basis for fair value measurement in the Company's June 30, 2015 Consolidated Balance Sheet. As this valuation technique incorporates both observable and significant unobservable inputs, the investment fund investment is classified as a Level 3 asset.

Table of Contents

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

The following table 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, 2015 and 2014:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Level 3 investments - Beginning of period	$867,656	$629,321	$694,641	$576,871
Purchases	53,810	100,000	199,599	100,000
Sales	(5,436)	(21,744)	(13,038)	(25,333)
Settlements	(4,203)	(1,500)	(8,198)	(1,500)
Net realized gains (losses)	—	5,634	(11)	5,644
Change in net unrealized gains	19,822	34,685	58,656	84,011
Transfers into Level 3	—	—	—	6,703
Level 3 investments - End of period	$931,649	$746,396	$931,649	$746,396
Catastrophe Bonds	(1,000)	—	(1,000)	—
Noncontrolling interest (a)	(506,024)	(546,790)	(506,024)	(546,790)
Level 3 investments - End of period excluding catastrophe bonds and noncontrolling interest	$424,625	$199,606	$424,625	$199,606

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

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

5. Investments in affiliates

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

	June 30, 2015	December 31, 2014
Investment affiliates	$89,681	$63,506
Operating affiliates	284,440	197,977
Investments in affiliates	$374,121	$261,483

(a) Investment affiliate

Aquiline Financial Services Fund II L.P.

On December 20, 2011, the Company entered into an Assignment and Assumption Agreement (the "Agreement") with Aquiline Capital Partners LLC, a Delaware limited liability company (the "Assignor") and Aquiline Capital Partners II GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "Aquiline II General Partner") pursuant to which the Company has assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. (the "Aquiline II Partnership") representing a total capital commitment of $50,000 (the "Aquiline II Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). The Transferred Interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement of the Fund dated January 9, 2013 (the "Aquiline II Limited Partnership Agreement").

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

The Partnership provides a quarterly capital account statement, with a three month delay in its valuation, which was used as the basis for calculating the Company's share of partnership income for the period.

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

Aquiline Financial Services Fund III L.P.
On November 7, 2014, the Company, entered into a Subscription Agreement (the "Subscription Agreement") with Aquiline Capital Partners III GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "Aquiline III General Partner") pursuant to which the Company committed and agreed to purchase limited partnership or other comparable limited liability equity interests (the "Limited Partnership Interests") in Aquiline Financial Services Fund III L.P., a Cayman Islands exempted limited partnership (the "Aquiline III Partnership"), and/or one or more Alternative Investment Vehicles and Intermediate Entities (together with the Aquiline III Partnership, the "Fund" or the "Entities") with a capital commitment (the "Aquiline III Commitment") in an amount equal to $100,000, as a limited partner in the Aquiline III Partnership. The Limited Partnership Interests are governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of November 7, 2014 (the “Aquiline III Limited Partnership Agreement”).
The Partnership provides a quarterly capital account statement, with a three month delay in its valuation, which was used as the basis for calculating the Company's share of partnership income for the period.
The following table presents a reconciliation of the beginning and ending investment in the Company's investment affiliates balance for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Investment affiliates, beginning of period	$85,982	$39,848	$63,506	$34,500
Capital contributions	3,415	—	23,115	—
Income from investment affiliate	284	779	3,060	6,127
Investment affiliates, end of period	$89,681	$40,627	$89,681	$40,627

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

	Investment in investment affiliate			
	Investment at cost	Voting ownership %	Equity Ownership	Carrying Value
Aquiline Financial Services Fund II L.P.	$59,978	— %	8.1 %	$75,543
Aquiline Financial Services Fund III L.P.	$14,138	— %	13.7 %	$14,138
Total	$74,116			$89,681

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

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

(b) Operating affiliates
AlphaCat Re 2011 Ltd.
On May 25, 2011, the Company joined with other investors in capitalizing AlphaCat Re 2011 Ltd. ("AlphaCat Re 2011"), a special purpose reinsurer formed for the purpose of writing collateralized reinsurance and retrocessional reinsurance. AlphaCat Re 2011 was a market facing entity and the Company's investment in AlphaCat Re 2011 has been treated as an equity method investment.
AlphaCat Re 2011 is now considered "off-risk" as the risk periods for all reinsurance contracts written have expired. As a result, partial returns of investment have been made to the investors of AlphaCat Re 2011.The Company's

portion of the returns made during the three and six months ended June 30, 2015 and 2014 are included in the tables below.

20

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

AlphaCat Re 2012 Ltd.
On May 29, 2012, the Company joined with other investors in capitalizing AlphaCat Re 2012 Ltd. ("AlphaCat Re 2012"), a special purpose reinsurer formed for the purpose of writing collateralized reinsurance with a particular focus on windstorm risks for Florida domiciled insurance companies. AlphaCat Re 2012 was a market facing entity and the Company's investment in AlphaCat Re 2012 has been treated as an equity method investment.
AlphaCat Re 2012 is now considered "off-risk" as the risk periods for all reinsurance contracts written have expired. As a result, partial returns of investment have been made to the investors of AlphaCat Re 2012.The Company's portion of the returns made during the three and six months ended June 30, 2015 and 2014 are included in the tables below.
AlphaCat 2013, Ltd.
On December 17, 2012, the Company joined with other investors in capitalizing AlphaCat 2013, Ltd. ("AlphaCat 2013"), an entity formed for the purpose of investing in collateralized reinsurance and retrocession on a worldwide basis. AlphaCat 2013 deployed its capital through transactions entered into by AlphaCat Reinsurance Ltd. (“AlphaCat Re”) and the Company's investment in AlphaCat 2013 has been treated as an equity method investment.
AlphaCat 2013 is now considered "off-risk" as the risk periods for all risk-linked instruments have expired. As a result, partial returns of investment have been made to the investors of AlphaCat 2013. The Company's portion of the returns made during the three and six months ended June 30, 2015 and 2014 are included in the tables below.
AlphaCat 2014, Ltd.
On December 20, 2013, the Company joined with other investors in capitalizing AlphaCat 2014, Ltd. (“AlphaCat 2014”), an entity formed for the purpose of investing in collateralized reinsurance and retrocessional contracts for the January 1, 2014 renewal season. AlphaCat 2014 deploys its capital through transactions entered into by AlphaCat Re and the Company's investment in AlphaCat 2014 has been treated as an equity method investment.
AlphaCat 2014 is now considered "off-risk" as the risk periods for all risk-linked instruments have expired. As a result, partial returns of investment have been made to the investors of AlphaCat 2014. The Company's portion of the returns made during the three and six months ended June 30, 2015 and 2014 are included in the table below.
AlphaCat 2015, Ltd.
On December 29, 2014, the Company joined with other investors in capitalizing AlphaCat 2015, Ltd. ("AlphaCat 2015"), an entity formed for the purpose of investing in collateralized reinsurance and retrocessional contracts for the January 1, 2015 renewal season. AlphaCat 2015 deploys its capital through transactions entered into by AlphaCat Re and the Company's investment in AlphaCat 2015 has been treated as an equity method investment.
AlphaCat ILS funds
The AlphaCat ILS funds invest in instruments with returns linked to property catastrophe reinsurance, retrocession and insurance linked securities ("ILS") contracts. AlphaCat ILS funds primarily deploy their capital through the AlphaCat Master Fund Ltd. (the "AlphaCat Master Fund") and AlphaCat Re. All of the funds are variable interest entities and are accounted for as equity method investments because the Company holds an equity interest of less than 50% and has significant influence. Two of these funds had been consolidated by the Company as the primary beneficiary from formation through to December 31, 2013 and May 31, 2015, respectively. However, on January 1, 2014 and June 1, 2015 the funds received $35,000 and $40,000 in additional third party subscriptions, respectively, resulting in a reduction of the Company’s equity interest below 50%. Therefore, these funds were deconsolidated and accounted for as an equity method investments from January 1, 2014 and June 1, 2015, respectively, since the Company retained significant influence. The fair value of the retained interest, based on the fair value of the underlying instruments in AlphaCat Master Fund and AlphaCat Re, amounted to $113,455 and $96,770 as at January 1, 2014 and June 1, 2015, respectively. The deconsolidations resulted in a gain of $1,372 and a loss of $1,777 which is included in the Consolidated Statements of Comprehensive Income as other insurance related income for the six

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

Table of Contents

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

AlphaCat Master Fund Ltd. and AlphaCat Reinsurance Ltd.

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

BetaCat ILS funds

The BetaCat ILS funds invest exclusively in catastrophe bonds (principal-at-risk variable rate notes and other event-linked securities, being referred to collectively as “Cat Bonds”) focused on property and casualty risk issued under Rule 144A of the Securities Act of 1933, following a passive buy-and-hold investment strategy. One of the funds is a variable interest entity and is consolidated by the Company as the primary beneficiary. The remaining fund is consolidated by the Company as it owns all of the voting equity interest. The Company's maximum exposure to either of the funds is the amount of capital invested at any given time. As at June 30, 2015, no third party subscriptions had been received.

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

	Three Months Ended June 30, 2015						
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	Total
As at March 31, 2015	$4,596	$710	$1,054	$3,835	$26,916	$140,239	$177,350
Purchase of shares	—	—	—	—	2,400	6,930	9,330
Return of investment	—	—	—	(3,114)	—	—	(3,114)
Fair value of retained interest on deconsolidation of AlphaCat ILS fund	—	—	—	—	—	96,770	96,770
Income (loss) from operating affiliates	5	(3)	(11)	2	1,282	2,829	4,104
As at June 30, 2015	$4,601	$707	$1,043	$723	$30,598	$246,768	$284,440

	Three Months Ended June 30, 2014					
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat ILS funds	Total
As at March 31, 2014	$4,177	$1,277	$15,678	$23,593	$137,034	$181,759
Return of investment	—	—	(13,659)	—	—	(13,659)
(Loss) income from operating affiliates	(5)	927	561	1,421	1,988	4,892
As at June 30, 2014	$4,172	$2,204	$2,580	$25,014	$139,022	$172,992

Table of Contents

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

	Six Months Ended June 30, 2015						
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	Total
As at December 31, 2014	$4,606	$735	$1,068	$28,085	$25,600	$137,883	$197,977
Purchase of shares	—	—	—	—	2,400	8,000	10,400
Return of investment	—	—	—	(27,264)	—	—	(27,264)
Fair value of retained interest on deconsolidation of AlphaCat ILS fund	—	—	—	—	—	96,770	96,770
(Loss) income from operating affiliates	(5)	(28)	(25)	(98)	2,598	4,115	6,557
As at June 30, 2015	$4,601	$707	$1,043	$723	$30,598	$246,768	$284,440

	Six Months Ended June 30, 2014					
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat ILS funds	Total
As at December 31, 2013	$9,809	$1,313	$51,744	$21,982	$21,895	$106,743
Return of investment	(5,825)	—	(51,200)	—	—	(57,025)
Fair value of retained interest on deconsolidation of AlphaCat ILS fund	—	—	—	—	113,455	113,455
Income from operating affiliates	188	891	2,036	3,032	3,672	9,819
As at June 30, 2014	$4,172	$2,204	$2,580	$25,014	$139,022	$172,992

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

	Investment in operating affiliates			
	Cost	Voting ownership %	Equity ownership %	Carrying value
AlphaCat Re 2011	$4,601	43.7 %	22.3 %	$4,601
AlphaCat Re 2012	707	49.0 %	37.9 %	707
AlphaCat 2013	1,043	40.9 %	19.7 %	1,043
AlphaCat 2014	723	42.3 %	19.6 %	723
AlphaCat 2015	28,000	40.0 %	20.0 %	30,598
AlphaCat ILS funds	237,861	n/a	(a)	246,768
Total	$272,935			$284,440

(a) Equity ownership in the funds was 7.6%, 20.2%, 9.1% and 44.6%, respectively as at June 30, 2015.

Table of Contents

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

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

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

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

(c) Notes payable and (income) attributable to operating affiliates

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

The following tables present a reconciliation of the beginning and ending notes payable to operating affiliates for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015			
	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	Total
As at March 31, 2015	$8,181	$137,294	$774,209	$919,684
Notes payable to operating affiliates recognized on deconsolidation of AlphaCat ILS fund	—	—	179,316	179,316
Issuance of notes payable to operating affiliates	—	8,327	525,093	533,420
Redemption of notes payable to operating affiliates	(8,181)	—	(247,380)	(255,561)
Foreign exchange loss	—	364	4,090	4,454
As at June 30, 2015	$—	$145,985	$1,235,328	$1,381,313

24

Table of Contents

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

	Three Months Ended June 30, 2014			
	AlphaCat 2013	AlphaCat 2014	AlphaCat ILS funds	Total
As at March 31, 2014	$48,163	$149,816	$363,394	$561,373
Issuance of notes payable to operating affiliates	—	8,207	249,094	257,301
Redemption of notes payable to operating affiliates	(48,163)	—	(148,800)	(196,963)
Foreign exchange (gain) loss	—	(31)	1,270	1,239
As at June 30, 2014	$—	$157,992	$464,958	$622,950

	Six Months Ended June 30, 2015			
	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	Total
As at December 31, 2014	$157,384	$—	$514,081	$671,465
Notes payable to operating affiliates recognized on deconsolidation of AlphaCat ILS fund	—	—	179,316	179,316
Issuance of notes payable to operating affiliates	—	145,867	1,009,417	1,155,284
Redemption of notes payable to operating affiliates	(157,074)	—	(464,370)	(621,444)
Foreign exchange (gain) loss	(310)	118	(3,116)	(3,308)
As at June 30, 2015	$—	$145,985	$1,235,328	$1,381,313

	Six Months Ended June 30, 2014			
	AlphaCat 2013	AlphaCat 2014	AlphaCat ILS funds	Total
As at December 31, 2013	$223,809	$—	$215,463	$439,272
Notes payable to operating affiliates recognized on deconsolidation of AlphaCat ILS fund	—	—	178,837	178,837
Issuance of notes payable to operating affiliates	—	157,914	433,831	591,745
Redemption of notes payable to operating affiliates	(223,512)	—	(364,566)	(588,078)
Foreign exchange (gain) loss	(297)	78	1,393	1,174
As at June 30, 2014	$—	$157,992	$464,958	$622,950

The portion of notes payable to operating affiliates that were due to the Company, as an investor in the affiliates, and third party investors as at June 30, 2015 amounted to $261,459 and $1,119,854, respectively (December 31, 2014: $148,264 and $523,201).

