VALIDUS HOLDINGS LTD
Form 10-Q
November 03, 2016


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

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Form 10-Q

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

For the quarterly period ended September 30, 2016

Commission file number 001-33606

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

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| | |
|---|---|
| BERMUDA | 98-0501001 |
| (State or other jurisdiction of 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<br>(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 November 1, 2016 there were 79,363,867 outstanding Common Shares, $0.175 par value per share, of the registrant.

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# PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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Validus Holdings, Ltd.
Consolidated Balance Sheets
As at September 30, 2016 (unaudited) and December 31, 2015
(Expressed in thousands of U.S. dollars, except share and per share information)

| | September 30, 2016 (unaudited) | December 31, 2015 (audited) |
|---|---|---|
| Assets | | |
| Fixed maturities trading, at fair value (amortized cost: 2016—$5,547,838; 2015—$5,556,900) | $5,576,341 | $5,510,331 |
| Short-term investments trading, at fair value (amortized cost: 2016—$2,481,573; 2015—$1,941,615) | 2,481,406 | 1,941,635 |
| Other investments, at fair value (cost: 2016—$371,668; 2015—$315,963) | 394,695 | 336,856 |
| Cash and cash equivalents | 443,992 | 723,109 |
| Restricted cash | 113,048 | 73,270 |
| Total investments, cash and cash equivalents | 9,009,482 | 8,585,201 |
| Investments in affiliates, equity method (cost: 2016—$86,305; 2015—$70,186) | 99,731 | 88,065 |
| Premiums receivable | 939,127 | 658,682 |
| Deferred acquisition costs | 249,922 | 181,002 |
| Prepaid reinsurance premiums | 119,805 | 77,992 |
| Securities lending collateral | 10,629 | 4,863 |
| Loss reserves recoverable | 444,609 | 350,586 |
| Paid losses recoverable | 36,069 | 23,071 |
| Income taxes recoverable | 6,879 | 16,228 |
| Deferred tax asset | 26,015 | 21,661 |
| Receivable for investments sold | 21,854 | 39,766 |
| Intangible assets | 117,010 | 121,258 |
| Goodwill | 196,758 | 196,758 |
| Accrued investment income | 24,906 | 23,897 |
| Other assets | 183,357 | 126,782 |
| Total assets | $11,486,153 | $10,515,812 |
| Liabilities | | |
| Reserve for losses and loss expenses | $3,035,987 | $2,996,567 |
| Unearned premiums | 1,359,438 | 966,210 |
| Reinsurance balances payable | 76,429 | 75,380 |
| Securities lending payable | 11,095 | 5,329 |
| Deferred tax liability | 3,278 | 3,847 |
| Payable for investments purchased | 49,435 | 77,475 |
| Accounts payable and accrued expenses | 144,086 | 627,331 |
| Notes payable to AlphaCat investors | 372,730 | 75,493 |
| Senior notes payable | 245,311 | 245,161 |
| Debentures payable | 538,168 | 537,668 |
| Total liabilities | 5,835,957 | 5,610,461 |
| Commitments and contingent liabilities | | |
| Redeemable noncontrolling interest | 1,559,580 | 1,111,714 |
| Shareholders' equity | | |
| Preferred shares (Issued and Outstanding: 2016—6,000; 2015—nil) | 150,000 | — |
| Common shares (Issued: 2016—161,273,353; 2015—160,570,772; Outstanding: 2016—79,443,030; 2015—82,900,617) | 28,223 | 28,100 |

| | | |
|---|---|---|
| Treasury shares (2016—81,830,323; 2015—77,670,155) | (14,320) | (13,592) |
| Additional paid-in capital | 827,256 | 1,002,980 |
| Accumulated other comprehensive loss | (21,092) | (12,569) |
| Retained earnings | 2,897,553 | 2,634,056 |
| Total shareholders’ equity available to Validus | 3,867,620 | 3,638,975 |
| Noncontrolling interest | 222,996 | 154,662 |
| Total shareholders’ equity | 4,090,616 | 3,793,637 |
| Total liabilities, noncontrolling interests and shareholders’ equity | $ 11,486,153 | $ 10,515,812 |

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

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Validus Holdings, Ltd.
Consolidated Statements of Income and Comprehensive Income
For the Three and Nine Months Ended September 30, 2016 and 2015 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 (unaudited) | 2015 | 2016 (unaudited) | 2015 |
| Revenues | | | | |
| Gross premiums written | $372,418 | $402,509 | $2,309,251 | $2,247,901 |
| Reinsurance premiums ceded | (45,006) | (48,810) | (249,070) | (295,553) |
| Net premiums written | 327,412 | 353,699 | 2,060,181 | 1,952,348 |
| Change in unearned premiums | 236,363 | 201,312 | (351,415) | (248,759) |
| Net premiums earned | 563,775 | 555,011 | 1,708,766 | 1,703,589 |
| Net investment income | 43,514 | 31,572 | 112,232 | 96,212 |
| Net realized gains (losses) on investments | 4,397 | (1,187) | 6,537 | 5,226 |
| Change in net unrealized gains on investments | 5,459 | 3,916 | 84,331 | 2,467 |
| Income (loss) from investment affiliate | 453 | 2,482 | (4,249) | 5,542 |
| Other insurance related (loss) income and other income | (610) | 1,526 | 1,627 | 2,566 |
| Foreign exchange (losses) gains | (766) | (2,592) | 11,765 | (9,528) |
| Total revenues | 616,222 | 590,728 | 1,921,009 | 1,806,074 |
| Expenses | | | | |
| Losses and loss expenses | 258,394 | 256,010 | 789,971 | 763,085 |
| Policy acquisition costs | 113,434 | 105,039 | 328,593 | 307,773 |
| General and administrative expenses | 82,443 | 96,886 | 258,339 | 265,146 |
| Share compensation expenses | 10,501 | 9,983 | 32,465 | 28,279 |
| Finance expenses | 14,521 | 18,512 | 43,890 | 58,161 |
| Total expenses | 479,293 | 486,430 | 1,453,258 | 1,422,444 |
| Income before taxes, loss from operating affiliates and income attributable to AlphaCat investors | 136,929 | 104,298 | 467,751 | 383,630 |
| Tax expense | (1,830) | (2,018) | (1,418) | (7,132) |
| Loss from operating affiliates | — | (7,963) | (23) | (2,241) |
| (Income) attributable to AlphaCat investors | (5,564) | (1,438) | (16,278) | (1,438) |
| Net income | $129,535 | $92,879 | $450,032 | $372,819 |
| Net (income) attributable to noncontrolling interests | (37,439) | (26,229) | (96,163) | (66,968) |
| Net income available to Validus | 92,096 | 66,650 | 353,869 | 305,851 |
| Dividends on preferred shares | (2,252) | — | (2,252) | — |
| Net income available to Validus common shareholders | $89,844 | $66,650 | $351,617 | $305,851 |
| | | | | |
| Comprehensive income: | | | | |
| Net income | $129,535 | $92,879 | $450,032 | $372,819 |
| Other comprehensive (loss) income | | | | |
| Change in foreign currency translation adjustments | (1,370) | (1,850) | (6,685) | (2,106) |
| Change in minimum pension liability, net of tax | (1,101) | (28) | (705) | 129 |
| Change in fair value of cash flow hedge | (439) | 75 | (1,133) | (336) |
| Other comprehensive loss | (2,910) | (1,803) | (8,523) | (2,313) |
| Comprehensive income attributable to noncontrolling interests | (37,439) | (26,229) | (96,163) | (66,968) |
| Comprehensive income available to Validus | $89,186 | $64,847 | $345,346 | $303,538 |

| | | | | |
|---|---|---|---|---|
| Earnings per share: | | | | |
| Basic earnings per share available to Validus common shareholders | $1.12 | $0.79 | $4.31 | $3.63 |
| Earnings per diluted share available to Validus common shareholders | $1.11 | $0.78 | $4.24 | $3.52 |
| Cash dividends declared per common share | $0.35 | $0.32 | $1.05 | $0.96 |
| Weighted average number of common shares and common share equivalents outstanding: | | | | |
| Basic | 80,134,394 | 82,635,316 | 81,635,496 | 83,296,703 |
| Diluted | 81,244,556 | 85,629,494 | 82,938,624 | 86,841,927 |

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

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Validus Holdings, Ltd.
Consolidated Statements of Shareholders' Equity
For the Nine Months Ended September 30, 2016 and 2015 (unaudited)
(Expressed in thousands of U.S. dollars)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (unaudited) | |
| Preferred shares | | |
| Balance - beginning of period | $— | $— |
| Preferred shares issued | 150,000 | — |
| Balance - end of period | $150,000 | $— |
| | | |
| Common shares | | |
| Balance - beginning of period | $28,100 | $27,222 |
| Common shares issued, net | 123 | 504 |
| Balance - end of period | $28,223 | $27,726 |
| | | |
| Treasury shares | | |
| Balance - beginning of period | $(13,592) | $(12,545) |
| Repurchase of common shares | (728) | (831) |
| Balance - end of period | $(14,320) | $(13,376) |
| | | |
| Additional paid-in capital | | |
| Balance - beginning of period | $1,002,980 | $1,207,493 |
| Offering expenses on preferred shares | (5,148) | — |
| Common shares (redeemed) issued, net | (7,754) | 16,231 |
| Repurchase of common shares | (195,287) | (203,086) |
| Share compensation expenses | 32,465 | 28,279 |
| Balance - end of period | $827,256 | $1,048,917 |
| | | |
| Accumulated other comprehensive loss | | |
| Balance - beginning of period | $(12,569) | $(8,556) |
| Other comprehensive loss | (8,523) | (2,313) |
| Balance - end of period | $(21,092) | $(10,869) |
| | | |
| Retained earnings | | |
| Balance - beginning of period | $2,634,056 | $2,372,972 |
| Net income | 450,032 | 372,819 |
| Net (income) attributable to noncontrolling interest | (96,163) | (66,968) |
| Dividends on preferred shares | (2,252) | — |
| Dividends on common shares | (88,120) | (86,256) |
| Balance - end of period | $2,897,553 | $2,592,567 |
| | | |
| Total shareholders' equity available to Validus | $3,867,620 | $3,644,965 |
| | | |
| Noncontrolling interest | $222,996 | $159,116 |
| | | |
| Total shareholders' equity | $4,090,616 | $3,804,081 |

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

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Validus Holdings, Ltd.
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015 (unaudited)
(Expressed in thousands of U.S. dollars)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| | (unaudited) | |
| Cash flows provided by operating activities | | |
| Net income | $450,032 | $372,819 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Share compensation expenses | 32,465 | 28,279 |
| Amortization of discount on senior notes | 81 | 81 |
| Loss (income) from investment affiliate | 4,249 | (5,542) |
| Net realized gains on investments | (6,537) | (5,226) |
| Change in net unrealized gains on investments | (84,331) | (2,467) |
| Amortization of intangible assets | 4,248 | 4,248 |
| Loss from operating affiliates | 23 | 2,241 |
| Foreign exchange (gains) losses included in net income | (4,585) | 16,549 |
| Amortization of premium on fixed maturity investments | 13,381 | 17,866 |
| Change in: | | |
| Premiums receivable | (288,048) | (356,734) |
| Deferred acquisition costs | (68,920) | (63,960) |
| Prepaid reinsurance premiums | (41,813) | (43,331) |
| Loss reserves recoverable | (97,742) | (9,111) |
| Paid losses recoverable | (13,165) | 16,408 |
| Income taxes recoverable | 9,034 | (16,088) |
| Deferred tax asset | (4,885) | 1,390 |
| Accrued investment income | (1,231) | 1,059 |
| Other assets | (83,068) | 41,998 |
| Reserve for losses and loss expenses | 66,561 | (61,691) |
| Unearned premiums | 393,228 | 292,090 |
| Reinsurance balances payable | 2,726 | (38,284) |
| Deferred tax liability | (593) | 3,323 |
| Accounts payable and accrued expenses | (26,514) | (49,057) |
| Net cash provided by operating activities | 254,596 | 146,860 |
| | | |
| Cash flows used in investing activities | | |
| Proceeds on sales of fixed maturity investments | 2,047,496 | 2,888,919 |
| Proceeds on maturities of fixed maturity investments | 256,082 | 260,179 |
| Purchases of fixed maturity investments | (2,317,674) | (3,169,834) |
| Purchases of short-term investments, net | (540,102) | (226,316) |
| Purchases of other investments, net | (53,627) | (6,065) |
| Increase in securities lending collateral | (5,766) | (5,991) |
| Redemption from operating affiliates | 369 | — |
| Investment in investment affiliates, net | (16,307) | (19,086) |
| (Increase) decrease in restricted cash | (39,778) | 99,001 |
| Net cash used in investing activities | (669,307) | (179,193) |

| | | |
|---|---|---|
| Cash flows provided by (used in) financing activities | | |
| Net proceeds on issuance of notes payable to AlphaCat investors | 296,527 | 75,607 |
| Net proceeds on issuance of preferred shares | 144,852 | — |
| Issuance of common shares, net | (7,631 ) | 16,735 |
| Purchases of common shares under share repurchase program | (196,015 ) | (203,917 ) |
| Dividends paid on preferred shares | (2,252 ) | — |
| Dividends paid on common shares | (87,901 ) | (86,401 ) |
| Increase in securities lending payable | 5,766 | 5,991 |
| Third party investment in redeemable noncontrolling interest | 381,950 | 497,700 |
| Third party redemption of redeemable noncontrolling interest | (17,284 ) | (86,933 ) |
| Third party investment in noncontrolling interest | 171,674 | 9,600 |
| Third party distributions of noncontrolling interest | (127,103 ) | (158,175 ) |
| Third party subscriptions deployed on AlphaCat Funds and Sidecars | (412,736 ) | (161,900 ) |
| Net cash provided by (used in) financing activities | 149,847 | (91,693 ) |
| Effect of foreign currency rate changes on cash and cash equivalents | (14,253 ) | (13,901 ) |
| Net decrease in cash and cash equivalents | (279,117 ) | (137,927 ) |
| Cash and cash equivalents - beginning of period | 723,109 | 550,401 |
| Cash and cash equivalents - end of period | $443,992 | $412,474 |
| Supplemental disclosure of cash flow information: | | |
| Taxes paid during the period | $5,914 | $14,959 |
| Interest paid during the period | $46,072 | $46,847 |

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

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

1. Basis of preparation and consolidation

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

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

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

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

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

| | Three Months Ended September 30, 2015 | | |
|---|---|---|---|
| | As previously reported | Adjustment for adoption of new consolidation guidance | Revised |
| Total revenues | $518,564 | $ 72,164 | $590,728 |
| Total expenses | 486,829 | (399) | 486,430 |
| Net (loss) income | (5,013) | 97,892 | 92,879 |
| Net loss (income) attributable to noncontrolling interest | 71,663 | (97,892) | (26,229) |
| Net income available to Validus | 66,650 | — | 66,650 |
| Comprehensive income available to Validus | 64,847 | — | 64,847 |

| | | | |
|---|---|---|---|
| Basic earnings per share available to common shareholders | $0.79 | $ — | $0.79 |
| Earnings per diluted share available to common shareholders | $0.78 | $ — | $0.78 |

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

| | Nine Months Ended September 30, 2015 | | |
|---|---|---|---|
| | As previously reported | Adjustment for adoption of new consolidation guidance | Revised |
| Total revenues | $1,799,261 | $ 6,813 | $1,806,074 |
| Total expenses | 1,420,839 | 1,605 | 1,422,444 |
| Net income | 289,032 | 83,787 | 372,819 |
| Net loss (income) attributable to noncontrolling interest | 15,042 | (82,010 ) | (66,968 ) |
| Net income available to Validus | 304,074 | 1,777 | 305,851 |
| Comprehensive income available to Validus | 301,761 | 1,777 | 303,538 |
| | | | |
| Basic earnings per share available to common shareholders | $3.61 | $ 0.02 | $3.63 |
| Earnings per diluted share available to common shareholders | $3.50 | $ 0.02 | $3.52 |

| | Nine Months Ended September 30, 2015 | | |
|---|---|---|---|
| | As previously reported | Adjustment for adoption of new consolidation guidance | Revised |
| Net cash provided by operating activities | $51,878 | $ 94,982 | $146,860 |
| Net cash used in investing activities | (560,622) | 381,429 | (179,193 ) |
| Net cash provided by (used in) financing activities | 367,421 | (459,114 ) | (91,693 ) |
| Effect of foreign currency rate changes on cash and cash equivalents | (27,432 ) | 13,531 | (13,901 ) |
| Net decrease in cash | (168,755) | 30,828 | (137,927 ) |
| Cash and cash equivalents - beginning of period | 577,240 | (26,839 ) | 550,401 |
| Cash and cash equivalents - end of period | 408,485 | 3,989 | 412,474 |

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

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

- reserve for losses and loss expenses;
- premium estimates for business written on a line slip or proportional basis;
- the valuation of goodwill and intangible assets;

•reinsurance recoverable balances including the provision for uncollectible amounts; and
•investment valuation of financial assets.

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

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

2. Recent accounting pronouncements

Recently Issued Accounting Standards Not Yet Adopted

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

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

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

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

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments”. This ASU is directed at reducing diversity in practice and addresses eight specific issues in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The ASU is effective for fiscal periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company is currently evaluating the impact of this guidance on the Company’s Consolidated Financial Statements.

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In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740) - Intra-Entity Transfers of Assets Other Than Inventory”. This ASU aims to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Current U.S. GAAP prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The ASU states that an entity should recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The ASU does not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The ASU is effective for fiscal periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been issued or made available for issuance. That is, earlier adoption should be in the first interim period if an entity issues interim financial statements. The Company is currently evaluating the impact of this guidance on the Company’s Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-17, “Consolidation (Topic 810) - Interests Held Through Related Parties That Are Under Common Control”. The amendments in this ASU does not change the characteristics of a primary beneficiary in current U.S. GAAP. The ASU requires that a reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties, including related parties that are under common control with the reporting entity. The ASU is effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Entities that have not yet adopted ASU 2015-02 are required to adopt the amendments in this update at the same time and should apply the same transition method elected for the application of the ASU. Entities that already have adopted ASU 2015-02 are required to apply the amendments in this update retrospectively to all relevant prior periods beginning with the fiscal year in which ASU 2015-02 initially were applied. The Company is currently evaluating the impact of this guidance on the Company’s Consolidated Financial Statements.

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3. Investments
During the fourth quarter of 2015, the Company enhanced disclosures with respect to the allocation of invested assets and the related returns between managed and non-managed investments. Managed investments represent assets governed by the Company's investment policy statement ("IPS"), whereas non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company's IPS. Refer to Note 5, "Variable interest entities," for further details. As such, prior period disclosures have been revised to conform to the current period presentation.
The Company classifies its fixed maturity and short-term investments as trading and accounts for its other investments in accordance with U.S. GAAP guidance for "Financial Instruments." As such, all investments are carried at fair value with interest and dividend income and realized and unrealized gains and losses included in net income for the period.
The amortized cost (or cost), gross unrealized gains and (losses) and fair value of the Company's investments as at September 30, 2016 were as follows:

| | Amortized Cost (or Cost) | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Managed investments: | | | | |
| U.S. government and government agency | $ 833,897 | $ 4,088 | $ (439 ) | $ 837,546 |
| Non-U.S. government and government agency | 251,863 | 1,503 | (4,976 ) | 248,390 |
| U.S. states, municipalities and political subdivisions | 278,172 | 5,585 | (396 ) | 283,361 |
| Agency residential mortgage-backed securities | 644,403 | 13,980 | (507 ) | 657,876 |
| Non-agency residential mortgage-backed securities | 21,142 | 160 | (687 ) | 20,615 |
| U.S. corporate | 1,509,117 | 19,102 | (1,542 ) | 1,526,677 |
| Non-U.S. corporate | 434,621 | 3,611 | (6,600 ) | 431,632 |
| Bank loans | 598,847 | 1,635 | (12,945 ) | 587,537 |
| Asset-backed securities | 484,480 | 2,607 | (1,568 ) | 485,519 |
| Commercial mortgage-backed securities | 336,297 | 5,388 | (888 ) | 340,797 |
| Total fixed maturities | 5,392,839 | 57,659 | (30,548 ) | 5,419,950 |
| Short-term investments | 197,970 | — | (167 ) | 197,803 |
| Other investments | | | | |
| Fund of hedge funds | 1,457 | — | (498 ) | 959 |
| Hedge funds | 12,073 | 5,983 | — | 18,056 |
| Private equity investments | 69,353 | 16,157 | (1,840 ) | 83,670 |
| Fixed income investment funds | 232,614 | 823 | — | 233,437 |
| Overseas deposits | 53,246 | — | — | 53,246 |
| Mutual funds | 2,925 | 2,402 | — | 5,327 |
| Total other investments | 371,668 | 25,365 | (2,338 ) | 394,695 |
| Total managed investments | $ 5,962,477 | $ 83,024 | $ (33,053 ) | $ 6,012,448 |
| Non-managed investments: | | | | |
| Catastrophe bonds | $ 154,999 | $ 2,890 | $ (1,498 ) | $ 156,391 |
| Short-term investments | 2,283,603 | — | — | 2,283,603 |
| Total non-managed investments | 2,438,602 | 2,890 | (1,498 ) | 2,439,994 |
| Total investments | $ 8,401,079 | $ 85,914 | $ (34,551 ) | $ 8,452,442 |