The following table presents the (income) attributable to operating affiliate investors for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
AlphaCat 2013	$(1)	$(3,644)	$—	$(14,120)
AlphaCat 2014	(99)	(10,892)	(255)	(21,681)
AlphaCat 2015	(9,811)	—	(18,584)	—
AlphaCat ILS funds	(20,968)	(10,780)	(35,246)	(21,225)
(Income) attributable to operating affiliate investors	$(30,879)	$(25,316)	$(54,085)	$(57,026)

The portion of income attributable to operating affiliate investors that was due to the Company, as an investor in the affiliates, and third party investors for the three months ended June 30, 2015 amounted to $4,964 and $25,915, respectively (2014: $5,087 and $20,229). The portion of income attributable to operating affiliate investors was due to the Company, as an investor in the affiliates, and third party investors for the six months ended June 30, 2015 amounted to $8,408 and $45,677, respectively (2014: $11,559 and $45,467).

Table of Contents

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

6. Noncontrolling interest

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

The AlphaCat ILS funds have rights that enable shareholders, subject to certain limitations, to redeem their shares. The third party equity is therefore recorded in the Company's Consolidated Balance Sheets as redeemable noncontrolling interest. When and if a redemption notice is received, the fair value of the redemption is reclassified to a liability. On June 1, 2015, the one remaining consolidated AlphaCat ILS fund was deconsolidated and accounted for as an equity method investment. Therefore, the portion of earnings attributable to third party investors from that fund is recorded in the Consolidated Statements of Comprehensive Income as net (income) attributable to noncontrolling interest through May 31, 2015.

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

	Three Months Ended June 30, 2015		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at March 31, 2015	$98,777	$494,451	$593,228
Issuance of shares	40,000	—	40,000
Income attributable to noncontrolling interest	2,005	15,639	17,644
Adjustment to noncontrolling interest as a result of deconsolidation	(121,387)	—	(121,387)
Redemption of shares	(19,395)	—	(19,395)
As at June 30, 2015	$—	$510,090	$510,090

	Three Months Ended June 30, 2014		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at March 31, 2014	$8,390	$540,934	$549,324
Issuance of shares	57,000	—	57,000
Income attributable to noncontrolling interest	892	34,413	35,305
As at June 30, 2014	$66,282	$575,347	$641,629

	Six Months Ended June 30, 2015		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at December 31, 2014	$79,956	$458,595	$538,551
Issuance of shares	55,700	—	55,700
Income attributable to noncontrolling interest	5,126	51,495	56,621
Adjustment to noncontrolling interest as a result of deconsolidation	(121,387)	—	(121,387)

Redemption of shares	(19,395)	—	(19,395)
As at June 30, 2015	$—	$510,090	$510,090

Table of Contents

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

	Six Months Ended June 30, 2014		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at December 31, 2013	$86,512	$497,657	$584,169
Issuance of shares	57,000	—	57,000
Income attributable to noncontrolling interest	1,124	77,690	78,814
Adjustment to noncontrolling interest as a result of deconsolidation	(78,354)	—	(78,354)
As at June 30, 2014	$66,282	$575,347	$641,629

7. Derivative instruments

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

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

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

	As at June 30, 2015			As at December 31, 2014		
Derivatives not designated as hedging instruments:	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Foreign currency forward contracts	$22,039	$—	$1,064	$26,755	$1,685	$—

(a) Asset and liability derivatives are classified within other assets and accounts payable and accrued expenses respectively on the Consolidated Balance Sheets. The net impact on earnings during the three and six months ended June 30, 2015, recognized in income within other income, relating to the foreign currency forward contract that was not designated as a hedging instrument was $(128) and $(127), respectively (2014: $nil and $nil).

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

	As at June 30, 2015			As at December 31, 2014		
Derivatives designated as hedging instruments:	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Foreign currency forward contracts	$198,775	$1,966	$9,550	$189,026	$401	$3,136
Interest rate swap contracts	$552,263	$21	$1,522	$552,263	$25	$1,169

(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.

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

(b) Derivative instruments designated as a fair value hedge

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

The following table provides the total impact on earnings, recognized in income within foreign exchange gains (losses), relating to the derivative instruments formally designated as fair value hedges along with the impact of the related hedged items for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended		Six Months Ended	
Foreign currency forward contracts	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Amount of (loss) gain recognized in income on derivative	$(7,677)	$1,535	$(17,790)	$4,838
Amount of gain (loss) on hedged item recognized in income attributable to risk being hedged	$7,677	$(1,535)	$17,790	$(4,838)
Amount of gain (loss) recognized in income on derivative (ineffective portion)	$—	$—		$—

(c) Derivative instruments designated as a cash flow hedge

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

The following table provides the total impact on other comprehensive income (loss) and earnings relating to the derivative instruments formally designated as cash flow hedges along with the impact of the related hedged items for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended		Six Months Ended	
Interest rate swap contracts	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Amount of effective portion recognized in other comprehensive income	$2,846	$3,252	$6,886	$6,460
Amount of effective portion subsequently reclassified to earnings	$(3,236)	$(3,252)	$(6,475)	$(6,460)
Amount of ineffective portion excluded from effectiveness testing	$390	$—	$(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, 2015 or December 31, 2014.

The Company currently provides cash collateral as security for interest rate swap contracts. The Company does not provide cash collateral or financial instruments as security for foreign currency forward contracts. Our derivative instruments are generally traded under International Swaps and Derivatives Association master netting agreements,

which establish terms that apply to all transactions. On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash.
The Company has not elected to settle multiple transactions with an individual counterparty on a net basis.
8. Reserve for losses and loss expenses
Reserves for losses and loss expenses are based in part upon the estimation of case reserves from broker, insured and ceding company reported data. The Company also uses statistical and actuarial methods to estimate ultimate expected losses and loss expenses, from which incurred but not reported losses can be calculated. The period of time from the occurrence of a loss to the reporting of a loss to the Company and to the settlement of the Company's liability may be several months or years. During this period, additional facts and trends may be revealed. As these factors become apparent, reserves will be adjusted, sometimes requiring an increase or decrease in the overall reserves of the Company, and at other times requiring a reallocation of incurred but not reported reserves to specific case reserves. These estimates are reviewed and adjusted regularly, and such adjustments, if any, are reflected in earnings in the period in which they become known. While management believes that it has made a reasonable estimate of ultimate losses, there can be no assurances that ultimate losses and loss expenses will not exceed this estimate.
The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid losses and loss expenses for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Reserve for losses and loss expenses, beginning of period	$3,199,362	$2,925,059	$3,234,394	$3,030,399
Losses and loss expenses recoverable	(375,882)	(348,407)	(377,466)	(370,154)
Net reserves for losses and loss expenses, beginning of period	2,823,480	2,576,652	2,856,928	2,660,245
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:				
Current year	336,864	231,401	661,352	433,487
Prior years	(70,718)	(72,656)	(154,277)	(112,071)
Total incurred losses and loss expenses	266,146	158,745	507,075	321,416
Less net losses and loss expenses paid in respect of losses occurring in:				
Current year	(28,965)	(16,741)	(42,065)	(24,708)
Prior years	(256,990)	(199,236)	(492,993)	(449,351)
Total net paid losses	(285,955)	(215,977)	(535,058)	(474,059)
Foreign exchange loss (gain)	6,841	9,153	(18,433)	20,971
Net reserve for losses and loss expenses, end of period	2,810,512	2,528,573	2,810,512	2,528,573
Losses and loss expenses recoverable	376,665	338,734	376,665	338,734
Reserve for losses and loss expenses, end of period	$3,187,177	$2,867,307	$3,187,177	$2,867,307

During the three months ended June 30, 2015, the Company experienced $70,718 of prior period favorable development compared to $72,656 of prior period favorable development for the three months ended June 30, 2014. Prior period favorable development for the Validus Re segment was $30,879 for the three months ended June 30, 2015 compared to $26,668 for the three months ended June 30, 2014. The favorable development for the three months ended June 30, 2015 was primarily due to lower claims emergence on attritional losses. Prior period favorable development for the Talbot segment was $35,586 for the three months ended June 30, 2015 compared to $42,240 for the three months ended June 30, 2014. The favorable development for the three months ended June 30, 2015 was primarily due to favorable development on attritional losses.
During the six months ended June 30, 2015, the Company experienced $154,277 of prior period favorable development compared to $112,071 of prior period favorable development for the six months ended June 30, 2014. Prior period favorable development for the Validus Re segment was $55,575 for the six months ended June 30, 2015 compared to $36,696 for the six months ended June 30, 2014. The favorable development for the six months ended June 30, 2015 was primarily due to lower claims emergence on attritional losses. Prior period favorable development

for the Talbot segment was $87,273 for the six months ended June 30, 2015 compared to $63,767 for the six months ended June 30, 2014. The favorable development for the six months ended June 30, 2015 was primarily due to favorable development on attritional losses.

Incurred losses and loss expenses comprise:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Gross losses and loss expenses	$303,771	$182,780	$568,567	$364,755
Reinsurance recoverable	(37,625)	(24,035)	(61,492)	(43,339)
Net incurred losses and loss expenses	$266,146	$158,745	$507,075	$321,416

9. Reinsurance

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

Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At June 30, 2015, 98.5% (December 31, 2014: 98.0%) of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses and $244,756 of total IBNR recoverable (December 31, 2014: $231,129)) were fully collateralized or from reinsurers rated A- or better.

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

	June 30, 2015		December 31, 2014	
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total
Top 10 reinsurers	$340,154	81.6%	$312,205	75.1%
Other reinsurers’ balances > $1 million	67,525	16.2%	94,247	22.7%
Other reinsurers’ balances < $1 million	9,184	2.2%	9,092	2.2%
Total	$416,863	100.0%	$415,544	100.0%

	June 30, 2015		
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total
Swiss Re	AA-	$77,525	18.6%
Lloyd's Syndicates	A+	76,778	18.4%
Everest Re	A+	51,255	12.3%
Hannover Re	AA-	43,188	10.4%
Fully Collateralized	NR	31,328	7.5%
Munich Re	AA-	20,463	4.9%
Transatlantic Re	A+	13,117	3.1%
Hamilton Re	A-	9,630	2.3%
XL Re	A+	9,056	2.2%
Helvetia	A	7,814	1.9%
Total		$340,154	81.6%

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

NR: Not rated

	December 31, 2014			
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Swiss Re	AA-	$70,848	17.0	%
Lloyd's Syndicates	A+	62,318	15.0	%
Everest Re	A+	51,425	12.4	%
Hannover Re	AA-	40,927	9.8	%
Fully Collateralized	NR	23,315	5.6	%
Munich Re	AA-	19,384	4.7	%
Transatlantic Re	A+	12,418	3.0	%
XL Re	A+	11,114	2.7	%
Berkshire Hathaway Homestate	AA+	10,372	2.5	%
Merrimack Mutual Fire Insurance	A+	10,084	2.4	%
Total		$312,205	75.1	%

NR: Not rated

At June 30, 2015 and December 31, 2014, the provision for uncollectible reinsurance relating to reinsurance recoverables was $4,840 and $4,755, respectively. To estimate the provision for uncollectible reinsurance, the reinsurance recoverable is first allocated to applicable reinsurers. This determination is based on a process rather than an estimate, although an element of judgment is applied, especially in relation to ceded IBNR. The Company then uses default factors to determine the portion of a reinsurer's balance deemed to be uncollectible. Default factors require considerable judgment and are determined in part using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions.

10. Share capital

(a) Authorized and issued

The Company's authorized share capital is 571,428,571 common shares with a par value of $0.175 per share. The holders of common shares are entitled to receive dividends. Holders of common shares are allocated one vote per share, provided that, if the controlled shares of any shareholder or group of related shareholders constitute more than 9.09 percent of the outstanding common shares of the Company, their voting power will be reduced to 9.09 percent.

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. On February 3, 2015, the Board of Directors of the Company approved an increase in the Company's common share purchase authorization to $750,000. This amount is in addition to the $2,274,401 of common shares repurchased by the Company through February 3, 2015 under its previously authorized share repurchase programs.

The Company has repurchased 73,444,835 common shares for an aggregate purchase price of $2,374,524 from the inception of its share repurchase program to June 30, 2015. The Company had $649,877 remaining under its authorized share repurchase program as of June 30, 2015.

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

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

Common Shares

Common shares issued, December 31, 2014	155,554,224
Restricted share awards vested, net of shares withheld	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

	Common Shares
Common shares issued, December 31, 2013	154,488,497
Restricted share awards vested, net of shares withheld	585,535
Restricted share units vested, net of shares withheld	10,265
Options exercised	95,019
Direct issuance of common stock	713
Performance share awards vested, net of shares withheld	25,767
Common shares issued, June 30, 2014	155,205,796
Treasury shares, June 30, 2014	(63,810,857)
Common shares outstanding, June 30, 2014	91,394,939

(b) Warrants

During the six months ended June 30, 2015, 1,796,793 warrants were exercised, which resulted in the issuance of 1,461,715 common shares. During the six months ended June 30, 2014, no warrants were exercised. Holders of the outstanding warrants are entitled to exercise the warrants in whole or in part at any time until the expiration date. The total outstanding warrants at June 30, 2015 were 3,377,320 (December 31, 2014: 5,174,114). No further warrants are anticipated to be issued.