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

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

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

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Fair Value | % of Total | | Fair Value | % of Total | |
| Managed fixed maturities: | | | | | | |
| Investment grade fixed maturities | | | | | | |
| AAA | $2,417,068 | 43.3 | % | $2,367,642 | 43.0 | % |
| AA | 526,729 | 9.5 | % | 569,386 | 10.3 | % |
| A | 1,084,128 | 19.4 | % | 1,031,326 | 18.7 | % |
| BBB | 736,400 | 13.2 | % | 691,538 | 12.6 | % |
| Total investment grade managed fixed maturities | 4,764,325 | 85.4 | % | 4,659,892 | 84.6 | % |
| Non-investment grade fixed maturities | | | | | | |
| BB | 228,798 | 4.1 | % | 235,724 | 4.3 | % |
| B | 182,261 | 3.3 | % | 179,069 | 3.2 | % |
| CCC | 9,561 | 0.2 | % | 5,706 | 0.1 | % |
| CC | — | 0.0 | % | 1,015 | 0.0 | % |
| NR | 235,005 | 4.2 | % | 242,546 | 4.4 | % |
| Total non-investment grade fixed maturities | 655,625 | 11.8 | % | 664,060 | 12.0 | % |
| Total managed fixed maturities | $5,419,950 | 97.2 | % | $5,323,952 | 96.6 | % |
| | | | | | | |
| Non-managed fixed maturities: | | | | | | |
| Investment grade catastrophe bonds | | | | | | |
| BBB | $— | 0.0 | % | $1,911 | 0.0 | % |
| Total investment grade catastrophe bonds | — | 0.0 | % | 1,911 | 0.0 | % |
| Non-investment grade catastrophe bonds | | | | | | |
| BB | 31,052 | 0.5 | % | 70,962 | 1.3 | % |
| B | 4,922 | 0.1 | % | 30,698 | 0.6 | % |
| NR | 120,417 | 2.2 | % | 82,808 | 1.5 | % |
| Total non-investment grade catastrophe bonds | 156,391 | 2.8 | % | 184,468 | 3.4 | % |
| Total non-managed fixed maturities | 156,391 | 2.8 | % | 186,379 | 3.4 | % |
| Total fixed maturities | $5,576,341 | 100.0 | % | $5,510,331 | 100.0 | % |

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

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Managed fixed maturities: | | | | |
| Due in one year or less | $368,627 | $366,437 | $367,132 | $366,019 |
| Due after one year through five years | 2,990,875 | 2,992,940 | 2,965,920 | 2,936,053 |
| Due after five years through ten years | 433,478 | 441,449 | 548,183 | 539,083 |
| Due after ten years | 113,537 | 114,317 | 150,444 | 148,036 |
| | 3,906,517 | 3,915,143 | 4,031,679 | 3,989,191 |
| Asset-backed and mortgage-backed securities | 1,486,322 | 1,504,807 | 1,337,374 | 1,334,761 |
| Total managed fixed maturities | $5,392,839 | $5,419,950 | $5,369,053 | $5,323,952 |
| | | | | |
| Non-managed catastrophe bonds: | | | | |
| Due in one year or less | $40,231 | $41,648 | $7,504 | $7,544 |
| Due after one year through five years | 114,018 | 113,992 | 165,093 | 163,575 |
| Due after five years through ten years | 750 | 751 | 15,250 | 15,260 |
| Due after ten years | — | — | — | — |
| Total non-managed fixed maturities | 154,999 | 156,391 | 187,847 | 186,379 |
| Total fixed maturities | $5,547,838 | $5,576,341 | $5,556,900 | $5,510,331 |

(b) Other investments

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

| | Fair Value | Investments with redemption restrictions | Investments without redemption restrictions | Redemption frequency [(a)] | Redemption notice period [(a)] |
|---|---|---|---|---|---|
| As at September 30, 2016 | | | | | |
| Fund of hedge funds | $959 | $ 959 | $ — | | |
| Hedge funds | 18,056 | 18,056 | — | | |
| Private equity investments | 83,670 | 83,670 | — | | |
| Fixed income investment funds | 233,437 | 180,695 | 52,742 | Daily | 2 days |
| Overseas deposits | 53,246 | 53,246 | — | | |
| Mutual funds | 5,327 | — | 5,327 | Daily | Daily |
| Total other investments | $394,695 | $ 336,626 | $ 58,069 | | |
| | | | | | |
| As at December 31, 2015 | | | | | |
| Fund of hedge funds | $1,417 | $ 1,417 | $ — | | |
| Hedge funds | 20,980 | 20,980 | — | | |
| Private equity investments | 63,771 | 63,771 | — | | |
| | 188,721 | 167,910 | 20,811 | Daily | 2 days |

| | | | | | |
|---|---|---|---|---|---|
| Fixed income investment funds | | | | | |
| Overseas deposits | 54,484 | 54,484 | — | | |
| Mutual funds | 7,483 | — | 7,483 | Daily | Daily |
| Total other investments | $336,856 | $ 308,562 | $ 28,294 | | |

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

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

Certain securities included in other investments are subject to redemption restrictions and are unable to be redeemed from the funds. Distributions from these funds will be received as the underlying investments of the funds are liquidated. Currently, it is not known to the Company when these underlying assets will be sold by their investment managers; however, it is estimated that the majority of the underlying assets of the investments would liquidate over five to ten years from inception of the funds. In addition, one of the investment funds with a fair value of $180,695 (December 31, 2015: $167,910), has a lock-up period of three years as at September 30, 2016 and may also impose a redemption gate. A lock-up period refers to the initial amount of time an investor is contractually required to remain invested before having the ability to redeem. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash shortly after the redemption date. Furthermore, the underlying investments held in the overseas deposit funds are liquid and will generally trade freely in an open market. However, the Company's ability to withdraw from the overseas deposit funds is restricted by an annual and quarterly funding and release process for Lloyd's market participants.

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

(c) Net investment income

Net investment income was derived from the following sources:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Managed investments: | | | | |
| Fixed maturities and short-term investments | $30,572 | $26,621 | $89,210 | $83,727 |
| Other investments | 11,768 | 5,086 | 20,666 | 12,288 |
| Restricted cash, cash and cash equivalents | 891 | 336 | 2,136 | 1,179 |
| Securities lending income | 22 | 4 | 39 | 13 |
| Total gross investment income | 43,253 | 32,047 | 112,051 | 97,207 |
| Investment expenses | (2,182) | (2,056) | (6,208) | (5,926) |
| Total managed net investment income | $41,071 | $29,991 | $105,843 | $91,281 |
| Non managed investments: | | | | |
| Fixed maturities and short-term investments | $1,970 | $1,544 | $5,242 | $4,851 |
| Restricted cash, cash and cash equivalents | 473 | 37 | 1,147 | 80 |
| Total non-managed net investment income | 2,443 | 1,581 | 6,389 | 4,931 |
| Total net investment income | $43,514 | $31,572 | $112,232 | $96,212 |

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

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Managed fixed maturities, short-term and other investments: | | | | |
| Gross realized gains | $4,544 | $1,826 | $11,067 | $14,275 |
| Gross realized (losses) | (464) | (3,059) | (5,553) | (9,224) |
| Net realized gains on investments | 4,080 | (1,233) | 5,514 | 5,051 |
| Change in net unrealized gains (losses) on investments | 4,652 | 1,765 | 81,782 | 2,508 |
| Total net realized and change in net unrealized gains (losses) on managed investments | $8,732 | $532 | $87,296 | $7,559 |
| Non-managed fixed maturities and short-term investments: | | | | |
| Gross realized gains | $317 | $46 | $1,032 | $186 |
| Gross realized (losses) | — | — | (9) | (11) |
| Net realized gains on investments | 317 | 46 | 1,023 | 175 |
| Change in net unrealized (losses) on investments | 807 | 2,151 | 2,549 | (41) |
| Total net realized and change in net unrealized (losses) on non-managed investments | 1,124 | 2,197 | 3,572 | 134 |
| Total net realized and change in net unrealized gains (losses) on total investments | $9,856 | $2,729 | $90,868 | $7,693 |

(e) Pledged cash and investments

As at September 30, 2016, the Company had $5,104,602 (December 31, 2015: $4,056,788) of cash and cash equivalents, restricted cash, short-term investments and fixed maturity investments that were pledged during the normal course of business. Of those, $4,975,676 were held in trust (December 31, 2015: $4,007,215). Pledged assets are generally for the benefit of the Company's cedants and policyholders, to support AlphaCat's fully collateralized reinsurance transactions and to facilitate the accreditation of Validus Reinsurance, Ltd., Validus Reinsurance (Switzerland) Ltd. ("Validus Re Swiss") and Talbot as an alien insurer/reinsurer by certain regulators.

In addition, the Company has pledged cash and investments as collateral under the Company's credit facilities in the total amount of $548,669 (December 31, 2015: $826,535). For further details on the credit facilities, please refer to Note 13, "Debt and financing arrangements."

During December 2014, Validus Reinsurance, Ltd. established a Multi-Beneficiary Reinsurance Trust ("MBRT") to collateralize its (re)insurance liabilities associated with and for the benefit of U.S. domiciled cedants, and was approved as a trusteed reinsurer in the State of New Jersey. As a result, cedants domiciled in that state will receive automatic credit in their regulatory filings for the reinsurance provided prospectively by the Company. As of September 30, 2016, Validus Reinsurance, Ltd. was approved as a trusteed reinsurer in 50 states as well as Puerto Rico and the District of Columbia. In addition, Validus Re Swiss established a MBRT in December 2015 and was approved as a trusteed reinsurer in 36 states as at September 30, 2016.

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4. Fair value measurements

(a) Classification within the fair value hierarchy

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

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

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

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

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

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

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

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

| | Level 1 | Level 2 | Level 3 | Fair value based on NAV practical expedient | Total |
|---|---|---|---|---|---|
| Managed investments | | | | | |
| U.S. government and government agency | $— | $837,546 | $— | $— | $837,546 |
| Non-U.S. government and government agency | — | 248,390 | — | — | 248,390 |
| U.S. states, municipalities and political subdivisions | — | 283,361 | — | — | 283,361 |
| Agency residential mortgage-backed securities | — | 657,876 | — | — | 657,876 |
| Non-agency residential mortgage-backed securities | — | 20,615 | — | — | 20,615 |
| U.S. corporate | — | 1,526,677 | — | — | 1,526,677 |
| Non-U.S. corporate | — | 431,632 | — | — | 431,632 |
| Bank loans | — | 335,037 | 252,500 | — | 587,537 |
| Asset-backed securities | — | 461,623 | 23,896 | — | 485,519 |
| Commercial mortgage-backed securities | — | 340,797 | — | — | 340,797 |
| Total fixed maturities | — | 5,143,554 | 276,396 | — | 5,419,950 |
| Short-term investments | 176,809 | 20,994 | — | — | 197,803 |
| Other investments | | | | | |
| Fund of hedge funds | — | — | — | 959 | 959 |
| Hedge funds | — | — | — | 18,056 | 18,056 |
| Private equity investments | — | — | — | 83,670 | 83,670 |
| Fixed income investment funds | — | 31,670 | — | 201,767 | 233,437 |
| Overseas deposits | — | — | — | 53,246 | 53,246 |
| Mutual funds | — | 5,327 | — | — | 5,327 |
| Total other investments | — | 36,997 | — | 357,698 | 394,695 |
| Total managed investments | $176,809 | $5,201,545 | $276,396 | $357,698 | $6,012,448 |
| Non-managed investments | | | | | |
| Catastrophe bonds | $— | $118,356 | $38,035 | $— | $156,391 |
| Short-term investments | 2,283,603 | — | — | — | 2,283,603 |
| Total non-managed investments | 2,283,603 | 118,356 | 38,035 | — | 2,439,994 |
| Total investments | $2,460,412 | $5,319,901 | $314,431 | $357,698 | $8,452,442 |

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

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

At September 30, 2016, managed Level 3 investments totaled $276,396 (December 31, 2015: $232,337), representing 4.6% (December 31, 2015: 3.9%) of total managed investments.

(b) Valuation techniques

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

Fixed maturity investments

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

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

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

U.S. government and government agency

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

Non-U.S. government and government agency

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

U.S. states, municipalities and political subdivisions

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

Agency residential mortgage-backed securities

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

Non-agency residential mortgage-backed securities

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

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U.S. corporate

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

Non-U.S. corporate

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

Bank loans

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

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

Asset-backed securities

Asset backed securities include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligations originated by a variety of financial institutions. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity and current transactions are not orderly. Broker-dealer quotes for which significant observable inputs are unable to be corroborated with market observable information are classified as Level 3.

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Commercial mortgage-backed securities
Commercial mortgage backed securities are investment-grade debt primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2.
Catastrophe bonds
Catastrophe bonds are priced based on broker or underwriter bid indications. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2. To the extent that these indications are based on significant unobservable inputs, the fair value of the relevant bonds will be classified as a Level 3.
Short-term investments
Short-term investments consist primarily of highly liquid securities, all with maturities of less than one year from the date of purchase. The fair value of the portfolio is generally determined using amortized cost which approximates fair value. As the highly liquid money market-type funds are actively traded, the fair value of these investments are classified as Level 1. To the extent that the remaining securities are not actively traded due to their approaching maturity, the fair value of these investments are classified as Level 2.
Other investments
Fund of hedge funds
The fund of hedge funds includes a side pocket. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is unknown. The fund's administrator provides a monthly reported NAV with a three month delay in its valuation. The fund manager has provided an estimate of the fund NAV at each period end based on the estimated performance provided from the underlying funds. To determine the reasonableness of the estimated NAV, the Company compares the fund administrator's NAV to the fund manager's estimated NAV that incorporates relevant valuation sources on a timely basis. Material variances are recorded in the current reporting period while immaterial variances are recorded in the following reporting period. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.
Hedge funds
The hedge funds consist of one investment assumed in the acquisition of Flagstone Reinsurance Holdings, S.A. ("Flagstone") (the "Flagstone hedge fund"). The Flagstone hedge fund's administrator provides quarterly NAVs with a three month delay in valuation. The fair value of this investment is measured using the NAV practical expedient and therefore has not been categorized within the fair value hierarchy.
Private equity investments
The private equity funds provide quarterly or semi-annual partnership capital statements with a three or six month delay which are used as a basis for valuation. These private equity investments vary in investment strategies and are not actively traded in any open markets. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.
Fixed income investment funds
Fixed income investment funds consist of one pooled investment, two structured securities funds and a mezzanine debt fund. The pooled investment is invested in fixed income securities with high credit ratings and is only open to Lloyd’s Trust Fund participants. The fair value of units in the investment fund is based on the NAV of the fund as

reported by Lloyd’s Treasury & Investment Management. As the fund NAV is published, the fair value of this investment is classified as Level 2.

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

Overseas deposits

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

Mutual funds

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

(c) Level 3 investments

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

| | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Bank Loans | Catastrophe Bonds | Asset Backed Securities | Total |
| Level 3 investments—beginning of period | $243,148 | $ 37,518 | $ 12,383 | $293,049 |
| Purchases | 21,256 | — | 11,513 | 32,769 |
| Sales | (12,388 ) | — | — | (12,388 ) |
| Change in net unrealized (losses) gains | 484 | 517 | — | 1,001 |
| Transfers into Level 3 during the period | — | — | — | — |
| Transfers out of Level 3 during the period | — | — | — | — |
| Level 3 investments—end of period | $252,500 | $ 38,035 | $ 23,896 | $314,431 |

| | Three Months Ended September 30, 2015 | | |
|---|---|---|---|
| | Bank Loans | Catastrophe Bonds | Total |
| Level 3 investments—beginning of period | $124,982 | $ 13,500 | $138,482 |
| Purchases | 50,831 | — | 50,831 |
| Sales | (107 ) | — | (107 ) |
| Settlements | (13,815 ) | — | (13,815 ) |
| Change in net unrealized losses | (55 ) | — | (55 ) |
| Transfers into Level 3 during the period | — | — | — |
| Transfers out of Level 3 during the period | — | — | — |
| Level 3 investments—end of period | $161,836 | $ 13,500 | $175,336 |

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| | Nine Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Bank Loans | Catastrophe Bonds | Asset Backed Securities | Total |
| Level 3 investments—beginning of period | $232,337 | $ 13,500 | $ — | $245,837 |
| Purchases | 72,244 | 23,272 | 23,896 | 119,412 |
| Sales | (14,777 ) | — | — | (14,777 ) |
| Settlements | (34,033 ) | (125 ) | — | (34,158 ) |
| Change in net unrealized (losses) gains | (3,271 ) | 1,388 | — | (1,883 ) |
| Transfers into Level 3 during the period | — | — | — | — |
| Transfers out of Level 3 during the period | — | — | — | — |
| Level 3 investments—end of period | $252,500 | $ 38,035 | $ 23,896 | $314,431 |

| | Nine Months Ended September 30, 2015 | | |
|---|---|---|---|
| | Bank Loans | Catastrophe Bonds | Total |
| Level 3 investments—beginning of period | $32,748 | $ 17,500 | $50,248 |
| Purchases | 152,797 | — | 152,797 |
| Sales | (1,036 ) | (3,989 ) | (5,025 ) |
| Settlements | (22,013 ) | — | (22,013 ) |
| Net realized losses | — | (11 ) | (11 ) |
| Change in net unrealized losses | (660 ) | — | (660 ) |
| Transfers into Level 3 during the period | — | — | — |
| Transfers out of Level 3 during the period | — | — | — |
| Level 3 investments—end of period | $161,836 | $ 13,500 | $175,336 |

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

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5. Variable interest entities
The Company consolidates all VOEs in which it has a controlling financial interest and all VIEs in which it is considered to be the primary beneficiary. The Company’s VIEs are primarily entities in the AlphaCat segment.
(a) Consolidated VIEs
AlphaCat sidecars
Beginning on May 25, 2011, the Company joined with third party investors in capitalizing a series of sidecars for the purpose of investing in collateralized reinsurance and retrocessional contracts. Certain of these sidecars deployed their capital through transactions entered into by AlphaCat Reinsurance Ltd. (“AlphaCat Re”). Each of these entities return capital once the risk period expires and all losses have been paid out. The AlphaCat sidecars are VIEs and are consolidated by the Company as the primary beneficiary. The Company's maximum exposure to any of the sidecars is the amount of capital invested at any given time and any remaining capital commitments.
AlphaCat ILS funds
The AlphaCat ILS funds received third party subscriptions beginning on December 17, 2012. The Company and third party investors invest in the AlphaCat ILS funds for the purpose of investing in instruments with returns linked to property catastrophe reinsurance, retrocession and insurance linked securities (“ILS”) contracts. The AlphaCat ILS funds have varying risk profiles and are categorized by the expected loss of the fund. Expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit. Lower risk ILS funds are defined as having a maximum permitted portfolio expected loss of less than 7%, whereas higher risk ILS funds have a maximum permitted portfolio expected loss of greater than 7%. The AlphaCat ILS funds primarily deploy their capital through transactions entered into by AlphaCat Re and AlphaCat Master Fund Ltd. (“AlphaCat Master Fund”). The AlphaCat ILS funds are VIEs and are consolidated by the Company as the primary beneficiary. The Company's maximum exposure to any of the funds is the amount of capital invested at any given time and any remaining capital commitments. Refer to Note 15, "Commitments and contingencies," for further details.
AlphaCat Re and AlphaCat Master Fund
The Company utilizes AlphaCat Re and AlphaCat Master Fund (collectively the “master funds”), both market facing entities, for the purpose of writing collateralized reinsurance and investing in capital markets products, respectively, on behalf of certain entities within the AlphaCat segment and direct third party investors. AlphaCat Re enters into transactions on behalf of the AlphaCat sidecars and ILS funds (collectively the “feeder funds”) and direct third party investors, whereas AlphaCat Master Fund only enters into transactions on behalf of certain AlphaCat ILS funds. All of the risks and rewards of the underlying transactions are allocated to the feeder funds and direct third party investors using variable funding notes. The master funds are VIEs and are consolidated by the Company as the primary beneficiary.
Notes Payable to AlphaCat Investors
The master funds issue variable funding notes to the feeder funds, and direct to third party investors, in order to write collateralized reinsurance and invest in capital markets products on their behalf. The Company’s investments in the feeder funds, together with investments made by third parties in the feeder funds and on a direct basis, are provided as consideration for the notes to the master funds. The duration of the underlying collateralized reinsurance contracts and capital market products is typically twelve months; however, the variable funding notes do not have a stated maturity date or principal amount since repayment is dependent on the settlement and income or loss of the underlying transactions. Therefore, the notes are subsequently redeemed as the underlying transactions are settled. The income or loss generated by the underlying transactions is then transferred to the feeder funds and direct third party investors via the variable funding notes.
As both the master and feeder funds are consolidated by the Company, any notes issued by the master funds to the feeder funds are eliminated on consolidation and only variable funding notes issued by AlphaCat Re to direct third

party investors remain on the Consolidated Balance Sheets as notes payable to AlphaCat investors with the related income or loss included in the Consolidated Statements of Comprehensive Income as (income) loss attributable to AlphaCat investors. To the extent that the (income) loss has not been returned to the investors, it is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