(c) Dividends

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

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

11. Stock plans

(a) Long Term Incentive Plan and Short Term Incentive Plan

The Company’s Amended and Restated 2005 Long Term Incentive Plan (“LTIP”) provides for grants to employees of options, stock appreciation rights (“SARs”), restricted shares, restricted share units, performance shares, dividend equivalents or other share-based awards. In addition, the Company may issue restricted share awards or restricted share units in connection with awards issued under its annual Short Term Incentive Plan (“STIP”). The total number of shares reserved for issuance under the LTIP and STIP are 14,976,896 shares of which 2,024,427 shares remain available for issuance at June 30, 2015. The LTIP and STIP are administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. Grant prices are established at the fair market value of the Company’s common shares at the date of grant.

i. Options

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

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

the requirement as set out in the guidance.
The Company has not granted any stock options since September 4, 2009.
There were no share compensation expenses in respect of options recognized for the three and six months ended June 30, 2015 and 2014.
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

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

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2013	1,572,713	$6.66	$18.88
Options exercised	(95,019)	4.41	24.99
Options outstanding, June 30, 2014	1,477,694	$6.81	$18.48

At June 30, 2015 and December 31, 2014, there were no unrecognized share compensation expenses in respect of options.
ii. Restricted share awards
Restricted shares granted under the LTIP and STIP vest either pro rata or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. The Company recognized share compensation expenses during the three and six months ended June 30, 2015 of $8,653 (2014: $7,920) and $17,132 (2014: $14,921), respectively. The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.
Activity with respect to unvested restricted share awards for the 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

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

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2013	2,684,745	$33.74
Restricted share awards granted	920,496	37.32
Restricted share awards vested	(753,071)	31.61
Restricted share awards forfeited	(24,632)	34.53
Restricted share awards outstanding, June 30, 2014	2,827,538	$35.46

At June 30, 2015, there were $84,397 (December 31, 2014: $74,670) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 2.8 years (December 31, 2014: 2.7 years).
iii. Restricted share units
Restricted share units under the LTIP and STIP vest either ratably or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. The Company recognized share compensation expenses during the

three and six months ended June 30, 2015 of $279 (2014: $167) and $541 (2014: $333), 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, 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

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

	Restricted Share Units		Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2013	66,518		$33.74
Restricted share units granted	8,132		37.33
Restricted share units vested	(18,325	)	30.71
Restricted share units issued in lieu of cash dividends	1,029		33.74
Restricted share units outstanding, June 30, 2014	57,354		$35.22

At June 30, 2015, there were $3,380 (December 31, 2014: $2,774) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 3.0 years (December 31, 2014: 3.1 years).

iv. Performance share awards

The performance share awards contain a performance based component. The performance component relates to the compounded growth in the Dividend Adjusted Diluted Book Value per Share ("DBVPS") over a three-year period relative to the Company's peer group. For performance share awards granted during the period, the grant date Diluted Book Value per Share is based on the DBVPS at the end of the most recent financial reporting year. The Dividend Adjusted Performance Period End DBVPS will be the DBVPS three years after the grant date DBVPS. The fair value estimate earns over the requisite attribution period and the estimate will be reassessed at the end of each performance period which will reflect any adjustments in the consolidated statements of comprehensive income in the period in which they are determined.
The Company recognized share compensation expenses during the three and six months ended June 30, 2015 of $310 (2014: $254) and $623 (2014: $234), respectively.
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

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

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

Performance share awards outstanding, June 30, 2014	106,369	$36.03

At June 30, 2015, there were $5,108 (December 31, 2014: $2,232) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 2.5 years (December 31, 2014: 2.1 years).

(b) Total share compensation expenses

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Restricted share awards	$8,653	$7,920	17,132	14,921
Restricted share units	279	167	541	333
Performance share awards	310	254	623	234
Total	$9,242	$8,341	$18,296	$15,488

Table of Contents

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

12. Debt and financing arrangements
(a) Financing structure
The financing structure at June 30, 2015 was:

	Commitment	Issued and outstanding (a)	Drawn
2006 Junior Subordinated Deferrable Debentures	$150,000	$150,000	$150,000
2007 Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	134,482	134,482	134,482
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	598,232	538,032	538,032
2010 Senior Notes due 2040	250,000	250,000	247,360
Total debentures and senior notes payable	848,232	788,032	785,392
$400,000 syndicated unsecured letter of credit facility	400,000	—	—
$525,000 syndicated secured letter of credit facility	525,000	260,137	—
$30,000 secured bi-lateral letter of credit facility	30,000	11,139	—
Talbot FAL facility	25,000	25,000	—
AlphaCat Re secured letter of credit facility	30,000	30,000	—
IPC bi-lateral facility	25,000	11,027	—
$230,000 Flagstone bi-lateral facility	230,000	204,833	—
Total credit and other facilities	1,265,000	542,136	—
Total debt and financing arrangements	$2,113,232	$1,330,168	$785,392

The financing structure at December 31, 2014 was:

	Commitment	Issued and outstanding (a)	Drawn
2006 Junior Subordinated Deferrable Debentures	$150,000	$150,000	$150,000
2007 Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
Flagstone 2006 Junior Subordinated Deferrable Debentures	135,727	135,727	135,727
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	599,477	539,277	539,277
2010 Senior Notes due 2040	250,000	250,000	247,306
Total debentures and senior notes payable	849,477	789,277	786,583
$400,000 syndicated unsecured letter of credit facility	400,000	—	—
$525,000 syndicated secured letter of credit facility	525,000	276,455	—
$200,000 secured bi-lateral letter of credit facility	200,000	15,649	—
Talbot FAL facility	25,000	25,000	—
PaCRe senior secured letter of credit facility	10,000	294	—
AlphaCat Re secured letter of credit facility	30,000	30,000	—
IPC bi-lateral facility	40,000	15,897	—
$375,000 Flagstone bi-lateral facility	375,000	198,389	—
Total credit and other facilities	1,605,000	561,684	—
Total debt and financing arrangements	$2,454,477	$1,350,961	$786,583

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

Table of Contents

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

(b) Senior notes and junior subordinated deferrable debentures

The following table summarizes the key terms of the Company's senior notes and junior subordinated deferrable debentures as at the issuance date for each placement.

Description	Issuance date	Commitment	Maturity date	Fixed/Spread			Interest payments due
2006 Junior Subordinated Deferrable Debentures	June 15, 2006	$150,000	June 15, 2036	9.069	%	(a)	Quarterly
Flagstone 2006 Junior Subordinated Deferrable Debentures	August 23, 2006	$134,482	September 15, 2036	3.540	%	(b)	Quarterly
2007 Junior Subordinated Deferrable Debentures	June 21, 2007	$200,000	June 15, 2037	8.480	%	(a)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	June 8, 2007	$88,750	July 30, 2037	3.000	%	(b)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 20, 2007	$25,000	September 15, 2037	3.100	%	(b)	Quarterly
2010 Senior Notes due 2040	January 26, 2010	$250,000	January 26, 2040	8.875	%	(a)	Semi-annually in arrears

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

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

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

2010 Senior Notes due 2040	Semi-annually in arrears

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

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

Senior Notes

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

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

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

Future payments of principal of $250,000 on the 2010 Senior Notes are all expected to be after 2020.

Junior subordinated deferrable debentures

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

Debt issuance costs for the 2006 and 2007 Junior Subordinated Deferrable Debentures were deferred as an asset and were amortized to income over the five year optional redemption periods. They are redeemable at the Company's option at par. There were no redemptions made during the three and six months ended June 30, 2015 and 2014.

As part of the acquisition of Flagstone, the Company assumed junior subordinated deferrable debentures due 2036 and 2037 (respectively, the “Flagstone 2006 Junior Subordinated Deferrable Debentures” and “Flagstone 2007 Junior Subordinated Deferrable Debentures”). These debentures are redeemable quarterly at par. There were no redemptions made during the three and six months ended June 30, 2015 and 2014.

Future payments of principal of $538,032 on the debentures discussed above are all expected to be after 2020.

(c) Credit facilities

i. $400,000 syndicated unsecured letter of credit facility and $525,000 syndicated secured letter of credit facility

On March 9, 2012, the Company entered into a $400,000 four-year unsecured credit facility with various counter parties as co-documentation agents and the lenders party thereto, which provides for letter of credit and revolving credit availability for the Company (the “Four Year Unsecured Facility”) (the full $400,000 of which is available for letters of credit and/or revolving loans). The Four Year Unsecured Facility was provided by a syndicate of commercial banks. Letters of credit under the Four Year Unsecured Facility are available to support obligations in connection with the insurance business of the Company and its subsidiaries. Loans under the Four Year Unsecured Facility are available for the general corporate and working capital purposes of the Company. The Company may request that existing lenders under the Four Year Unsecured Facility or prospective additional lenders agree to make available additional commitments from time to time so long as the aggregate commitments under the Four Year Unsecured Facility do not exceed $500,000.

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

Four Year Secured Facility or prospective additional lenders agree to make available additional commitments from time to time so long as the aggregate commitments under the Four Year Secured Facility do not exceed $700,000. The obligations of the Company under the Four Year Secured Facility are secured by cash and securities deposited into cash collateral accounts from time to time with The Bank of New York Mellon.

As of June 30, 2015, there were $260,137 in outstanding letters of credit under the Four Year Secured Facility (December 31, 2014: $276,455) and $nil (December 31, 2014: $nil) outstanding under the Four Year Unsecured Facility.

The Credit Facilities contain covenants that include, among other things (i) the requirement that the Company initially maintain a minimum level of consolidated net worth of at least $2,600,000 and, commencing with the end of the fiscal quarter ending March 31, 2012, to be increased quarterly by an amount equal to 50.0% of the Company's consolidated net income (if positive) for such quarter plus 50.0% of the aggregate increases in the consolidated shareholders' equity of the Company during such fiscal quarter by reason of the issuance and sale of common equity interests of the Company, including upon any conversion of debt securities of the Company into such equity interests, (ii) the requirement that the Company maintain at all times a consolidated total debt to consolidated total capital ratio not greater than 0.35:1.00, and (iii) the requirement that Validus Reinsurance, Ltd. and any other material insurance subsidiaries maintain a financial strength rating by A.M. Best of not less than "B++" (Fair). In addition, the Credit Facilities contain customary negative covenants applicable to the Company, including limitations on the ability to pay dividends and other payments in respect of equity interests at any time that the Company is otherwise in default with respect to certain provisions under the respective Credit Facilities, limitations on the ability to incur liens, sell assets, merge or consolidate with others, enter into transactions with affiliates, and limitations on the ability of its subsidiaries to incur indebtedness. The Credit Facilities also contain customary affirmative covenants, representations and warranties and events of default for credit facilities of its type. As of June 30, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Credit Facilities.

ii. $25,000 Talbot FAL facility

On November 19, 2013, Validus Holdings, Ltd. ("Validus Holdings"), as Guarantor, and its wholly-owned subsidiary, Talbot Holdings Ltd. ("Talbot Holdings"), as Borrower, entered into an Amendment and Restatement Agreement relating to its $25,000 Funds-at-Lloyd's Standby Letter of Credit Facility (the "Facility") which amends the Facility to support underwriting capacity provided to Talbot 2002 Underwriting Ltd through Syndicate 1183 at Lloyd's of London for the 2015 and prior underwriting years of account (the "Restated Facility"). The Restated Facility was provided and arranged by Lloyds Bank plc and ING Bank N.V., London Branch. The Restated Facility provides for the issuance of up to $25,000 (denominated in US Dollars or Pound Sterling) of secured letters of credit to be issued for the benefit of Lloyd's of London. The existing $25,000 secured letter of credit will be extended to provide for an extended termination date covering the 2015, 2016 and prior underwriting years of account under the Restated Facility.

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

The Restated Facility also contains restrictions on Validus Holdings' ability to pay dividends and other payments in respect of equity interests at any time that it is otherwise in default under the Facility (with certain exceptions for dividends in respect of preferred securities and hybrid securities, which are only limited during the continuance of certain specified defaults), incur debt at its subsidiaries level, transact with affiliates, incur liens, sell assets and merge or consolidate with others and other restrictions customary for transactions of this type, in each case subject to agreed exceptions.

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

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

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

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

iii. $25,000 IPC bi-lateral facility

The Company assumed an existing evergreen letter of credit facility through the acquisition of IPC Holdings, Ltd. (the "IPC bi-lateral facility"). As of June 30, 2015, there were $11,027 outstanding letters of credit issued under the IPC bi-lateral facility (December 31, 2014: $15,897). As of June 30, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the IPC bi-lateral facility.

iv. $30,000 secured bi-lateral letter of credit facility

The Company is party to an evergreen secured bi-lateral letter of credit facility with Citibank Europe plc (the “Secured bi-lateral letter of credit facility”). As of June 30, 2015, $11,139 (December 31, 2014: $15,649) of letters of credit were outstanding under the Secured bi-lateral letter of credit facility. The Secured bi-lateral letter of credit facility has no fixed termination date and as of June 30, 2015, and throughout the reporting periods presented, the Company is in compliance with all terms and covenants thereof. During the period ended March 31, 2015 the size of the facility was decreased to $30,000 from $200,000.

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

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

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

In 2013, AlphaCat Re entered into a secured evergreen letter of credit facility with Comerica Bank. This facility provided for letters of credit issued by AlphaCat Re to be used to support its reinsurance obligations in the aggregate amount of $24,800. During the period ended March 31, 2014 the size of the facility was increased to $30,000 from $24,800. As of June 30, 2015, $30,000 (December 31, 2014: $30,000) of letters of credit were outstanding under this facility. As of June 30, 2015, and throughout the reporting periods presented, AlphaCat Re was in compliance with all covenants and restrictions thereof.

vii. $230,000 Flagstone bi-lateral facility

As part of the Flagstone Acquisition, the Company assumed an evergreen Letters of Credit Master Agreement between Citibank Europe Plc and Flagstone Reassurance Suisse, S.A. (the “Flagstone Bi-Lateral Facility”). At June 30, 2015, the Flagstone Bi-Lateral Facility had $204,833 (December 31, 2014: $198,389) letters of credit issued and outstanding. As of June 30, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Flagstone Bi-Lateral Facility. During the period ended March 31, 2015 the size of the facility was decreased to $230,000 from $375,000.

Table of Contents

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

(d) Finance expenses

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
2006 Junior Subordinated Deferrable Debentures	$2,211	$2,211	$4,398	$4,398
2007 Junior Subordinated Deferrable Debentures	1,835	1,835	3,644	3,644
Flagstone 2006 Junior Subordinated Deferrable Debentures	2,243	2,244	4,461	4,467
Flagstone 2007 Junior Subordinated Deferrable Debentures	1,770	1,778	3,528	3,528
2010 Senior Notes due 2040	5,597	5,597	11,194	11,194
Credit facilities	1,193	1,371	2,900	2,930
Bank charges	163	102	261	215
AlphaCat ILS fund fees (a)	2,680	969	7,108	1,646
Talbot FAL Facility	43	19	93	4
Total finance expenses	$17,735	$16,126	$37,587	$32,026

(a) Includes finance expenses incurred by AlphaCat Managers, Ltd. in relation to fund raising for the AlphaCat ILS funds, AlphaCat 2015, AlphaCat 2014 and AlphaCat 2013.