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

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

The following table presents a reconciliation of the beginning and ending notes payable to AlphaCat investors as at September 30, 2016 and December 31, 2015:

| | Variable Funding Notes | Structured Notes | Total |
|---|---|---|---|
| September 30, 2016 | | | |
| Notes payable to AlphaCat investors, beginning of period | $75,493 | $ — | $75,493 |
| Issuance of notes payable to AlphaCat investors | 311,913 | 94,326 | 406,239 |
| Redemption of notes payable to AlphaCat investors | (109,712 ) | — | (109,712 ) |
| Foreign exchange gains | 710 | — | 710 |
| Notes payable to AlphaCat investors, end of period | $278,404 | $ 94,326 | $372,730 |
| | | | |
| December 31, 2015 | | | |
| Notes payable to AlphaCat investors, beginning of period | $— | $ — | $— |
| Issuance of notes payable to AlphaCat investors | 75,770 | — | 75,770 |
| Foreign exchange losses | (277 ) | — | (277 ) |
| Notes payable to AlphaCat investors, end of period | $75,493 | $ — | $75,493 |

The income attributable to AlphaCat investors was $5,564 (2015: $1,438) and $16,278 (2015: $1,438) for the three and nine months ended September 30, 2016, respectively, with $18,690 included in accounts payable and accrued expenses as at September 30, 2016 (December 31, 2015: $2,412).

BetaCat ILS funds

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

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

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Total Assets | Total Liabilities | Total Assets | Total Liabilities |
| AlphaCat sidecars | $47,212 | $ 10,336 | $206,581 | $ 14,804 |
| AlphaCat ILS funds - Lower Risk [(a)] | 1,440,125 | 3,966 | 1,268,070 | 143,371 |
| AlphaCat ILS funds - Higher Risk [(a)] | 682,677 | 114,151 | 522,867 | 300,122 |
| AlphaCat Re and AlphaCat Master Fund | 2,521,299 | 2,521,129 | 1,615,779 | 1,615,609 |
| BetaCat ILS funds | 51,629 | 469 | 64,221 | 2,472 |

(a)

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

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

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(b) Non-Consolidated VIEs

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

6. Investments in affiliates

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

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Investment affiliate | $ 99,731 | $ 87,673 |
| Operating affiliate | — | 392 |
| Investments in affiliates | $ 99,731 | $ 88,065 |

(a) Investment affiliate

Aquiline Financial Services Fund II L.P.

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

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

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

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

Aquiline Financial Services Fund III L.P.

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

Amended and Restated Exempted Limited Partnership Agreement dated as of November 7, 2014 (the “Aquiline III Limited Partnership Agreement”).

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

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In accordance with the terms of the Agreement, no limited partner has the right to withdraw from the Aquiline III Partnership or to withdraw any part of its capital account without prior consent from the Aquiline III General Partner. The Company's maximum exposure to the Aquiline III Partnership is limited to the amount invested and any remaining capital commitment. Refer to Note 15, "Commitments and contingencies," for further details.
The following table presents a reconciliation of the beginning and ending investment in the Company's investment affiliate balance for the three and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Investment affiliate, beginning of period | $99,278 | $89,681 | $87,673 | $63,506 |
| Net capital contributions | — | (4,029) | 16,307 | 19,086 |
| (Loss) income from investment affiliate | 453 | 2,482 | (4,249) | 5,542 |
| Investment affiliate, end of period | $99,731 | $88,134 | $99,731 | $88,134 |

The following table presents the Company’s investment in the partnerships as at September 30, 2016 and December 31, 2015:

| | Investment at cost | Voting ownership % | Equity ownership % | Carrying value |
|---|---|---|---|---|
| As at September 30, 2016 | | | | |
| Aquiline Financial Services Fund II L.P. | $ 56,479 | —% | 8.1 % | $70,345 |
| Aquiline Financial Services Fund III L.P. | 29,826 | —% | 9.0 % | 29,386 |
| Total | $ 86,305 | | | $99,731 |
| | | | | |
| As at December 31, 2015 | | | | |
| Aquiline Financial Services Fund II L.P. | $ 55,904 | —% | 8.1 % | $73,880 |
| Aquiline Financial Services Fund III L.P. | 13,890 | —% | 13.7 % | 13,793 |
| Total | $ 69,794 | | | $87,673 |

(b) Operating affiliate
PaCRe, Ltd.
On April 2, 2012, the Company joined with other investors in capitalizing PaCRe, a Class 4 Bermuda reinsurer formed for the purpose of writing high excess property catastrophe reinsurance. During the fourth quarter of 2015, PaCRe's Class 4 license was surrendered and the company was considered off-risk effective January 1, 2016. The final distribution of the Company’s investment occurred during the three months ended June 30, 2016 and PaCRe was dissolved during the three months ended September 30, 2016. The Company's investment in PaCRe was treated as an equity method investment and the maximum exposure to the fund was the amount of capital invested at any given time.
The following table presents a reconciliation of the beginning and ending investment in the Company's operating affiliate balance for the three and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | Nine Months Ended September 30, |
|---|---|---|

| | 2016 | 2015 | 2016 | 2015 |
|---|---|---|---|---|
| Operating affiliate, beginning of period | $— | $56,666 | $392 | $50,944 |
| Return of investment | — | — | (369 ) | — |
| (Loss) income from operating affiliate | — | (7,963 ) | (23 ) | (2,241 ) |
| Operating affiliate, end of period | $— | $48,703 | $— | $48,703 |

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

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

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7. Noncontrolling interests
Investors in certain of the AlphaCat ILS funds have rights that enable them, subject to certain limitations, to redeem their shares. The third party equity is therefore recorded in the Company's Consolidated Balance Sheets as redeemable noncontrolling interest. When and if a redemption notice is received, the fair value of the redemption is reclassified to a liability.
The AlphaCat sidecars and one of the AlphaCat ILS funds have no shareholder redemption rights. Therefore, the third party equity is recorded in the Company's Consolidated Balance Sheets as noncontrolling interest.
The following tables present a reconciliation of the beginning and ending balances of redeemable noncontrolling interest and noncontrolling interest for the three and nine months ended September 30, 2016 and 2015:

| | Redeemable noncontrolling interest | | Noncontrolling interest | | Total noncontrolling interests | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Three Months Ended September 30, | | | | | | |
| Balance, beginning of period | $1,532,283 | $1,035,511 | $212,154 | $153,523 | $1,744,437 | $1,189,034 |
| Issuance of shares | 700 | 45,000 | — | — | 700 | 45,000 |
| Income attributable to noncontrolling interest | 26,597 | 20,636 | 10,842 | 5,593 | 37,439 | 26,229 |
| Redemption of shares | (6,484) | (6,500) | — | — | (6,484) | (6,500) |
| Redemptions payable | 6,484 | 6,500 | — | — | 6,484 | 6,500 |
| Distributions | — | — | — | — | — | — |
| Balance, end of period | $1,559,580 | $1,101,147 | $222,996 | $159,116 | $1,782,576 | $1,260,263 |
| Nine Months Ended September 30, | | | | | | |
| Balance, beginning of period | $1,111,714 | $617,791 | $154,662 | $292,274 | $1,266,376 | $910,065 |
| Issuance of shares | 381,950 | 497,700 | 171,674 | 9,600 | 553,624 | 507,300 |
| Income attributable to noncontrolling interest | 72,400 | 51,551 | 23,763 | 15,417 | 96,163 | 66,968 |
| Redemption of shares | (6,484) | (65,895) | — | — | (6,484) | (65,895) |
| Redemptions payable | — | — | — | — | — | — |
| Distributions | — | — | (127,103) | (158,175) | (127,103) | (158,175) |
| Balance, end of period | $1,559,580 | $1,101,147 | $222,996 | $159,116 | $1,782,576 | $1,260,263 |

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8. Derivative instruments

The Company enters into derivative instruments for risk management purposes, specifically to hedge unmatched foreign currency exposures, interest rate exposures and to shorten the duration of the Company's fixed maturities portfolio.

(a) Derivatives not designated as hedging instruments

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

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| Derivatives not designated as hedging instruments | Notional Exposure | Asset Derivative at Fair Value [(a)] | Liability Derivative at Fair Value [(a)] | Notional Exposure | Asset Derivative at Fair Value [(a)] | Liability Derivative at Fair Value [(a)] |
| Foreign currency forward contracts | $255,602 | $ 3,122 | $ 1,054 | $255,840 | $ 2,601 | $ 3,211 |
| Interest rate swap contracts | $90,000 | $ 566 | $ — | $— | $ — | $ — |

(a) Asset and liability derivatives are classified within other assets and accounts payable and accrued expenses, respectively, within the Company's consolidated balance sheets.

The following table summarizes information on the classification and the impact on earnings, recognized in the Company’s Consolidated Statements of Income and Comprehensive Income relating to the foreign currency and interest rate forward contracts that were not designated as hedging instruments during the three and nine months ended September 30, 2016 and 2015:

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| Derivatives not designated as hedging instruments | Classification of gains (losses) recognized in earnings | 2016 | 2015 | 2016 | 2015 |
| Foreign currency forward contracts | Foreign exchange losses | $1,326 | $— | $209 | $— |
| Foreign currency forward contracts | Other loss | $(155 ) | $(184) | $(35 ) | $(311) |
| Interest rate swap contracts | Change in unrealized gains on investments | $566 | $— | $566 | $— |

(b) Derivatives designated as hedging instruments

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

| | September 30, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| Derivatives designated as hedging instruments | Notional Exposure | Asset Derivative at Fair Value [(a)] | Liability Derivative at Fair Value [(a)] | Notional Exposure | Asset Derivative at Fair Value [(a)] | Liability Derivative at Fair Value [(a)] |
| Interest rate swap contracts | $552,263 | $ 20 | $ 2,918 | $552,263 | $ 21 | $ 1,942 |

(a) Asset and liability derivatives are classified within other assets and accounts payable and accrued expenses, respectively, within the Company's consolidated balance sheets.

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(c) 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.

(d) Derivative instruments designated as a fair value hedge

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Foreign currency forward contracts | 2016 | 2015 | 2016 | 2015 |
| Amount of loss recognized in income on derivative | $— | $(4,055) | $— | $(19,211) |
| Amount of gain on hedged item recognized in income attributable to risk being hedged | $— | $4,055 | $— | $19,211 |
| Amount of gain recognized in income on derivative (ineffective portion) | $— | $— | $— | $— |

(e) Derivative instruments designated as a cash flow hedge

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Interest rate swap contracts | 2016 | 2015 | 2016 | 2015 |
| Amount of effective portion recognized in other comprehensive income | $3,155 | $3,178 | $9,505 | $10,064 |
| Amount of effective portion subsequently reclassified to earnings | $(2,717) | $(3,253) | $(8,373) | $(9,728) |
| Amount of ineffective portion excluded from effectiveness testing | $(438) | $75 | $(1,132) | $(336) |

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

(f) Balance sheet offsetting

There was no balance sheet offsetting activity as at September 30, 2016 or December 31, 2015.
The Company currently provides cash collateral as security for interest rate swap contracts. The Company does not provide cash collateral or financial instruments as security for foreign currency forward contracts. Our derivative instruments are generally traded under International Swaps and Derivatives Association master netting agreements, which establish terms that apply to all transactions. On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash.
The Company has not elected to settle multiple transactions with an individual counterparty on a net basis.

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9. Reserve for losses and loss expenses

Reserve 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 reserves ("IBNR") 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 IBNR to specific case reserves. These estimates are reviewed and adjusted regularly, and such adjustments, if any, are reflected in earnings in the period in which they become known. While management believes that it has made a reasonable estimate of ultimate losses, there can be no assurances that ultimate losses and loss expenses will not exceed this estimate.

The following table summarizes the total reserve for losses and loss expenses as at September 30, 2016 and December 31, 2015:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Case reserves | $ 1,295,385 | $ 1,278,697 |
| IBNR | 1,740,602 | 1,717,870 |
| Total reserve for losses and loss expenses | $ 3,035,987 | $ 2,996,567 |

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid losses and loss expenses for the three and nine months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Reserve for losses and loss expenses, beginning of period | $3,122,717 | $3,192,663 | $2,996,567 | $3,243,147 |
| Loss reserves recoverable | (442,987) | (376,665) | (350,586) | (377,466) |
| Net reserves for losses and loss expenses, beginning of period | 2,679,730 | 2,815,998 | 2,645,981 | 2,865,681 |
| Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in: | | | | |
| Current year | 311,279 | 349,759 | 959,376 | 1,011,111 |
| Prior years [(a)] | (52,885) | (93,749) | (169,405) | (248,026) |
| Total net incurred losses and loss expenses [(a)] | 258,394 | 256,010 | 789,971 | 763,085 |
| Less net losses and loss expenses paid in respect of losses occurring in: | | | | |
| Current year | (178,709) | (63,151) | (240,362) | (105,216) |
| Prior years | (166,537) | (207,802) | (596,618) | (704,062) |
| Total net paid losses | (345,246) | (270,953) | (836,980) | (809,278) |
| Effect of foreign exchange rate movements | (1,500) | (13,982) | (7,594) | (32,415) |
| Net reserve for losses and loss expenses, end of period | 2,591,378 | 2,787,073 | 2,591,378 | 2,787,073 |
| Loss reserves recoverable | 444,609 | 385,212 | 444,609 | 385,212 |
| Reserve for losses and loss expenses, end of period | $3,035,987 | $3,172,285 | $3,035,987 | $3,172,285 |

(a) Upon closing the acquisition of Western World, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $2,524 and $8,639, respectively, during the three and nine months ended September 30, 2015, benefiting the loss ratio by 3.9 and 4.4 percentage points, respectively. The remaining fair value adjustment of $2,340 was fully amortized during 2015.

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Net incurred losses and loss expenses comprise:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Gross losses and loss expenses [a] | $284,413 | $283,623 | $952,129 | $852,190 |
| Reinsurance recoverable | (26,019) | (27,613) | (162,158) | (89,105) |
| Net incurred losses and loss expenses [a] | $258,394 | $256,010 | $789,971 | $763,085 |

(a) Upon closing the acquisition of Western World, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $2,524 and $8,639, respectively, during the three and nine months ended September 30, 2015, benefiting the loss ratio by 3.9 and 4.4 percentage points, respectively. The remaining fair value adjustment of $2,340 was fully amortized during 2015.

The September 30, 2016 gross reserves for losses and loss expenses comprise reserves for reported claims of $1,295,385 (December 31, 2015: $1,278,697) and IBNR of $1,740,602 (December 31, 2015: $1,717,870). The net favorable development on prior years by segment and line of business for the three and nine months ended September 30, 2016 and 2015 was as follows:

| | Three Months Ended September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Property | Marine | Specialty | Liability | Total |
| Validus Re | $(19,736) | $(8,504) | $(4,793) | $— | $(33,033) |
| Talbot | (2,429) | (4,547) | (11,715) | — | (18,691) |
| Western World | (553) | — | — | (327) | (880) |
| AlphaCat | (265) | — | (16) | — | (281) |
| Net favorable development | $(22,983) | $(13,051) | $(16,524) | $(327) | $(52,885) |

The net favorable development of $52,885 for the three months ended September 30, 2016 was primarily attributable to favorable development within Validus Re and Talbot of $33,033 and $18,691, respectively. The Validus Re favorable development was attributable to favorable development on event reserves of $18,200, related primarily to Tianjin and the 2015 Chilean earthquake, and $14,800 of favorable development on attritional losses. The favorable development related to Talbot was attributable to favorable development on attritional losses.

| | Three Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Property | Marine | Specialty | Liability | Total |
| Validus Re | $(27,613) | $(13,556) | $(9,306) | $— | $(50,475) |
| Talbot | (9,706) | (14,854) | (11,412) | — | (35,972) |
| Western World [a] | (1,054) | — | — | (4,000) | (5,054) |
| AlphaCat | (2,248) | — | — | — | (2,248) |
| Net favorable development [a] | $(40,621) | $(28,410) | $(20,718) | $(4,000) | $(93,749) |

(a) Upon closing the acquisition of Western World, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $2,524 during the three months ended September 30, 2015, benefiting the loss ratio by 3.9 percentage points. The remaining fair value adjustment of $2,340 was fully amortized during 2015.

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

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| | Nine Months Ended September 30, 2016 | | | | |
|---|---|---|---|---|---|
| | Property | Marine | Specialty | Liability | Total |
| Validus Re | $(52,036) | $(14,967) | $(22,591) | $— | $(89,594) |
| Talbot | (30,969) | (10,511) | (28,259) | — | (69,739) |
| Western World | (2,576) | — | — | (5,888) | (8,464) |
| AlphaCat | (742) | — | (866) | — | (1,608) |
| Net favorable development | $(86,323) | $(25,478) | $(51,716) | $(5,888) | $(169,405) |

The net favorable development of $169,405 for the nine months ended September 30, 2016 was primarily attributable to favorable development within Validus Re, Talbot and Western World of $89,594, $69,739 and $8,464, respectively. The favorable development across all operating segments was primarily attributable to favorable development on both attritional losses of $160,400 and event reserves of $9,000.

| | Nine Months Ended September 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Property | Marine | Specialty | Liability | Total |
| Validus Re | $(58,437) | $(29,225) | $(18,388) | $— | $(106,050) |
| Talbot | (47,141) | (51,178) | (24,926) | — | (123,245) |
| Western World [(a)] | (4,648) | — | — | (10,991) | (15,639) |
| AlphaCat | (3,092) | — | — | — | (3,092) |
| Net favorable development [(a)] | $(113,318) | $(80,403) | $(43,314) | $(10,991) | $(248,026) |

(a) Upon closing the acquisition of Western World, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $8,639 during the six months ended September 30, 2015, benefiting the loss ratio by 4.4 percentage points. The remaining fair value adjustment of $2,340 was fully amortized during 2015.

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

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10. Reinsurance

The Company's reinsurance balances recoverable at September 30, 2016 and December 31, 2015 were as follows:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Loss reserves recoverable on unpaid: | | |
| Outstanding losses | $ 174,210 | $ 135,723 |
| IBNR | 270,399 | 214,863 |
| Total loss reserves recoverable | 444,609 | 350,586 |
| Paid losses recoverable | 36,069 | 23,071 |
| Total reinsurance balances recoverable | $ 480,678 | $ 373,657 |

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. As at September 30, 2016, $474,367 or 98.7% (December 31, 2015: $368,638 or 98.7%) of the Company's reinsurance balances recoverable were either fully collateralized or recoverable from reinsurers rated A- or better.

At September 30, 2016 and December 31, 2015, the provision for uncollectible reinsurance relating to reinsurance balances recoverable was $5,140 and $4,997, respectively. To estimate this provision for uncollectible reinsurance, reinsurance balances recoverable are 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.

Top ten reinsurers

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

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Reinsurance Recoverable | % of Total | Reinsurance Recoverable | % of Total |
| Top 10 reinsurers | $401,760 | 83.6 % | $303,108 | 81.1 % |
| Other reinsurers’ balances > $1 million | 73,005 | 15.2 % | 61,222 | 16.4 % |
| Other reinsurers’ balances < $1 million | 5,913 | 1.2 % | 9,327 | 2.5 % |
| Total | $480,678 | 100.0 % | $373,657 | 100.0 % |

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The following tables show the reinsurance balances recoverable due from, and the ratings associated with, the Company's top ten reinsurers as at September 30, 2016 and December 31, 2015:

| | September 30, 2016 | | | |
|---|---|---|---|---|
| Top 10 Reinsurers | Rating | Reinsurance Recoverable | % of Total | |
| Swiss Re | AA- | $ 84,388 | 17.7 | % |
| Fully collateralized reinsurers | NR | 84,296 | 17.5 | % |
| Lloyd's Syndicates | A+ | 77,607 | 16.1 | % |
| Hannover Re | AA- | 49,699 | 10.3 | % |
| Everest Re | A+ | 46,130 | 9.6 | % |
| Munich Re | AA- | 17,498 | 3.6 | % |
| Hamilton Re | A- | 12,502 | 2.6 | % |
| Transatlantic Re | A+ | 11,624 | 2.4 | % |
| Toa Re | A+ | 9,011 | 1.9 | % |
| XL Re | A+ | 9,005 | 1.9 | % |
| Total | | $ 401,760 | 83.6 | % |

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

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11. Share capital

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

(a) Preferred shares

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

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

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

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

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

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

| | Preferred Shares |
|---|---|
| Preferred shares issued and outstanding, December 31, 2015 | — |
| Preferred shares issued | 6,000 |
| Preferred shares issued and outstanding, September 30, 2016 | 6,000 |

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(b) Common Shares

The holders of common shares are entitled to receive dividends and are allocated one vote per share, provided that, if the controlled shares of any shareholder or group of related shareholders constitute more than 9.09 percent of the outstanding common shares of the Company, their voting power will be reduced to 9.09 percent.