Table of Contents

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

13. Accumulated other comprehensive loss

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

Three Months Ended June 30, 2015	Foreign currency items	Decrease in minimum pension liability	Losses on cash flow hedge	Total
Balance beginning of period, net of tax	$(11,137)	$(475)	$(1,029)	$(12,641)
Net current period other comprehensive income, net of tax	2,763	422	390	3,575
Balance end of period, net of tax	$(8,374)	$(53)	$(639)	$(9,066)

Three Months Ended June 30, 2014	Foreign currency items	Total
Balance beginning of period, net of tax	$(155)	$(155)
Net current period other comprehensive income, net of tax	2,615	2,615
Balance end of period, net of tax	$2,460	$2,460

Six Months Ended June 30, 2015	Foreign currency items	Decrease in minimum pension liability	Losses on cash flow hedge	Total
Balance beginning of period, net of tax	$(8,118)	$(210)	$(228)	$(8,556)
Net current period other comprehensive (loss) income, net of tax	(256)	157	(411)	(510)
Balance end of period, net of tax	$(8,374)	$(53)	$(639)	$(9,066)

Six Months Ended June 30, 2014	Foreign currency items	Total
Balance beginning of period, net of tax	$(617)	$(617)
Net current period other comprehensive income, net of tax	3,077	3,077
Balance end of period, net of tax	$2,460	$2,460

Table of Contents

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

14. Commitments and contingencies
(a) Concentrations of credit risk
The Company attempts to limit its credit exposure by purchasing high quality fixed income investments to maintain a minimum weighted-average portfolio credit rating of A+. In addition, the portfolio limits the amount of "risk assets," such as non-investment grade debt and equity securities, to a maximum of 35% of shareholders' equity. The Company also limits its exposure to any single issuer to 3.5% or less of total cash and investments, excluding government and agency securities, depending on the credit rating of the issuer. With the exception of the Company's non-investment grade bank loan portfolio, which represents 7.3% of total managed cash and investments as at June 30, 2015, and certain capital securities issued by investment grade corporations, the minimum credit rating of any security purchased is Baa3/BBB-. Managed cash and investments consist of total cash and investments less assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interests. In total, investments in below investment grade securities are limited to no more than 10% of the Company's managed cash and investment portfolio. As at June 30, 2015, 9.1% of the Company's total managed cash and investment portfolio was below investment grade. The Company did not have an aggregate exposure to any single issuer of more than 0.7% of managed cash and investments, other than with respect to government and agency securities as at June 30, 2015.
(b) Funds at Lloyd's
The amounts provided under the Talbot FAL Facility would become a liability of the Company in the event of Syndicate 1183 declaring a loss at a level which would call on this arrangement.
Talbot operates in Lloyd's through a corporate member, Talbot 2002 Underwriting Capital Ltd ("T02"), which is the sole participant in Syndicate 1183. Lloyd's sets T02's required capital annually based on Syndicate 1183's business plan, rating environment and reserving environment together with input arising from Lloyd's discussions with, inter alia, regulatory and rating agencies. Such capital, called Funds at Lloyd's ("FAL"), comprises: cash, investments and undrawn letters of credit provided by various banks.
The amounts of cash, investments and letters of credit provided for each year of account as follows:

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

The amounts which are provided as FAL are not available for distribution to the Company for the payment of dividends. Talbot's corporate member may also be required to maintain funds under the control of Lloyd's in excess of its capital requirement and such funds also may not be available for distribution to the Company for the payment of dividends. See Note 3 (d) for investments pledged as collateral.
(c) Lloyd's Central Fund
Whenever a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2015 estimated premium income at Lloyd's of £625,000, at the June 30, 2015 exchange rate of £1 equals $1.57 and assuming the maximum 3% assessment, the Company would be assessed approximately $29,438.
(d) Investment in affiliate commitments

As discussed in Note 5 "Investments in affiliates," on December 20, 2011 the Company entered into an Assignment and Assumption Agreement with Aquiline Capital Partners LLC, pursuant to which it assumed total capital commitments of $50,000. This interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of January 9, 2013. The Company’s remaining commitment at June 30, 2015 was $142 (December 31, 2014: $7,500).

Table of Contents

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

On October 2, 2014, the Company assumed an additional investment in Aquiline Capital Partners II GP (Offshore) Ltd. as part of the Western World acquisition representing a total capital commitment of $10,000. This interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of January 9, 2013. The Company's remaining capital commitment at June 30, 2015 was $nil (December 31, 2014: $1,499).

On November 7, 2014, the Company entered into a Subscription Agreement with Aquiline Capital Partners III GP (Offshore) Ltd., pursuant to which it assumed total capital commitments of $100,000 in respect of Limited Partnership Interests in Aquiline Financial Services Fund III L.P. (the "Fund"). The Limited Partnership Interests are governed by the terms of the Aquiline III Limited Partnership Agreement dated November 7, 2014. The Company's remaining commitment at June 30, 2015 was $85,862 (December 31, 2014: $100,000).

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

On December 29, 2014, the Company entered into an agreement with an AlphaCat ILS fund pursuant to which it assumed total capital commitments of $20,000. The Company's remaining commitment at June 30, 2015 was $nil (December 31, 2014: $8,000).

(e) Fixed maturity commitment

As at June 30, 2015, the Company had an outstanding commitment to participate in certain revolving loan facilities through participation agreements with an established loan originator. The undrawn amount under the revolver facility participations as at June 30, 2015 was $20,272 (December 31, 2014: $7,539).

(f) Other investment commitments

At June 30, 2015, the Company had capital commitments in other investments of $153,000 (December 31, 2014: $153,000). The Company's remaining commitment to these investments at June 30, 2015 was $78,732 (December 31, 2014: $83,712).

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

In December 2014, the Company established an MBRT to collateralize its (re)insurance liabilities associated with and for the benefit of U.S. domiciled cedants, and was approved as a trusteed reinsurer in the State of New Jersey. As at June 30, 2015, the Company was approved in a total of 41 jurisdictions. As a result, cedants domiciled in those jurisdictions will receive automatic credit in their regulatory filings for reinsurance provided by the Company.

(h) Income tax examinations

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

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

15. Related party transactions

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

Aquiline Capital Partners, LLC and its related companies ("Aquiline"), which hold warrants to purchase 2,756,088 shares, and have two employees on the Company's Board of Directors who do not receive compensation from the Company, are shareholders of Group Ark Insurance Holdings Ltd. ("Group Ark"). Christopher E. Watson, a director of the Company, serves as a director of Group Ark. Pursuant to reinsurance agreements with a subsidiary of Group Ark, the Company recognized gross premiums written during the three and six months ended June 30, 2015 of $526 (2014: $1,694) and $2,396 (2014: $3,067), respectively with $1,945 included in premiums receivable at June 30, 2015 (December 31, 2014: $335). The Company also recognized reinsurance premiums ceded during the three and six months ended June 30, 2015 of $(28) (2014: $nil) and $1 (2014: $nil) and had reinsurance balances payable of $4 at June 30, 2015 (December 31, 2014: $4). The Company recorded $1,089 of loss reserves recoverable at June 30, 2015 (December 31, 2014: $1,063). Earned premium adjustments of $534 (2014: $642) and $1,317 (2014: $2,083) were recorded during the three and six months ended June 30, 2015.

On November 24, 2009, the Company entered into an Investment Management Agreement with Conning, Inc. ("Conning") to manage a portion of the Company's investment portfolio. Aquiline acquired Conning on June 16, 2009. Jeffrey W. Greenberg, a director of the Company, serves as a director of Conning Holdings Corp., the parent company of Conning. Investment management fees earned by Conning for the three and six months ended June 30, 2015 were $120 (2014: $170) and $405 (2014: $226) respectively, with $482 included in accounts payable and accrued expenses at June 30, 2015 (December 31, 2014: $515).

On December 20, 2011, the Company entered into an Assignment and Assumption Agreement (the "Agreement") with Aquiline Capital Partners LLC, a Delaware limited liability company (the "Assignor") and Aquiline Capital Partners II GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "General Partner") pursuant to which the Company has assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. (the "Aquiline II Partnership") representing a total capital commitment of $50,000 (the "Aquiline II Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). On October 2, 2014, the Company assumed an additional investment in the Aquiline II Partnership as part of the Western World acquisition representing a total capital commitment of $10,000. Messrs. Greenberg and Watson, directors of the Company, serve as managing principal and senior principal, respectively, of Aquiline Capital Partners LLC. For the three and six months ended June 30, 2015, the Company incurred $489 (2014: $nil) and $937 (2014: $nil) in partnership fees and made capital contributions of $3,415 (2014: $nil) and $8,977 (2014: $nil), with $nil included in accounts payable and accrued expenses at June 30, 2015 (December 31, 2014: $nil).

On November 7, 2014, the Company, entered into a Subscription Agreement (the "Subscription Agreement") with Aquiline Capital Partners III GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "Aquiline III General Partner") pursuant to which the Company is committing and agreeing to purchase limited partnership or other comparable limited liability equity interests (the "Limited Partnership Interests") in Aquiline Financial Services Fund III L.P., a Cayman Islands exempted limited partnership (the "Aquiline III Partnership"), and/or one or more Alternative Investment Vehicles and Intermediate Entities (together with the Aquiline III Partnership, the "Fund" or the "Entities") with a capital commitment (the "Aquiline III Commitment") in an amount equal to $100,000, as a limited partner in the Aquiline Financial Services III Partnership. For the three months ended June 30, 2015, the Company incurred no partnership fees and made no capital contributions. For the six months ended June 30, 2015, the Company incurred partnership fees of $nil and made capital contributions of $14,138, with $nil included in accounts payable and accrued expenses at June 30, 2015 (December 31, 2014: $nil).

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

Table of Contents

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

16. 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, 2015 and 2014:

	Three Months Ended		Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Basic earnings per share				
Net income	$81,657	$188,672	$294,045	$394,569
Income attributable to noncontrolling interest	(17,644)	(35,305)	(56,621)	(78,814)
Net income available to Validus	64,013	153,367	237,424	315,755
Less: Dividends and distributions declared on outstanding warrants	(1,081)	(1,552)	(2,486)	(3,104)
Income available to common shareholders	$62,932	$151,815	$234,938	$312,651
Weighted average number of common shares outstanding	84,003,549	90,952,523	83,627,396	92,202,261
Basic earnings per share available to common shareholders	$0.75	$1.67	$2.81	$3.39
Earnings per diluted share				
Net income	$81,657	$188,672	$294,045	$394,569
Income attributable to noncontrolling interest	(17,644)	(35,305)	(56,621)	(78,814)
Net income available to Validus	64,013	153,367	237,424	315,755
Less: Dividends and distributions declared on outstanding warrants	—	—	—	—
Income available to common shareholders	$64,013	$153,367	$237,424	$315,755
Weighted average number of common shares outstanding	84,003,549	90,952,523	83,627,396	92,202,261
Share equivalents:				
Warrants	2,073,231	2,729,226	2,409,149	2,722,618
Stock options	50,160	745,800	261,792	748,085
Unvested restricted shares	1,186,214	849,287	1,149,805	865,214
Weighted average number of diluted common shares outstanding	87,313,154	95,276,836	87,448,142	96,538,178
Earnings per diluted share available to common shareholders	$0.73	$1.61	$2.72	$3.27

Share equivalents that would result in the issuance of 630,174 common shares (2014: 689,169) were outstanding for the six months ended June 30, 2015, but were not included in the computation of earnings per diluted share because the effect would be antidilutive.

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

17. Segment information

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

Validus Re Segment

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

AlphaCat Segment

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

Talbot Segment

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

Western World Segment

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

Corporate and eliminations

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

Table of Contents

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

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

Three Months Ended June 30, 2015	Validus Re Segment	AlphaCat Segment	Talbot Segment	Western World Segment	Corporate & Eliminations	Total
Underwriting income						
Gross premiums written	$296,895	$64,117	$293,046	$79,554	$(6,644)	$726,968
Reinsurance premiums ceded	(18,853)	—	(37,246)	(5,441)	6,644	(54,896)
Net premiums written	278,042	64,117	255,800	74,113	—	672,072
Change in unearned premiums	(13,492)	(25,641)	(50,362)	(8,995)	—	(98,490)
Net premiums earned	264,550	38,476	205,438	65,118	—	573,582
Underwriting deductions						
Losses and loss expenses	123,405	—	95,970	46,771	—	266,146
Policy acquisition costs	43,826	3,844	47,659	9,617	(521)	104,425
General and administrative expenses	18,781	3,526	35,555	8,923	16,178	82,963
Share compensation expenses	2,396	150	3,024	494	3,178	9,242
Total underwriting deductions	188,408	7,520	182,208	65,805	18,835	462,776
Underwriting income (loss)	$76,142	$30,956	$23,230	$(687)	$(18,835)	$110,806
Net investment income	20,080	1,754	6,406	5,723	(355)	33,608
Other insurance related income (loss)	434	3,755	40	276	(1,357)	3,148
Finance expenses	(3,573)	(2,591)	(87)	—	(11,484)	(17,735)
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	93,083	33,874	29,589	5,312	(32,031)	129,827
Tax (expense) benefit	(2,745)	—	(2,262)	3,734	(1,276)	(2,549)
Income from operating affiliates	—	4,104	—	—	—	4,104
(Income) attributable to operating affiliate investors	—	(30,879)	—	—	—	(30,879)
Net operating income (loss)	$90,338	$7,099	$27,327	$9,046	$(33,307)	$100,503
Net realized gains on investments	420	140	1,070	614	—	2,244
Change in net unrealized (losses) gains on	(13,360)	16,396	(9,011)	(11,204)	(351)	(17,530)

investments						
Income (loss) from investment affiliate	429	—	—	(145)	—	284
Foreign exchange (losses) gains	(1,106)	1	(782)	—	(1,349)	(3,236)
Other loss	(608)	—	—	—	—	(608)
Net income (loss)	$76,113	$23,636	$18,604	$(1,689)	$(35,007)	$81,657
Net (income) attributable to noncontrolling interest	—	(17,644)	—	—	—	(17,644)
Net income (loss) available (attributable) to Validus	$76,113	$5,992	$18,604	$(1,689)	$(35,007)	$64,013
Selected ratios (a):						
Net premiums written / Gross premiums written	93.6%	100.0%	87.3%	93.2%		92.4%
Losses and loss expenses	46.6%	0.0%	46.7%	71.8%		46.4%
Policy acquisition costs	16.6%	10.0%	23.2%	14.8%		18.2%
General and administrative expenses (b)	8.0%	9.5%	18.8%	14.5%		16.1%
Expense ratio	24.6%	19.5%	42.0%	29.3%		34.3%
Combined ratio	71.2%	19.5%	88.7%	101.1%		80.7%
Total assets	$4,654,428	$2,279,493	$2,936,589	$1,490,254	$64,532	$11,425,296

(a) Ratios are based on net premiums earned.
(b) The general and administrative expenses ratio includes share compensation expenses.