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. On February 3, 2015, the Board of Directors of the Company approved an increase in the Company's 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 80,191,448 common shares for an aggregate purchase price of $2,687,746 from the inception of its share repurchase program to September 30, 2016. The Company had $336,655 remaining under its authorized share repurchase program as at September 30, 2016.

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

The following table is a summary of the common share activity during the nine months ended September 30, 2016 and 2015 :

| | Share Activity During the Nine Months Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Common shares issued, beginning of period | 160,570,772 | 155,554,224 |
| Restricted share awards vested, net of shares withheld | 608,024 | 610,714 |
| Restricted share units vested, net of shares withheld | 18,486 | 13,260 |
| Options exercised | 27,983 | 782,465 |
| Warrants exercised | — | 1,461,715 |
| Direct issuance of common stock | — | 639 |
| Performance share awards vested, net of shares withheld | 48,088 | 11,524 |
| Common shares issued, end of period | 161,273,353 | 158,434,541 |
| Treasury shares, end of period | (81,830,323 ) | (76,436,650 ) |
| Common shares outstanding, end of period | 79,443,030 | 81,997,891 |

(c) Dividends

On August 3, 2016, the Company announced a quarterly cash dividend of $0.35 (2015: $0.32) per common share and a quarterly cash dividend of $0.3753472 per depositary share on its outstanding Series A Preferred Shares. The common share dividend was paid on September 30, 2016 to holders of record on September 15, 2016. The preferred share dividend was paid on September 15, 2016 to holders of record on September 1, 2016.

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

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

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12. Stock plans
(a) Long Term Incentive Plan
The Company's Amended and Restated 2005 Long Term Incentive Plan ("LTIP") provides for grants to employees of options, stock appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, dividend equivalents or other share-based awards. The total number of shares reserved for issuance under the LTIP are 2,753,292 shares of which 1,258,962 shares remain available for issuance at September 30, 2016. The LTIP is administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. Grant prices are established at the fair market value of the Company's common shares at the date of grant.
i. Options
Options may be exercised for voting common shares upon vesting. Outstanding options have a life of 10 years and vest either pro rata or at the end of the required service period from the date of grant. Fair value of the option awards at the date of grant is determined using the Black-Scholes option-pricing model.
Expected volatility is based on stock price volatility of comparable publicly-traded companies. The Company used the simplified method consistent with U.S. GAAP authoritative guidance on stock compensation expenses to estimate expected lives for options granted during the period as historical exercise data was not available and the options met the requirement as set out in the guidance.
The Company has not granted any stock option awards since September 4, 2009. These stock option awards were fully amortized during the year ended December 31, 2012.
Activity with respect to options for the nine months ended September 30, 2016 and 2015 was as follows:

| | Nine Months Ended September 30, 2016 | | | Nine Months Ended September 30, 2015 | | |
|---|---|---|---|---|---|---|
| | Options | Weighted Average Grant Date Fair Value | Weighted Average Grant Date Exercise Price | Options | Weighted Average Grant Date Fair Value | Weighted Average Grant Date Exercise Price |
| Options outstanding, beginning of period | 65,401 | $ 7.74 | $ 20.17 | 1,160,057 | $ 7.12 | $ 17.74 |
| Options exercised | (35,351) | 8.16 | 17.82 | (1,094,656) | 7.09 | 17.60 |
| Options outstanding, end of period | 30,050 | $ 7.24 | $ 22.93 | 65,401 | $ 7.74 | $ 20.17 |

ii. Restricted share awards
Restricted shares granted under the LTIP vest either pro rata or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. The Company recognized share compensation expenses during the three and nine months ended September 30, 2016 of $9,159 (2015: $9,081) and $27,805 (2015: $26,213), respectively. The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.
Activity with respect to unvested restricted share awards for the nine months ended September 30, 2016 and 2015 was as follows:

| | Nine Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|---|---|---|---|---|
| | Restricted Share Awards | Weighted Average Grant Date Fair Value | Restricted Share Awards | Weighted Average Grant Date Fair Value |
| Restricted share awards outstanding, beginning of period | 2,739,446 | $ 38.25 | 2,858,711 | $ 35.81 |

| | | | | |
|---|---|---|---|---|
| Restricted share awards granted | 559,516 | 48.78 | 706,341 | 43.58 |
| Restricted share awards vested | (789,547 ) | 37.36 | (783,704 ) | 34.40 |
| Restricted share awards forfeited | (33,070 ) | 40.25 | (52,642 ) | 38.03 |
| Restricted share awards outstanding, end of period | 2,476,345 | $ 40.88 | 2,728,706 | $ 38.19 |

At September 30, 2016, there were $67,472 (December 31, 2015: $69,143) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 2.4 years (December 31, 2015: 2.4 years).

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iii. Restricted share units

Restricted share units under the LTIP vest either ratably or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. The Company recognized share compensation expenses during the three and nine months ended September 30, 2016 of $290 (2015: $310) and $978 (2015: $851), 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 nine months ended September 30, 2016 and 2015 was as follows:

| | Nine Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|---|---|---|---|---|
| | Restricted Share Units | Weighted Average Grant Date Fair Value | Restricted Share Units | Weighted Average Grant Date Fair Value |
| Restricted share units outstanding, beginning of period | 114,337 | $ 38.47 | 103,484 | $ 36.54 |
| Restricted share units granted | 21,609 | 48.83 | 28,057 | 42.91 |
| Restricted share units vested | (23,982 ) | 38.18 | (19,455 ) | 34.58 |
| Restricted share units issued in lieu of cash dividends | 2,436 | 39.10 | 2,337 | 37.21 |
| Restricted share units forfeited | (8,338 ) | 44.34 | (892 ) | 35.42 |
| Restricted share units outstanding, end of period | 106,062 | $ 40.20 | 113,531 | $ 38.47 |

At September 30, 2016, there were $2,526 (December 31, 2015: $2,790) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 2.5 years (December 31, 2015: 2.6 years).

iv. Performance share awards

The performance share awards contain a performance based component. The performance component relates to the compounded growth in the Dividend Adjusted Diluted Book Value per Share (“DBVPS”) over a three-year period relative to the Company's peer group. For performance share awards granted during the period, the grant date DBVPS is based on the DBVPS at the end of the most recent financial reporting year. The Dividend Adjusted Performance Period End DBVPS will be the DBVPS three years after the grant date DBVPS. The fair value estimate earns over the requisite attribution period and the estimate will be reassessed at the end of each performance period which will reflect any adjustments in the consolidated statements of comprehensive income in the period in which they are determined. The Company recognized share compensation expenses during the three and nine months ended September 30, 2016 of $1,052 (2015: $592) and $3,682 (2015: $1,215), respectively.

Activity with respect to unvested performance share awards for the nine months ended September 30, 2016 and 2015 was as follows:

| | Nine Months Ended September 30, 2016 | | Nine Months Ended September 30, 2015 | |
|---|---|---|---|---|
| | Performance Share Awards | Weighted Average Grant Date Fair Value | Performance Share Awards | Weighted Average Grant Date Fair Value |
| Performance share awards outstanding, beginning of period | 172,594 | $ 40.70 | 106,369 | $ 36.03 |
| Performance share awards granted | 125,290 | 48.75 | 81,569 | 45.03 |
| Performance share awards vested | (57,581 ) | 36.11 | (15,344 ) | 31.38 |

| | | | | |
|---|---|---|---|---|
| Performance share awards conversion adjustment | 45,517 | 36.82 | — | — |
| Performance share awards outstanding, end of period | 285,820 | $ 44.53 | 172,594 | $ 40.70 |

At September 30, 2016, there were $7,898 (December 31, 2015: $4,011) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 2.3 years (December 31, 2015: 2.1 years).

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(b) Total share compensation expenses

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Restricted share awards | $9,159 | $9,081 | $27,805 | $26,213 |
| Restricted share units | 290 | 310 | 978 | 851 |
| Performance share awards | 1,052 | 592 | 3,682 | 1,215 |
| Total | $10,501 | $9,983 | $32,465 | $28,279 |

13. Debt and financing arrangements

The Company's financing structure as at September 30, 2016 and December 31, 2015 is comprised of debentures and senior notes payable along with credit and other facilities.

The Company's outstanding debentures and senior notes payable as at September 30, 2016 and December 31, 2015 were as follows:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Deferrable debentures: | | |
| 2006 Junior Subordinated | $ 150,000 | $ 150,000 |
| 2007 Junior Subordinated | 139,800 | 139,800 |
| Flagstone 2006 Junior Subordinated | 134,618 | 134,118 |
| Flagstone 2007 Junior Subordinated | 113,750 | 113,750 |
| Total debentures payable | 538,168 | 537,668 |
| 2010 Senior notes payable | 250,000 | 250,000 |
| Less: Unamortized debt issuance costs | (4,689) | (4,839) |
| Total senior notes payable | 245,311 | 245,161 |
| Total debentures and senior notes payable | $ 783,479 | $ 782,829 |

The Company's outstanding credit and other facilities as at September 30, 2016 and December 31, 2015 were as follows:

| | September 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Commitment | Drawn and outstanding | Commitment | Drawn and outstanding |
| Credit and other facilities: | | | | |
| $85,000 syndicated unsecured letter of credit facility | $85,000 | $ — | $85,000 | $ — |
| $300,000 syndicated secured letter of credit facility | 300,000 | 107,208 | 300,000 | 235,540 |
| $24,000 secured bi-lateral letter of credit facility | 24,000 | 11,726 | 24,000 | 10,543 |
| $20,000 AlphaCat Re secured letter of credit facility | 20,000 | 20,000 | 30,000 | 30,000 |
| $25,000 IPC bi-lateral facility | 25,000 | 5,553 | 25,000 | 9,241 |
| $236,000 Flagstone bi-lateral facility | 236,000 | 164,014 | 236,000 | 193,764 |
| Total credit and other facilities | $690,000 | $ 308,501 | $700,000 | $ 479,088 |

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(a) Senior notes and junior subordinated deferrable debentures

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

| Description | Issuance date | Amount | Maturity date | Interest Rate as at Issuance Date | Interest Rate as at September 30, 2016 | Interest payments due |
|---|---|---|---|---|---|---|
| 2006 Junior Subordinated Deferrable Debentures | June 15, 2006 | $150,000 | June 15, 2036 | 9.069% (a) | 5.831% (e) | Quarterly |
| Flagstone 2006 Junior Subordinated Deferrable Debentures | August 23, 2006 | $134,618 | September 15, 2036 | 3.540% (b) | 6.463% (e) | Quarterly |
| 2007 Junior Subordinated Deferrable Debentures | June 21, 2007 | $200,000 | June 15, 2037 | 8.480% (c) | 5.180% (e) | Quarterly |
| Flagstone 2007 Junior Subordinated Deferrable Debentures | June 8, 2007 | $88,750 | July 30, 2037 | 3.000% (b) | 5.900% (e) | Quarterly |
| Flagstone 2007 Junior Subordinated Deferrable Debentures | September 20, 2007 | $25,000 | September 15, 2037 | 3.100% (b) | 5.983% (e) | Quarterly |
| 2010 Senior Notes due 2040 | January 26, 2010 | $250,000 | January 26, 2040 | 8.875% (d) | 8.875% (d) | Semi-annually in arrears |

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

Senior Notes

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

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

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

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

Junior subordinated deferrable debentures

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

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

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

Future payments of principal of $538,168 on the debentures discussed above are all expected to be after 2021.