Table of Contents

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

Three Months Ended June 30, 2014	Validus Re Segment (c)	AlphaCat Segment	Talbot Segment	Corporate & Eliminations (c)	Total
Underwriting income					
Gross premiums written	$301,273	$43,790	$317,944	$(7,333)	$655,674
Reinsurance premiums ceded	(21,522)	—	(36,376)	7,333	(50,565)
Net premiums written	279,751	43,790	281,568	—	605,109
Change in unearned premiums	(58,023)	(11,330)	(69,753)	—	(139,106)
Net premiums earned	221,728	32,460	211,815	—	466,003
Underwriting deductions					
Losses and loss expenses	77,688	(3,033)	84,090	—	158,745
Policy acquisition costs	31,125	3,056	45,593	(821)	78,953
General and administrative expenses	17,040	3,780	34,173	18,849	73,842
Share compensation expenses	2,336	161	2,862	2,982	8,341
Total underwriting deductions	128,189	3,964	166,718	21,010	319,881
Underwriting income (loss)	$93,539	$28,496	$45,097	$(21,010)	$146,122
Net investment income	16,265	829	4,671	(479)	21,286
Other insurance related income (loss)	545	6,005	258	(1,997)	4,811
Finance expenses	(3,670)	(971)	(68)	(11,417)	(16,126)
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	106,679	34,359	49,958	(34,903)	156,093
Tax (expense) benefit	(460)	—	(1,364)	433	(1,391)
Income from operating affiliates	—	4,892	—	—	4,892
(Income) attributable to operating affiliate investors	—	(25,316)	—	—	(25,316)
Net operating income (loss)	$106,219	$13,935	$48,594	$(34,470)	$134,278
Net realized gains on investments	1,324	6,442	92	—	7,858
Change in net unrealized gains on investments	12,661	30,087	2,679	—	45,427
Income from investment affiliate	779	—	—	—	779
Foreign exchange gains (losses)	2,848	(191)	1,367	(866)	3,158
Other income	424	—	—	—	424
Transaction expenses	—	—	—	(3,252)	(3,252)
Net income (loss)	$124,255	$50,273	$52,732	$(38,588)	$188,672
Net (income) attributable to noncontrolling interest	—	(35,305)	—	—	(35,305)
Net income (loss) available (attributable) to Validus	$124,255	$14,968	$52,732	$(38,588)	$153,367

Selected ratios (a):					
Net premiums written / Gross premiums written	92.9 %	100.0 %	88.6 %		92.3 %
Losses and loss expenses	35.0 %	(9.3)%	39.7 %		34.1 %
Policy acquisition costs	14.1 %	9.4 %	21.5 %		16.9 %
General and administrative expenses (b)	8.7 %	12.1 %	17.5 %		17.6 %
Expense ratio	22.8 %	21.5 %	39.0 %		34.5 %
Combined ratio	57.8 %	12.2 %	78.7 %		68.6 %
Total assets	$5,674,201	$1,651,256	$3,004,163	$156,690	$10,486,310

(a) Ratios are based on net premiums earned.

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

(c) Beginning in the first quarter of 2015, certain intercompany reinsurance transactions were presented on a net basis for segmental reporting purposes. As a result, gross premiums written and reinsurance premiums ceded for the Validus Re segment and Corporate & Eliminations were reduced by $9,013 for the three months ended June 30, 2014 for comparative purposes. There was no impact to total gross premiums written and reinsurance premiums ceded on a consolidated basis.

Table of Contents

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

Six Months Ended June 30, 2015	Validus Re Segment	AlphaCat Segment	Talbot Segment	Western World Segment	Corporate & Eliminations	Total
Underwriting income						
Gross premiums written	$1,008,107	$166,681	$563,123	$136,501	$(27,946)	$1,846,466
Reinsurance premiums ceded	(132,149)	(4,538)	(128,321)	(8,674)	27,946	(245,736)
Net premiums written	875,958	162,143	434,802	127,827	—	1,600,730
Change in unearned premiums	(358,320)	(89,472)	(6,775)	5,173	—	(449,394)
Net premiums earned	517,638	72,671	428,027	133,000	—	1,151,336
Underwriting deductions						
Losses and loss expenses	236,533	(844)	174,098	97,288	—	507,075
Policy acquisition costs	85,920	7,504	96,763	13,896	(1,022)	203,061
General and administrative expenses	38,290	7,528	72,049	19,550	30,574	167,991
Share compensation expenses	4,974	299	5,981	971	6,071	18,296
Total underwriting deductions	365,717	14,487	348,891	131,705	35,623	896,423
Underwriting income (loss)	$151,921	$58,184	$79,136	$1,295	$(35,623)	$254,913
Net investment income	38,332	3,339	12,711	11,026	(779)	64,629
Other insurance related income (loss)	749	9,526	94	539	(2,928)	7,980
Finance expenses	(7,444)	(7,107)	(174)	—	(22,862)	(37,587)
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	183,558	63,942	91,767	12,860	(62,192)	289,935
Tax (expense) benefit	(865)	—	(3,145)	11	(1,115)	(5,114)
Income from operating affiliates	—	6,557	—	—	—	6,557
(Income) attributable to operating affiliate investors	—	(54,085)	—	—	—	(54,085)
Net operating income (loss)	$182,693	$16,414	$88,622	$12,871	$(63,307)	$237,293
	2,229	129	1,941	2,114	—	6,413

Net realized gains on investments						
Change in net unrealized gains (losses) on investments	6,333	53,931	(1,100)	(4,066)	(424)	54,674
Income from investment affiliate	2,362	—	—	698	—	3,060
Foreign exchange (losses) gains	(6,130)	(94)	(1,267)	—	704	(6,787)
Other loss	(608)	—	—	—	—	(608)
Net income (loss)	$186,879	$70,380	$88,196	$11,617	$(63,027)	$294,045
Net (income) attributable to noncontrolling interest	—	(56,621)	—	—	—	(56,621)
Net income (loss) available (attributable) to Validus	$186,879	$13,759	$88,196	$11,617	$(63,027)	$237,424
Selected ratios (a):						
Net premiums written / Gross premiums written	86.9%	97.3%	77.2%	93.6%		86.7%
Losses and loss expenses	45.7%	(1.2)%	40.7%	73.1%		44.0%
Policy acquisition costs	16.6%	10.3%	22.6%	10.5%		17.7%
General and administrative expenses (b)	8.4%	10.8%	18.2%	15.4%		16.2%
Expense ratio	25.0%	21.1%	40.8%	25.9%		33.9%
Combined ratio	70.7%	19.9%	81.5%	99.0%		77.9%
Total assets	$4,654,428	$2,279,493	$2,936,589	$1,490,254	$64,532	$11,425,296

(a) Ratios are based on net premiums earned.
(b) The general and administrative expenses ratio includes share compensation expenses.

Table of Contents

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

Six Months Ended June 30, 2014	Validus Re Segment (c)	AlphaCat Segment	Talbot Segment	Corporate & Eliminations (c)	Total
Underwriting income					
Gross premiums written	$967,436	$128,137	$608,639	$(36,547)	$1,667,665
Reinsurance premiums ceded	(151,339)	(3,700)	(126,981)	36,547	(245,473)
Net premiums written	816,097	124,437	481,658	—	1,422,192
Change in unearned premiums	(355,983)	(61,294)	(55,955)	—	(473,232)
Net premiums earned	460,114	63,143	425,703	—	948,960
Underwriting deductions					
Losses and loss expenses	145,843	(10,893)	186,466	—	321,416
Policy acquisition costs	70,370	6,036	90,521	(2,325)	164,602
General and administrative expenses	35,235	7,908	69,322	35,822	148,287
Share compensation expenses	4,544	151	5,444	5,349	15,488
Total underwriting deductions	255,992	3,202	351,753	38,846	649,793
Underwriting income (loss)	$204,122	$59,941	$73,950	$(38,846)	$299,167
Net investment income	34,540	1,709	9,357	(958)	44,648
Other insurance related income (loss)	1,522	15,502	275	(4,451)	12,848
Finance expenses	(7,509)	(1,654)	(94)	(22,769)	(32,026)
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	232,675	75,498	83,488	(67,024)	324,637
Tax benefit (expense)	118	—	(1,234)	(235)	(1,351)
Income from operating affiliates	—	9,819	—	—	9,819
(Income) attributable to operating affiliate investors	—	(57,026)	—	—	(57,026)
Net operating income (loss)	$232,793	$28,291	$82,254	$(67,259)	$276,079
Net realized gains on investments	3,770	7,667	161	—	11,598
Change in net unrealized gains on investments	19,905	75,959	5,256	—	101,120
Income from investment affiliate	6,127	—	—	—	6,127
Foreign exchange (losses) gains	(3,328)	(153)	1,217	(1,056)	(3,320)
Other income	6,217	—	—	—	6,217
Transaction expenses	—	—	—	(3,252)	(3,252)
Net income (loss)	$265,484	$111,764	$88,888	$(71,567)	$394,569
Net (income) attributable to noncontrolling interest	—	(78,814)	—	—	(78,814)
Net income (loss) available (attributable) to Validus	$265,484	$32,950	$88,888	$(71,567)	$315,755

Selected ratios (a):					
Net premiums written / Gross premiums written	84.4 %	97.1 %	79.1 %		85.3 %
Losses and loss expenses	31.7 %	(17.3)%	43.8 %		33.9 %
Policy acquisition costs	15.3 %	9.6 %	21.2 %		17.3 %
General and administrative expenses (b)	8.6 %	12.8 %	17.6 %		17.3 %
Expense ratio	23.9 %	22.4 %	38.8 %		34.6 %
Combined ratio	55.6 %	5.1 %	82.6 %		68.5 %
Total assets	$5,674,201	$1,651,256	$3,004,163	$156,690	$10,486,310

(a) Ratios are based on net premiums earned.

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

(c) Beginning in the first quarter of 2015, certain intercompany reinsurance transactions were presented on a net basis for segmental reporting purposes. As a result, gross premiums written and reinsurance premiums ceded for the Validus Re segment and Corporate & Eliminations were reduced by $21,836 for the six months ended June 30, 2014 for comparative purposes. There was no impact to total gross premiums written and reinsurance premiums ceded on a consolidated basis.

45

Table of Contents

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

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

	Three Months Ended June 30, 2015 Gross Premiums Written						
	Validus Re	AlphaCat	Talbot	Western World	Eliminations	Total	%
United States	$170,842	$25,010	$40,036	$79,554	$(627)	$314,815	43.3 %
Worldwide excluding United States (a)	12,405	2,124	30,231	—	(15)	44,745	6.2 %
Australia and New Zealand	1,654	624	1,173	—	14	3,465	0.5 %
Europe	16,370	1,073	10,584	—	(171)	27,856	3.8 %
Latin America and Caribbean	6,437	—	28,693	—	(2,672)	32,458	4.5 %
Japan	37,807	1,671	2,843	—	(52)	42,269	5.8 %
Canada	611	294	2,299	—	(62)	3,142	0.4 %
Rest of the world (b)	3,268	—	24,982	—	(537)	27,713	3.8 %
Sub-total, non United States	78,552	5,786	100,805	—	(3,495)	181,648	25.0 %
Worldwide including United States (a)	38,292	32,571	32,704	—	(2,499)	101,068	13.9 %
Other location non-specific (c)	9,209	750	119,501	—	(23)	129,437	17.8 %
Total	$296,895	$64,117	$293,046	$79,554	$(6,644)	$726,968	100.0 %

	Three Months Ended June 30, 2014 Gross Premiums Written					
	Validus Re (d)	AlphaCat	Talbot	Eliminations (d)	Total	%
United States	$173,899	$20,256	$42,151	$(597)	$235,709	36.0 %
Worldwide excluding United States (a)	6,826	(266)	38,434	(57)	44,937	6.8 %
Australia and New Zealand	6,525	—	1,423	104	8,052	1.2 %
Europe	10,845	1,392	7,498	523	20,258	3.1 %
Latin America and Caribbean	6,234	—	30,132	(4,279)	32,087	4.9 %
Japan	38,654	586	1,592	3	40,835	6.2 %
Canada	448	(1)	2,750	(64)	3,133	0.5 %
Rest of the world (b)	3,884	—	25,153	(503)	28,534	4.4 %
Sub-total, non United States	73,416	1,711	106,982	(4,273)	177,836	27.1 %
Worldwide including United States (a)	36,435	21,823	28,883	1,484	88,625	13.5 %
Other location non-specific (c)	17,523	—	139,928	(3,947)	153,504	23.4 %
Total	$301,273	$43,790	$317,944	$(7,333)	$655,674	100.0 %

Table of Contents

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

	Six Months Ended June 30, 2015 Gross Premiums Written						
	Validus Re	AlphaCat	Talbot	Western World	Eliminations	Total	%
United States	$509,661	$38,585	$68,094	$136,501	$(2,121)	$750,720	40.7%
Worldwide excluding United States (a)	47,399	7,957	65,173	—	(1,044)	119,485	6.5%
Australia and New Zealand	11,522	624	3,049	—	(141)	15,054	0.8%
Europe	40,876	2,841	23,798	—	(1,015)	66,500	3.6%
Latin America and Caribbean	15,315	—	51,385	—	(6,196)	60,504	3.3%
Japan	39,191	1,671	3,597	—	(65)	44,394	2.4%
Canada	2,798	488	3,997	—	(140)	7,143	0.4%
Rest of the world (b)	21,994	—	47,988	—	(2,856)	67,126	3.6%
Sub-total, non United States	179,095	13,581	198,987	—	(11,457)	380,206	20.6%
Worldwide including United States (a)	123,348	110,465	54,498	—	(14,353)	273,958	14.8%
Other location non-specific (c)	196,003	4,050	241,544	—	(15)	441,582	23.9%
Total	$1,008,107	$166,681	$563,123	$136,501	$(27,946)	$1,846,466	100.0%

	Six Months Ended June 30, 2014 Gross Premiums Written					
	Validus Re (d)	AlphaCat	Talbot	Eliminations (d)	Total	%
United States	$416,931	$28,954	$68,462	$(2,917)	$511,430	30.8%
Worldwide excluding United States (a)	65,349	7,412	75,616	(1,084)	147,293	8.7%
Australia and New Zealand	19,385	1,019	4,303	(222)	24,485	1.5%
Europe	46,723	2,693	26,289	(1,244)	74,461	4.5%
Latin America and Caribbean	20,571	—	61,371	(14,948)	66,994	4.0%
Japan	38,821	586	2,130	(58)	41,479	2.5%
Canada	2,995	215	5,895	(236)	8,869	0.5%
Rest of the world (b)	22,679	—	43,557	(2,890)	63,346	3.8%
Sub-total, non United States	216,523	11,925	219,161	(20,682)	426,927	25.5%
Worldwide including United States (a)	138,719	87,258	52,536	(9,934)	268,579	16.1%
Other location non-specific (c)	195,263	—	268,480	(3,014)	460,729	27.6%
Total	$967,436	$128,137	$608,639	$(36,547)	$1,667,665	100.0%

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

and, in some instances, are not fixed locations.

(d) During the first quarter of 2015, certain intercompany reinsurance transactions were presented on a net basis for segmental reporting purposes. As a result, gross premiums written for the Validus Re segment and Corporate & Eliminations were reduced by $9,013 and $21,836 for the three and six months ended June 30, 2014, respectively, for comparative purposes. There was no impact to total gross premiums written on a consolidated basis.

Table of Contents

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

18. Condensed consolidating financial information

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

Table of Contents

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

Condensed Consolidating Balance Sheet As at June 30, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Assets					
Fixed maturities, at fair value	$28,436	$—	$5,491,068	$(60,200)	$5,459,304
Short-term investments, at fair value	—	—	1,338,051	—	1,338,051
Other investments, at fair value	—	—	965,801	(72,094)	893,707
Cash and cash equivalents	4,597	20	429,093	—	433,710
Restricted cash	5,599	—	134,420	—	140,019
Total investments and cash	38,632	20	8,358,433	(132,294)	8,264,791
Investment in affiliates	—	—	374,121	—	374,121
Investment in subsidiaries on an equity basis	4,232,326	680,642	—	(4,912,968)	—
Premiums receivable	—	—	1,276,020	—	1,276,020
Deferred acquisition costs	—	—	253,225	—	253,225
Prepaid reinsurance premiums	—	—	161,516	—	161,516
Securities lending collateral	—	—	7,021	—	7,021
Loss reserves recoverable	—	—	376,665	—	376,665
Paid losses recoverable	—	—	40,198	—	40,198
Income taxes recoverable	—	—	13,787	—	13,787
Deferred tax asset	—	—	23,079	—	23,079
Receivable for investments sold	—	—	29,131	—	29,131
Intangible assets	—	—	124,092	—	124,092
Goodwill	—	—	196,758	—	196,758
Accrued investment income	48	—	23,846	—	23,894
Intercompany receivable	2,159	—	—	(2,159)	—
Other assets	2,512	—	258,486	—	260,998
Total assets	$4,275,677	$680,662	$11,516,378	$(5,047,421)	$11,425,296
Liabilities					
Reserve for losses and loss expenses	$—	$—	$3,187,177	$—	$3,187,177
Unearned premiums	—	—	1,519,491	—	1,519,491
Reinsurance balances payable	—	—	95,705	—	95,705
Securities lending payable	—	—	7,487	—	7,487
Deferred tax liability	—	—	8,063	—	8,063
Payable for investments purchased	—	—	105,871	—	105,871

Accounts payable and accrued expenses	21,386	—	146,390	—	167,776
Intercompany payable	—	59	2,100	(2,159)	—
Notes payable to operating affiliates	—	—	1,381,313	—	1,381,313
Senior notes payable	247,360	—	—	—	247,360
Debentures payable	350,000	—	248,232	(60,200)	538,032
Total liabilities	$618,746	$59	$6,701,829	$(62,359)	$7,258,275
Redeemable noncontrolling interest	—	—	—	—	—
Total shareholders' equity available to Validus	3,656,931	680,603	4,304,459	(4,985,062)	3,656,931
Noncontrolling interest	—	—	510,090	—	510,090
Total liabilities, noncontrolling interests and shareholders' equity	$4,275,677	$680,662	$11,516,378	$(5,047,421)	$11,425,296

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

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

Table of Contents

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

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

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

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

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

50

Table of Contents

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

Condensed Consolidating Statement of Comprehensive Income For the Three Months Ended June 30, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	$—	$—	$ 573,582	$—	$ 573,582
Net investment income	87	—	34,536	(1,015)	33,608
Net realized gains on investments	—	—	2,244	—	2,244
Change in net unrealized losses on investments	(351)	—	(14,082)	(3,097)	(17,530)
Income from investment affiliate	—	—	284	—	284
Other insurance related income and other income	—	—	19,486	(16,946)	2,540
Foreign exchange losses	(747)	(1)	(2,488)	—	(3,236)
Total revenues	$(1,011)	$(1)	$ 613,562	$(21,058)	$ 591,492
Expenses					
Losses and loss expenses	—	—	266,146	—	266,146
Policy acquisition costs	—	—	104,425	—	104,425
General and administrative expenses	18,864	—	81,043	(16,944)	82,963
Share compensation expenses	1,897	—	7,345	—	9,242
Finance expenses	11,914	—	6,311	(490)	17,735
Total expenses	$32,675	$—	$ 465,270	$(17,434)	$ 480,511
(Loss) income before taxes, income from operating affiliates, (income) attributable to operating affiliate investors and equity in net earnings of subsidiaries	(33,686)	(1)	148,292	(3,624)	110,981
Tax expense	—	—	(2,549)	—	(2,549)
Income from operating affiliates	—	—	4,104	—	4,104
(Income) attributable to operating affiliate investors	—	—	(30,879)	—	(30,879)
Equity in net earnings of subsidiaries	97,699	1,914	—	(99,613)	—
Net income	$64,013	$1,913	$ 118,968	$(103,237)	$ 81,657
Net (income) attributable to noncontrolling interest	—	—	(17,644)	—	(17,644)
Net income available to Validus	$64,013	$1,913	$ 101,324	$(103,237)	$ 64,013
Other comprehensive income	3,575	—	3,185	(3,185)	3,575
Comprehensive income available to Validus	$67,588	$1,913	$ 104,509	$(106,422)	$ 67,588

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

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

Table of Contents

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

Condensed Consolidating Statement of Comprehensive Income For the Three Months Ended June 30, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	$—	$—	$ 466,003	$—	$ 466,003
Net investment income	4	—	22,258	(976)	21,286
Net realized gains on investments	—	—	7,858	—	7,858
Change in net unrealized gains on investments	—	—	46,295	(868)	45,427
Income from investment affiliate	—	—	779	—	779
Other insurance related income and other income	—	—	21,677	(16,442)	5,235
Foreign exchange (losses) gains	(545)	—	3,703	—	3,158
Total revenues	$ (541)	$—	$ 568,573	$ (18,286)	$ 549,746
Expenses					
Losses and loss expenses	—	—	158,745	—	158,745
Policy acquisition costs	—	—	78,953	—	78,953
General and administrative expenses	23,515	—	66,769	(16,442)	73,842
Share compensation expenses	1,811	—	6,530	—	8,341
Finance expenses	11,895	—	4,716	(485)	16,126
Transaction expenses	—	—	3,252	—	3,252
Total expenses	$ 37,221	$—	$ 318,965	$ (16,927)	$ 339,259
(Loss) income before taxes, income from operating affiliates, (income) attributable to operating affiliate investors and equity in net earnings (losses) of subsidiaries	(37,762)	—	249,608	(1,359)	210,487
Tax expense	—	—	(1,391)	—	(1,391)
Income from operating affiliates	—	—	4,892	—	4,892
(Income) attributable to operating affiliate investors	—	—	(25,316)	—	(25,316)
Equity in net earnings (losses) of subsidiaries	191,129	(918)	—	(190,211)	—
Net income (loss)	$ 153,367	$ (918)	$ 227,793	$ (191,570)	$ 188,672
Net (income) attributable to noncontrolling interest	—	—	(35,305)	—	(35,305)
Net income (loss) available (attributable) to Validus	$ 153,367	$ (918)	$ 192,488	$ (191,570)	$ 153,367
Other comprehensive income	2,615	—	2,615	(2,615)	2,615
Comprehensive income (loss) available (attributable) to Validus	$ 155,982	$ (918)	$ 195,103	$ (194,185)	$ 155,982

(a)

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

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

Table of Contents

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

Condensed Consolidating Statement of Comprehensive Income For the Six Months Ended June 30, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	$—	$—	$ 1,151,336	$—	$ 1,151,336
Net investment income	144	—	66,505	(2,020)	64,629
Net realized gains on investments	—	—	6,413	—	6,413
Change in net unrealized (losses) gains on investments	(424)	—	59,080	(3,982)	54,674
Income from investment affiliate	—	—	3,060	—	3,060
Other insurance related income and other income	—	—	39,109	(31,737)	7,372
Foreign exchange losses	(237)	(1)	(6,549)	—	(6,787)
Total revenues	$(517)	$(1)	$ 1,318,954	$(37,739)	$ 1,280,697
Expenses					
Losses and loss expenses	—	—	507,075	—	507,075
Policy acquisition costs	—	—	203,061	—	203,061
General and administrative expenses	36,407	2	163,319	(31,737)	167,991
Share compensation expenses	3,551	—	14,745	—	18,296
Finance expenses	23,772	—	14,786	(971)	37,587
Total expenses	$63,730	$2	$ 902,986	$(32,708)	$ 934,010
(Loss) income before taxes, income from operating affiliates, (income) attributable to operating affiliate investors and equity in net earnings of subsidiaries	(64,247)	(3)	415,968	(5,031)	346,687
Tax expense	—	—	(5,114)	—	(5,114)
Income from operating affiliates	—	—	6,557	—	6,557
(Income) attributable to operating affiliate investors	—	—	(54,085)	—	(54,085)
Equity in net earnings of subsidiaries	301,671	22,109	—	(323,780)	—
Net income	$237,424	$22,106	$ 363,326	$(328,811)	$ 294,045
Net (income) attributable to noncontrolling interest	—	—	(56,621)	—	(56,621)
Net income available to Validus	$237,424	$22,106	$ 306,705	$(328,811)	$ 237,424
Other comprehensive loss	(510)	—	(99)	99	(510)
Comprehensive income available to Validus	$236,914	$22,106	$ 306,606	$(328,712)	$ 236,914

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

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

53

Table of Contents

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

Condensed Consolidating Statement of Comprehensive Income For the Six Months Ended June 30, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	$—	$—	$ 948,960	$—	$ 948,960
Net investment income	7	—	46,589	(1,948)	44,648
Net realized gains on investments	—	—	11,598	—	11,598
Change in net unrealized gains on investments	—	—	97,760	3,360	101,120
Income from investment affiliate	—	—	6,127	—	6,127
Other insurance related income and other income	—	—	53,469	(34,404)	19,065
Foreign exchange losses	(713)	—	(2,607)	—	(3,320)
Total revenues	$ (706)	$—	$ 1,161,896	$ (32,992)	$ 1,128,198
Expenses					
Losses and loss expenses	—	—	321,416	—	321,416
Policy acquisition costs	—	—	164,602	—	164,602
General and administrative expenses	44,078	21	138,592	(34,404)	148,287
Share compensation expenses	3,119	—	12,369	—	15,488
Finance expenses	23,718	—	9,273	(965)	32,026
Transaction expenses	—	—	3,252	—	3,252
Total expenses	$ 70,915	$ 21	$ 649,504	$ (35,369)	$ 685,071
(Loss) income before taxes, income from operating affiliates, (income) attributable to operating affiliate investors and equity in net earnings (losses) of subsidiaries	(71,621)	(21)	512,392	2,377	443,127
Tax expense	—	—	(1,351)	—	(1,351)
Income from operating affiliates	—	—	9,819	—	9,819
(Income) attributable to operating affiliate investors	—	—	(57,026)	—	(57,026)
Equity in net earnings (losses) of subsidiaries	387,376	(1,666)	—	(385,710)	—
Net income (loss)	$ 315,755	$ (1,687)	$ 463,834	$ (383,333)	$ 394,569
Net (income) attributable to noncontrolling interest	—	—	(78,814)	—	(78,814)
Net income (loss) available (attributable) to Validus	$ 315,755	$ (1,687)	$ 385,020	$ (383,333)	$ 315,755
Other comprehensive income	3,077	—	3,077	(3,077)	3,077
Comprehensive income (loss) available (attributable) to Validus	$ 318,832	$ (1,687)	$ 388,097	$ (386,410)	$ 318,832

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

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

Table of Contents

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

Condensed Consolidating Statement of Cash Flows For The Six Months Ended June 30, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Net cash provided by (used in) operating activities	$55,556	$(61)	$ (199,336)	$(85,000)	$(228,841)
Cash flows provided by (used in) investing activities					
Proceeds on sales of investments	—	—	2,237,966	—	2,237,966
Proceeds on maturities of investments	—	—	186,594	—	186,594
Purchases of fixed maturities	(28,055)	—	(2,309,935)	—	(2,337,990)
Purchases of short-term investments, net	—	—	(375,299)	—	(375,299)
Purchases of other investments, net	—	—	(21,970)	—	(21,970)
Increase in securities lending collateral	—	—	(6,551)	—	(6,551)
Investment in operating affiliates	—	—	(10,400)	—	(10,400)
Redemption from operating affiliates	—	—	27,264	—	27,264
Investment in investment affiliates	—	—	(23,115)	—	(23,115)
(Increase) decrease in restricted cash	(5,599)	—	38,583	—	32,984
Return of capital from subsidiaries	140,000	—	—	(140,000)	—
Net cash provided by (used in) investing activities	106,346	—	(256,863)	(140,000)	(290,517)
Cash flows provided by (used in) financing activities					
Proceeds on issuance of notes payable to operating affiliates	—	—	1,155,284	—	1,155,284
Repayments on notes payable to operating affiliates	—	—	(621,444)	—	(621,444)
Issuance of common shares, net	14,860	—	—	—	14,860
Purchases of common shares under share repurchase program	(143,223)	—	—	—	(143,223)
Dividends paid	(58,740)	—	(85,000)	85,000	(58,740)
Increase in securities lending payable	—	—	6,551	—	6,551
Third party investment in redeemable noncontrolling interest	—	—	55,700	—	55,700
Third party redemption in redeemable noncontrolling interest	—	—	(19,395)	—	(19,395)
Return of capital to parent	—	—	(140,000)	140,000	—
Net cash (used in) provided by financing activities	(187,103)	—	351,696	225,000	389,593
Effect of foreign currency rate changes on cash and cash equivalents	—	—	(13,765)	—	(13,765)

Net decrease in cash	(25,201)	(61)	(118,268)	—	(143,530)
Cash and cash equivalents, beginning of period	29,798	81	547,361	—	577,240
Cash and cash equivalents, end of period	$4,597	$20	$ 429,093	$—	$433,710

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

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

Table of Contents

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

Condensed Consolidating Statement of Cash Flows For The Six Months Ended June 30, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Net cash provided by (used in) operating activities	$365,372	$—	$ (247,929)	$ (100,000)	$ 17,443
Cash flows provided by (used in) investing activities					
Proceeds on sales of investments	—	—	1,956,442	—	1,956,442
Proceeds on maturities of investments	—	—	384,259	—	384,259
Purchases of fixed maturities	—	—	(1,906,212)	—	(1,906,212)
Purchases of short-term investments, net	—	—	(99,677)	—	(99,677)
Purchases of other investments, net	—	—	(54,716)	—	(54,716)
Decrease in securities lending collateral	—	—	2,071	—	2,071
Redemption from operating affiliates	—	—	57,025	—	57,025
Investment in investment affiliates	—	—	—	—	—
Decrease in restricted cash	—	—	15,371	—	15,371
Proceeds on sale of subsidiary, net of cash	—	—	16,459	—	16,459
Net cash provided by investing activities	—	—	371,022	—	371,022
Cash flows provided by (used in) financing activities					
Proceeds on issuance of notes payable to operating affiliates	—	—	320,454	—	320,454
Repayments on notes payable to operating affiliates	—	—	(364,877)	—	(364,877)
Redemption of common shares, net	(4,385)	—	—	—	(4,385)
Purchases of common shares under share repurchase program	(197,339)	—	—	—	(197,339)
Dividends paid	(61,036)	—	(100,000)	100,000	(61,036)
Decrease in securities lending payable	—	—	(2,071)	—	(2,071)
Third party investment in redeemable noncontrolling interest	—	—	57,000	—	57,000
Third party redemption in redeemable noncontrolling interest	—	—	(10,496)		(10,496)
Net cash (used in) provided by financing activities	(262,760)	—	(99,990)	100,000	(262,750)
Effect of foreign currency rate changes on cash and cash equivalents	—	—	13,097	—	13,097
Net increase in cash	102,612	—	36,200	—	138,812
Cash and cash equivalents, beginning of period	20,385	—	713,763	—	734,148

Cash and cash equivalents, end of period	$ 122,997	$ —	$ 749,963	$ —	$ 872,960

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

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

19. Subsequent events

Quarterly Dividend

On August 5, 2015, the Company announced a quarterly cash dividend of $0.32 per each common share and $0.32 per common share equivalent for which each outstanding warrant is exercisable, payable on September 30, 2015 to holders of record on September 15, 2015.

Table of Contents

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

The following is a discussion and analysis of the Company's consolidated results of operations for the three and six months ended June 30, 2015 and 2014 and the Company's consolidated financial condition, liquidity and capital resources as at June 30, 2015 and December 31, 2014. This discussion and analysis should be read in conjunction with the Company's unaudited Consolidated Financial Statements and notes thereto included in this filing and the Company's audited Consolidated Financial Statements and related notes for the fiscal year ended December 31, 2014, the discussions of critical accounting policies and the qualitative and quantitative disclosure about market risk, as well as management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

For a variety of reasons, the Company's historical financial results may not accurately indicate future performance. See "Cautionary Note Regarding Forward-Looking Statements." The Risk Factors set forth in Part I Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014 present a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

Executive Overview

The Company conducts its operations worldwide through four operating segments which have been determined under U.S. GAAP segment reporting to be Validus Re, AlphaCat, Talbot and Western World. Validus Re is a Bermuda-based reinsurance segment focused on short-tail lines of reinsurance. AlphaCat is a Bermuda-based investment adviser, managing capital from third parties and the Company in insurance linked securities and other investments in the property catastrophe reinsurance space. Talbot is a specialty insurance segment, primarily operating within the Lloyd's insurance market through Syndicate 1183. Western World is a U.S. based specialty excess and surplus lines insurance segment operating within the U.S. commercial market.

The Company’s strategy is to concentrate primarily on short-tail risks, which has been an area where management believes prices and terms provide an attractive risk-adjusted return and the management team has proven expertise. The Company’s profitability in any given period is based upon premium and investment revenues, less net losses and loss expenses, acquisition expenses and operating expenses. Financial results in the insurance and reinsurance industry are influenced by the frequency and/or severity of claims and losses, including as a result of catastrophic events, changes in interest rates, financial markets and general economic conditions, the supply of insurance and reinsurance capacity and changes in legal, regulatory and judicial environments.

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

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

Table of Contents

Business Outlook and Trends

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

Property and other reinsurance premiums have historically risen in the aftermath of significant catastrophic losses. As loss reserves are established, industry surplus is depleted and the industry's capacity to write new business diminishes. At the same time, management believes that there is a heightened awareness of exposure to natural catastrophes on the part of cedants, rating agencies and catastrophe modeling firms, resulting in an increase in the demand for reinsurance protection. The global property and casualty insurance and reinsurance industry has historically been highly cyclical. Since 2007, increased capital provided by new entrants or by the commitment of capital by existing insurers and reinsurers increased the supply of insurance and reinsurance which resulted in a softening of rates on most lines. During 2010 and 2011, there was an increased level of catastrophe activity, principally the Chilean earthquake, Deepwater Horizon, Tohoku and New Zealand earthquake events, but the Company continues to see increased competition and decreased premium rates in most classes of business.

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

During the January 2015 renewal season, the Validus Re and AlphaCat segments underwrote $540.9 million in gross premiums written (excluding U.S. agriculture premiums and net of intercompany eliminations between Validus Re and AlphaCat), a decrease of 6.0% from the prior period. This decrease was primarily driven by a challenging rate environment in the Company's U.S. and European property catastrophe business, which experienced a reduction in rates of approximately 10-15%. During the mid-year 2015 renewal period, the Validus Re segment experienced a meaningful increase in the demand for U.S. wind capacity which resulted in the moderation of U.S. property market rate declines to mid-single digits. However, the rate environment in the international property market proved to be more challenging with rate declines closer to 10%. The Talbot segment experienced a whole account rate decrease of approximately 6.2% and the Western World segment experienced a whole account rate increase of approximately 3.3% through June 30, 2015.

Table of Contents

Financial Measures

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

	As at, or for the				
	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,
	2015	2014	2015	2014	2014
Book value per diluted common share plus accumulated dividends	$50.95	$46.83	$50.95	$46.83	$48.54
Book value per diluted common share	41.43	38.55	41.43	38.55	39.66
Underwriting income	110,806	146,122	254,913	299,167	526,934
Net operating income attributable to Validus	98,347	132,184	231,183	272,481	486,464
Annualized return on average equity	7.0%	16.5%	13.0%	17.0%	13.1%

Book value per diluted common share plus accumulated dividends is considered by management to be the primary indicator of financial performance, as we believe growth in book value on a diluted basis, plus the dividends that have accumulated, ultimately translates into the return that a shareholder will receive. Book value per diluted common share plus accumulated dividends increased by $2.41, or 5.0%, from $48.54 at December 31, 2014 to $50.95 at June 30, 2015. Cash dividends per common share are an integral part of the value created for shareholders. The Company paid quarterly cash dividends of $0.32 per common share and common share equivalent during the three and six months ended June 30, 2015. On August 5, 2015, the Company announced a quarterly cash dividend of $0.32 per common share and $0.32 per common share equivalent for which each outstanding warrant is exercisable, payable on September 30, 2015 to holders of record on September 15, 2015. Book value per diluted common share plus accumulated dividends is calculated based on total shareholders' equity available to Validus plus the assumed proceeds from the exercise of outstanding options and warrants, divided by the sum of common shares, unvested restricted shares and options and warrants outstanding (assuming their exercise), plus accumulated dividends. Book value per diluted common share plus accumulated dividends is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

Book value per diluted common share is considered by management to be a measure of returns to common shareholders, as we believe growth in book value on a diluted basis ultimately translates into growth in stock price. Book value per diluted common share after dividends paid, increased by $1.77, or 4.5%, from $39.66 at December 31, 2014 to $41.43 at June 30, 2015. Growth in book value per diluted common share inclusive of dividends was 1.2% and 3.4% for the three months ended June 30, 2015 and 2014, respectively, and for the six months ended June 30, 2015 and 2014 was 6.1% and 8.1%, respectively. Book value per diluted common share is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

Underwriting income measures the performance of the Company's core underwriting function, excluding revenues and expenses such as net investment income (loss), other insurance related income, finance expenses, net realized and change in net unrealized gains (losses) on investments, foreign exchange gains (losses), other income (loss), non-recurring items and net (income) loss attributable to noncontrolling interest. The Company believes the reporting of underwriting income enhances the understanding of results by highlighting the underlying profitability of the Company's core insurance and reinsurance operations. Underwriting income for the three months ended June 30, 2015 and 2014 was $110.8 million and $146.1 million, respectively, and for the six months ended June 30, 2015 and 2014 was $254.9 million and 299.2 million, respectively. Underwriting income is a non-GAAP financial measure, as described in more detail in the section entitled "Non-GAAP Financial Measures."

Net operating income available to Validus is defined as net income excluding net realized and change in net unrealized gains (losses) on investments, income (loss) from investment affiliate, foreign exchange gains (losses), other income (loss), non-recurring items and net operating (income) loss attributable to noncontrolling interest. This measure focuses on the underlying fundamentals of the Company's operations without the influence of gains (losses) from the sale of investments, translation of non-U.S. dollar currencies and non-recurring items. Net operating income available to Validus for the three months ended June 30, 2015 and 2014 was \$98.3 million and \$132.2 million, respectively, and for the six months ended June 30, 2015 and 2014 was \$231.2 million and \$272.5 million, respectively. Net operating income is a non-GAAP financial measure, as described in more detail in the section entitled “Non-GAAP Financial Measures.”

Annualized return on average equity represents the return generated on common shareholders’ capital during the period. Return on average equity is calculated by dividing the net income available to Validus for the period by the average shareholders’ equity available to Validus during the period. Average shareholders’ equity is the average of the beginning, ending and intervening quarter end shareholders’ equity balances. The Company’s objective is to generate superior returns on capital that appropriately rewards shareholders for the risks assumed. The annualized return on average equity for the three months ended June 30, 2015 and 2014 was 7.0% and 16.5%, respectively, and for the six months ended June 30, 2015 and 2014 was 13.0% and 17.0%, respectively.

Table of Contents

Second Quarter 2015 Summarized Consolidated Results of Operations

- Gross premiums written for the three months ended June 30, 2015 were $727.0 million compared to $655.7 million for the three months ended June 30, 2014, an increase of $71.3 million, or 10.9%.
- Net premiums earned for the three months ended June 30, 2015 were $573.6 million compared to $466.0 million for the three months ended June 30, 2014, an increase of $107.6 million, or 23.1%.
- Underwriting income for the three months ended June 30, 2015 was $110.8 million compared to $146.1 million for the three months ended June 30, 2014, a decrease of $35.3 million, or 24.2%.
- Combined ratio for the three months ended June 30, 2015 of 80.7% which included $70.7 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 12.3 percentage points compared to a combined ratio for the three months ended June 30, 2014 of 68.6% which included $72.7 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 15.6 percentage points. The favorable loss reserve development was primarily due to lower than expected development on attritional losses.
- Loss ratio for the three months ended June 30, 2015 of 46.4% compared to 34.1% for the three months ended June 30, 2014, an increase of 12.3 percentage points. Incurred losses for the three months ended June 30, 2015 were $266.1 million, which included losses and loss expenses of $48.1 million from a single notable loss event, Pemex, an offshore rig explosion.
- Loss ratios by line of business are as follows:

	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014		Percentage Point Change
Property (a)	11.6	%	9.8	%	1.8
Marine	64.8	%	59.0	%	5.8
Specialty	67.1	%	46.1	%	21.0
Liability (a)	70.6	%	—	%	70.6
All lines	46.4	%	34.1	%	12.3

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

- Losses and loss expenses from notable loss events, defined as consolidated losses from a single event which aggregate to a threshold greater than or equal to $30.0 million, for the three months ended June 30, 2015 were $48.1 million compared to $nil for the three months ended June 30, 2014.
- Losses and loss expenses from non-notable loss events, defined as consolidated losses from a single event which aggregate to a threshold greater than or equal to $15.0 million but less than $30.0 million, for the three months ended June 30, 2015 were ($15.0) million compared to $21.9 million for the three months ended June 30, 2014.
- Net investment income for the three months ended June 30, 2015 was $33.6 million compared to $21.3 million for the three months ended June 30, 2014, an increase of $12.3 million, or 57.9%.
- Investment yield for the three months ended June 30, 2015 was 2.03% compared to 1.29% for the three months ended June 30, 2014.
- Net operating income available to Validus for the three months ended June 30, 2015 was $98.3 million compared to $132.2 million for the three months ended June 30, 2014, a decrease of $33.8 million, or 25.6%.
- Net income available to Validus for the three months ended June 30, 2015 was $64.0 million, or $0.73 per diluted common share compared to $153.4 million or $1.61 per diluted common share for the three months ended June 30, 2014.
- Annualized return on average equity and annualized net operating return on average equity for the three months ended June 30, 2015 were 7.0% and 10.7%, respectively, compared to 16.5% and 14.2% for the three months ended June 30, 2014.

60

Table of Contents

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

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

(Dollars in thousands)	Increase (decrease) to net operating income available to Validus over the three months ended June 30 2015 compared to 2014
Net premiums earned	$107,579
Notable loss events (a)	(48,074)
Non-notable loss events (b)	36,946
Incurred current year losses, excluding notable and non-notable loss events	(94,335)
Prior period loss development	(1,938)
Other underwriting deductions (c)	(35,494)
Underwriting income (d)	(35,316)
(Income) attributable to operating affiliate investors	(5,563)
Other operating expenses and income, net (e)	7,104
Net operating income (d)	(33,775)
Net operating (income) attributable to noncontrolling interest	(62)
Net operating income available to Validus (d)	$(33,837)

(a) The notable loss event for the three months ended June 30, 2015 was Pemex. There were no notable loss events for the three months ended June 30, 2014.

(b) Losses and loss expenses from non-notable loss events for the three months ended June 30, 2015 were ($15.0) million compared to $21.9 million for the three months ended June 30, 2014.

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

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

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

Net operating income available to Validus for the three months ended June 30, 2015 was $98.3 million compared to $132.2 million for the three months ended June 30, 2014, a decrease of $33.8 million or 25.6%. The primary factors driving the decrease in net operating income available to Validus were:

- An increase in losses and loss expenses of $107.4 million primarily due to the acquisition of Western World, a current quarter notable loss event of $48.1 million and higher attritional losses in the current quarter, including $10.3 million of losses and loss expenses from flooding in Texas; offset by a decrease in non-notable loss events of $36.9 million; and,
- An increase in other underwriting deductions of $35.5 million primarily due to the acquisition of Western World; offset by,
- An increase in net premiums earned of $107.6 million primarily due to the acquisition of Western World and a significant new agriculture deal in the Validus Re segment.

Table of Contents

Segment Reporting
Management has determined that the Company operates in four reportable segments Validus Re, AlphaCat, Talbot and Western World.
Second Quarter 2015 Results of Operations - Validus Re Segment
The following table presents results of operations for the three months ended June 30, 2015 and 2014, respectively:

	Three Months Ended June 30,	
(Dollars in thousands)	2015	2014
Underwriting income		
Gross premiums written	$296,895	$301,273
Reinsurance premiums ceded	(18,853)	(21,522)
Net premiums written	278,042	279,751
Change in unearned premiums	(13,492)	(58,023)
Net premiums earned	264,550	221,728
Underwriting deductions		
Losses and loss expenses	123,405	77,688
Policy acquisition costs	43,826	31,125
General and administrative expenses	18,781	17,040
Share compensation expenses	2,396	2,336
Total underwriting deductions	188,408	128,189
Underwriting income (a)	76,142	93,539
Net investment income	20,080	16,265
Other insurance related income	434	545
Finance expenses	(3,573)	(3,670)
Operating income before taxes	93,083	106,679
Tax expense	(2,745)	(460)
Net operating income (a)	$90,338	$106,219
Selected ratios:		
Net premiums written / Gross premiums written	93.6%	92.9%
Losses and loss expenses	46.6%	35.0%
Policy acquisition costs	16.6%	14.1%
General and administrative expenses (b)	8.0%	8.7%
Expense ratio	24.6%	22.8%
Combined ratio	71.2%	57.8%

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

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

Table of Contents

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

(Dollars in thousands)	Increase (decrease) to net operating income over the three months ended June 30, 2015 compared to 2014
Net premiums earned	$42,822
Notable loss events (a)	(35,189)
Non-notable loss events (b)	32,161
Incurred current year losses, excluding notable and non-notable loss events	(46,900)
Prior period loss development	4,211
Other underwriting deductions (c)	(14,502)
Underwriting income (d)	(17,397)
Other operating income and expenses, net (e)	1,516
Net operating income (d)	$(15,881)

(a) The notable loss event for the three months ended June 30, 2015 was Pemex. There were no notable loss events for the three months ended June 30, 2014.

(b) Losses and loss expenses from non-notable loss events for the three months ended June 30, 2015 were ($15.0) million compared to $17.2 million for the three months ended June 30, 2014.

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

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

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

Gross Premiums Written

	Gross Premiums Written Three Months Ended June 30,		
(Dollars in thousands)	2015	2014	Change
Property	$246,100	$266,813	$(20,713)
Marine	6,545	(216)	6,761
Specialty	44,250	34,676	9,574
Total	$296,895	$301,273	$(4,378)

The decrease in gross premiums written in the property lines of $20.7 million was primarily due to a reduction in business written in the catastrophe excess of loss lines of $20.7 million. This decrease was driven by reductions in our participation on various programs due to the current market conditions and programs that were not available for renewal. The increase in gross premiums written in the marine lines of $6.8 million was primarily due to the reinstatement premium impact of the current quarter notable loss event, Pemex. The increase in gross premiums written in the specialty lines of $9.6 million was driven primarily by an increase in the agriculture lines of $21.5 million, due to final contract adjustments from business written during the first quarter of 2015. This increase was offset by a decrease in technical lines of $11.0 million, due to the non-renewal of a quota share arrangement after the program was restructured with less appealing economics.

	Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written			
	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
(Dollars in thousands)	Gross Premiums Written	Gross Premiums Written (%)	Gross Premiums Written	Gross Premiums Written (%)
Property	$246,100	82.9 %	$266,813	88.6 %
Marine	6,545	2.2 %	(216)	(0.1)%
Specialty	44,250	14.9 %	34,676	11.5 %
Total	$296,895	100.0 %	$301,273	100.0 %

The changes in mix of business are consistent with the changes in gross premiums written discussed above.

Table of Contents

Reinsurance Premiums Ceded

	Reinsurance Premiums Ceded		
	Three Months Ended June 30,		
(Dollars in thousands)	2015	2014	Change
Property	$17,097	$19,508	$(2,411)
Marine	1,481	567	914
Specialty	275	1,447	(1,172)
Total	$18,853	$21,522	$(2,669)

Reinsurance premiums ceded in the property lines decreased by $2.4 million in line with reduced gross premiums written. The decrease in reinsurance premiums ceded in the specialty lines of $1.2 million was due to adjustments on existing business.

Net Premiums Written

	Net Premiums Written		
	Three Months Ended June 30,		
(Dollars in thousands)	2015	2014	Change
Property	$229,003	$247,305	$(18,302)
Marine	5,064	(783)	5,847
Specialty	43,975	33,229	10,746
Total	$278,042	$279,751	$(1,709)

The decrease in net premiums written was driven by factors highlighted above in respect of gross premiums written and reinsurance premiums ceded.

	Net Retention - Ratio of Net Premiums Written to Gross Premiums Written			
	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
(Dollars in thousands)	Net Premiums Written	% of Gross Premiums Written	Net Premiums Written	% of Gross Premiums Written
Property	$229,003	93.1 %	$247,305	92.7 %
Marine	5,064	77.4 %	(783)	NM
Specialty	43,975	99.4 %	33,229	95.8 %
Total	$278,042	93.6 %	$279,751	92.9 %

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

Table of Contents

Net Premiums Earned

	Net Premiums Earned		
	Three Months Ended June 30,		
(Dollars in thousands)	2015	2014	Change
Property	$107,193	$115,985	$(8,792)
Marine	44,416	38,838	5,578
Specialty	112,941	66,905	46,036
Total	$264,550	$221,728	$42,822

The decrease in property lines net premiums earned of $8.8 million was as a result of lower gross premiums written during the year. This was offset by the earned impact of the reduction in the reinsurance premiums ceded. The increase in marine lines net premiums earned of $5.6 million was due to the reinstatement premium impact of the current quarter notable loss event, Pemex, and adjustments to premiums on existing business; offset by the earned impact of lower gross premiums written during the current year. The increase in specialty lines net premiums earned of $46.0 million was primarily due to an increase in gross premiums written in the first quarter of 2015.

Losses and Loss Expenses

	Losses and Loss Expenses Ratio - All Lines	
	Three Months Ended June 30,	
	2015	2014
All lines—current period excluding items below	50.7%	39.3%
All lines—current period—notable loss events	13.3%	0.0%
All lines—current period—non-notable loss events	(5.7)%	7.7%
All lines—change in prior accident years	(11.7)%	(12.0)%
All lines—loss ratio	46.6%	35.0%

	Losses and Loss Expenses - All Lines		
	Three Months Ended June 30,		
(Dollars in thousands)	2015	2014	Change
All lines—current period excluding items below	$134,095	$87,195	$46,900
All lines—current period—notable loss events	35,189	—	35,189
All lines—current period—non-notable loss events	(15,000)	17,161	(32,161)
All lines—change in prior accident years	(30,879)	(26,668)	(4,211)
All lines—losses and loss expenses	$123,405	$77,688	$45,717

Notable Loss Events

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 net operating income was a reduction of $26.1 million. There were no notable loss events for the three months ended June 30, 2014.

Non-notable Loss Events

Losses and loss expenses from non-notable loss events for the three months ended June 30, 2015 were ($15.0) million, representing a reserve release on the first quarter 2015 non-notable loss event, Windstorm Niklas, compared to $17.2 million for the three months ended June 30, 2014.

Table of Contents

Losses and Loss Expenses by Line of Business

	Losses and Loss Expenses Ratio - Property Lines Three Months Ended June 30,	
	2015	2014
Property—current period excluding items below	28.6 %	17.7 %
Property—current period—notable loss events	0.0 %	0.0 %
Property—current period—non-notable loss events	(14.0) %	14.8 %
Property—change in prior accident years	(14.9) %	(27.7) %
Property—loss ratio	(0.3)%	4.8 %

	Losses and Loss Expenses - Property Lines Three Months Ended June 30,		
(Dollars in thousands)	2015	2014	Change
Property—current period excluding items below	$30,612	$20,470	$10,142
Property—current period—notable loss events	—	—	—
Property—current period—non-notable loss events	(15,000)	17,161	(32,161)
Property—change in prior accident years	(15,928)	(32,103)	16,175
Property—losses and loss expenses	$(316)	$5,528	$(5,844)

The property lines current quarter loss ratio, excluding the impact of notable and non-notable loss events, was higher by 10.9 percentage points, representing a higher level of attritional losses in the current quarter, including $10.0 million of losses and loss expenses from flooding in Texas. During the three months ended June 30, 2015, the property lines incurred ($15.0) million of losses and loss expenses from non-notable loss events, which represented (14.0) percentage points of the property lines loss ratio. During the three months ended June 30, 2014, the property lines incurred $17.2 million of losses and loss expenses from non-notable loss events, which represented 14.8 percentage points of the property lines loss ratio. The favorable development on prior accident years for the three months ended June 30, 2015 and 2014 of $15.9 million and $32.1 million, respectively, was primarily due to lower claims emergence on attritional losses.

	Losses and Loss Expenses Ratio - Marine Lines Three Months Ended June 30,	
	2015	2014
Marine—current period excluding items below	42.7 %	53.7 %
Marine—current period—notable loss events	75.5 %	0.0 %
Marine—current period—non-notable loss events	0.0 %	0.0 %
Marine—change in prior accident years	(25.0)%	28.7 %
Marine—loss ratio	93.2 %	82.4 %

	Losses and Loss Expenses - Marine Lines Three Months Ended June 30,		
(Dollars in thousands)	2015	2014	Change
Marine—current period excluding items below	$18,971	$20,875	$(1,904)
Marine—current period—notable loss events	33,524	—	33,524
Marine—current period—non-notable loss events	—	—	—
Marine—change in prior accident years	(11,099)	11,143	(22,242)
Marine—losses and loss expenses	$41,396	$32,018	$9,378

Table of Contents

The marine lines current quarter loss ratio, excluding the impact of notable and non-notable loss events, decreased by 11.0 percentage points primarily due to the reinstatement premium impact of the current quarter notable loss event, Pemex. 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 net operating income was a reduction of $24.4 million. The favorable development of $11.1 million on prior accident years for the three months ended June 30, 2015 was primarily due to lower claims emergence on attritional losses; whereas, the unfavorable development of $11.1 million on prior accident years for the three months ended June 30, 2014 was primarily due to an increase in the ultimate loss estimate on Costa Concordia.

	Losses and Loss Expenses Ratio - Specialty Lines	
	Three Months Ended June 30,	
	2015	2014
Specialty—current period excluding items below	74.8 %	68.5 %
Specialty—current period—notable loss events	1.5 %	0.0 %
Specialty—current period—non-notable loss events	0.0 %	0.0 %
Specialty—change in prior accident years	(3.4)%	(8.5)%
Specialty—loss ratio	72.9 %	60.0 %

	Losses and Loss Expenses - Specialty Lines		
	Three Months Ended June 30,		
(Dollars in thousands)	2015	2014	Change
Specialty—current period excluding items below	$84,512	$45,850	$38,662
Specialty—current period—notable loss events	1,665	—	1,665
Specialty—current period—non-notable loss events	—	—	—
Specialty—change in prior accident years	(3,852)	(5,708)	1,856
Specialty—losses and loss expenses	$82,325	$40,142	$42,183

The specialty lines current quarter loss ratio, excluding the impact of notable and non-notable loss events, was higher by 6.3 percentage points, primarily due to a change in business mix to include more agriculture business and higher 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. The favorable loss reserve development on prior accident years for the three months ended June 30, 2015 and 2014 of $3.9 million and $5.7 million, respectively, was due primarily to lower claims emergence on attritional losses.

Policy Acquisition Costs

	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
(Dollars in thousands)	Policy Acquisition Costs	% of Net Premiums Earned	Policy Acquisition Costs	% of Net Premiums Earned
Property	$18,441	17.2 %	$17,863	15.4 %
Marine	7,778	17.5 %	6,295	16.2 %
Specialty	17,607	15.6 %	6,967	10.4 %
Total	$43,826	16.6 %	$31,125	14.1 %

The acquisition cost ratio for the property lines increased by 1.8 percentage points primarily due to the impact of adjustments to run-off business and a higher level of proportional business which carries higher acquisition costs than excess of loss business. The acquisition cost ratio for the marine lines increased by 1.3 percentage points due to the impact of adjustments to existing business. The acquisition cost ratio for the specialty lines increased by 5.2 percentage points primarily due to profit commissions and a large proportional contract that carries higher acquisition costs.

Table of Contents

General and Administrative and Share Compensation Expenses

(Dollars in thousands)	Three Months Ended June 30, 2015 Expenses	% of Net Premiums Earned	Three Months Ended June 30, 2014 Expenses	% of Net Premiums Earned
General and administrative expenses	$18,781	7.1 %	$17,040	7.7 %
Share compensation expenses	2,396	0.9 %	2,336	1.0 %
Total	$21,177	8.0 %	$19,376	8.7 %

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

Selected Underwriting Ratios

The underwriting results of an insurance or reinsurance company are often measured by reference to its combined ratio, which is the sum of the losses and loss expenses ratio and the expense ratio. The losses and loss expenses 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 expenses ratio, policy acquisition cost ratio, general and administrative expenses ratio, expense ratio and combined ratio for the three months ended June 30, 2015 and 2014.

	Three Months Ended June 30, 2015	2014
Losses and loss expenses ratio	46.6 %	35.0 %
Policy acquisition cost ratio	16.6 %	14.1 %
General and administrative expenses ratio (a)	8.0 %	8.7 %
Expense ratio	24.6 %	22.8 %
Combined ratio	71.2 %	57.8 %

(a) Includes general and administrative expenses and share compensation expenses.

The increase in the combined ratio for the three months ended June 30, 2015 of 13.4 percentage points compared to the three months ended June 30, 2014 was due to the movement in the underlying ratios as discussed above.

Net Investment Income