(b) Credit facilities

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

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

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

As of September 30, 2016, there was $nil outstanding LOC's under the Five Year Unsecured Facility and $107,208 in outstanding LOC's under the Five Year Secured Facility.

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

Facilities.

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ii. $25,000 IPC bi-lateral facility

The Company assumed an existing evergreen LOC facility through the acquisition of IPC Holdings, Ltd. (the "IPC bi-lateral facility"). As of September 30, 2016, there were $5,553 outstanding LOC's issued under the IPC bi-lateral facility (December 31, 2015: $9,241). As of September 30, 2016, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the IPC bi-lateral facility.

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

The Company is party to an evergreen secured bi-lateral LOC facility with Citibank Europe plc (the "Secured bi-lateral LOC facility"). As of September 30, 2016, $11,726 (December 31, 2015: $10,543) of LOC's were outstanding under the Secured bi-lateral LOC facility. The Secured bi-lateral LOC facility has no fixed termination date and as of September 30, 2016, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Secured bi-lateral LOC facility.

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

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

v. $236,000 Flagstone bi-lateral facility

As part of the Flagstone Acquisition, the Company assumed an evergreen LOC Master Agreement between Citibank Europe plc and Flagstone Reassurance Suisse, S.A. (the "Flagstone Bi-Lateral Facility"). As of September 30, 2016, the Flagstone Bi-Lateral Facility had $164,014 (December 31, 2015: $193,764) LOC's issued and outstanding. As of September 30, 2016, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Flagstone Bi-Lateral Facility.

vi. Cash and investments pledged as collateral

The Company has pledged cash and investments as collateral under the Company's credit facilities in the total amount of $548,669 (December 31, 2015: $826,535) as detailed in the table below:

| Description | Cash and investments pledged as collateral September 30, 2016 | December 31, 2015 |
|---|---|---|
| $300,000 syndicated secured letter of credit facility | $158,456 | $ 370,909 |
| $24,000 secured bi-lateral letter of credit facility | 48,295 | 47,607 |
| AlphaCat Re secured letter of credit facility | 20,019 | 30,153 |
| $236,000 Flagstone bi-lateral facility | 321,899 | 377,866 |
| Total | $548,669 | $ 826,535 |

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(c) Finance expenses

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| 2006 Junior Subordinated Deferrable Debentures | $2,135 | $2,235 | $6,557 | $6,633 |
| 2007 Junior Subordinated Deferrable Debentures | 1,851 | 1,848 | 5,512 | 5,492 |
| Flagstone 2006 Junior Subordinated Deferrable Debentures | 2,271 | 2,274 | 6,760 | 6,735 |
| Flagstone 2007 Junior Subordinated Deferrable Debentures | 1,784 | 1,807 | 5,317 | 5,335 |
| 2010 Senior Notes due 2040 | 5,597 | 5,597 | 16,791 | 16,791 |
| Credit facilities | 463 | 1,293 | 1,359 | 4,193 |
| Bank charges, Talbot FAL facility and other charges [a] | 276 | 1,149 | 489 | 3,608 |
| AlphaCat fees [b] | 144 | 2,309 | 1,105 | 9,374 |
| Total finance expenses | $14,521 | $18,512 | $43,890 | $58,161 |

(a) On November 30, 2015, the Company terminated its Talbot FAL Facility provided and arranged by Lloyds Bank plc and ING Bank N.V., London Branch.

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

14. Accumulated other comprehensive loss

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

| | Foreign currency translation adjustment | Minimum pension liability | Cash flow hedge | Total |
|---|---|---|---|---|
| Three Months Ended September 30, 2016 | | | | |
| Balance beginning of period, net of tax | $(17,149) | $ 730 | $(1,763) | $(18,182) |
| Net current period other comprehensive loss, net of tax | (1,370) | (1,101) | (439) | (2,910) |
| Balance end of period, net of tax | $(18,519) | $ (371) | $(2,202) | $(21,092) |
| | | | | |
| Three Months Ended September 30, 2015 | | | | |
| Balance beginning of period, net of tax | $(8,374) | $ (53) | $(639) | $(9,066) |
| Net current period other comprehensive loss, net of tax | (1,850) | (28) | 75 | (1,803) |
| Balance end of period, net of tax | $(10,224) | $ (81) | $(564) | $(10,869) |
| | | | | |
| Nine Months Ended September 30, 2016 | | | | |
| Balance beginning of period, net of tax | $(11,834) | $ 334 | $(1,069) | $(12,569) |
| Net current period other comprehensive loss, net of tax | (6,685) | (705) | (1,133) | (8,523) |
| Balance end of period, net of tax | $(18,519) | $ (371) | $(2,202) | $(21,092) |
| | | | | |
| Nine Months Ended September 30, 2015 | | | | |

| | | | | |
|---|---|---|---|---|
| Balance beginning of period, net of tax | $ (8,118 ) | $ (210 ) | $ (228 ) | $ (8,556 ) |
| Net current period other comprehensive loss, net of tax | (2,106 ) | 129 | (336 ) | (2,313 ) |
| Balance end of period, net of tax | $ (10,224 ) | $ (81 ) | $ (564 ) | $ (10,869 ) |

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15. Commitments and contingencies

(a) Funds at Lloyd's

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

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

(b) Lloyd's Central Fund

Whenever a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2016 underwriting capacity at Lloyd's of £600,000, at the September 30, 2016 exchange rate of £1 equals $1.2983 and assuming the maximum 3% assessment, the Company would be assessed approximately $23,369.

(c) Investment affiliate commitments

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

On October 2, 2014, the Company assumed an additional investment in the Aquiline II Partnership as part of the Western World acquisition, representing a total capital commitment of $10,000. The Company's remaining unfunded capital commitment at September 30, 2016 was $587 (December 31, 2015: $683).

On November 7, 2014, the Company entered into a Subscription Agreement with the Aquiline III General Partner, pursuant to which it assumed total capital commitments of $100,000 in respect of the Aquiline III Partnership. The Company's remaining unfunded capital commitment at September 30, 2016 was $70,174 (December 31, 2015: $86,110).

(d) AlphaCat commitments

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

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

(e) Fixed maturity commitments

At September 30, 2016, the Company had an outstanding commitment to participate in certain secured loan facilities through participation agreements with an established loan originator. The undrawn amount under the revolver facility participations as at September 30, 2016 was $29,595 (December 31, 2015: $34,888).

During 2016, the Company entered into a loan commitment of $25,000 of which the remaining unfunded loan commitment as at September 30, 2016 was $nil.

(f) Other investment commitments

At September 30, 2016, the Company had capital commitments in certain other investments of $308,000 (December 31, 2015: $263,000). The Company's remaining unfunded capital commitment to these investments at September 30, 2016 was $165,448 (December 31, 2015: $185,548).

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16. Related party transactions
The transactions listed below are classified as related party transactions as principals and/or directors of each counterparty are members of the Company's board of directors.
(a) Aquiline Capital Partners LLC
Group Ark Insurance
Pursuant to reinsurance agreements with a subsidiary of Group Ark Insurance Holdings Ltd. ("Group Ark"), the Company recognized gross premiums written during the three and nine months ended September 30, 2016 of $1,096 (2015: $322) and $3,067 (2015: $2,718), respectively with $654 included in premiums receivable at September 30, 2016 (December 31, 2015: $82). The Company also recognized reinsurance premiums ceded during the three and nine months ended September 30, 2016 of $41 (2015: $23) and $41 (2015: $24), respectively and had reinsurance balances payable of $4 at September 30, 2016 (December 31, 2015: $4). The Company recorded $853 of loss reserves recoverable at September 30, 2016 (December 31, 2015: $790). Earned premium adjustments were recorded during the three and nine months ended September 30, 2016 of $1,276 (2015: $870) and $2,275 (2015: $2,187), respectively. Until July 2016, Aquiline Capital were shareholders of Group Ark. Christopher E. Watson, a director of the Company and senior principal of Aquiline Capital, serves as a director of Group Ark.
Conning
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 Capital acquired Conning on June 16, 2009. Jeffrey W. Greenberg, a director of the Company, serves as a director of Conning Holdings Corp., the parent company of Conning. During the three months ended September 30, 2015, Aquiline Capital disposed of its investment in Conning. Therefore, effective September 30, 2015, Conning was no longer a related party. Investment management fees earned by Conning for the three and nine months ended September 30, 2015 were $436 and $841, respectively.
Aquiline II
On December 20, 2011, the Company entered into an Agreement with Aquiline Capital and Aquiline II General Partner pursuant to which the Company has assumed 100% of Aquiline Capital's interest in the Aquiline II Partnership representing a total capital commitment of $50,000 (the "Aquiline II Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). On October 2, 2014, the Company assumed an additional investment in the Aquiline II Partnership as part of the Western World acquisition representing a total capital commitment of $10,000. Messrs. Greenberg and Watson, directors of the Company, serve as managing principal and senior principal, respectively, of Aquiline Capital. For the three and nine months ended September 30, 2016, the Company incurred $nil and $440 (2015:$155 and $1,092), respectively, in partnership fees and made net capital contributions (distributions) of $nil and $575 (2015: ($3,684) and $5,293), respectively.
Aquiline III
On November 7, 2014, the Company entered into a Subscription Agreement (the "Subscription Agreement") with the Aquiline III General Partner pursuant to which the Company is committing and agreeing to purchase limited partnership or other comparable limited liability equity interests (the "Limited Partnership Interests") in the "Aquiline III Partnership, and/or one or more Alternative Investment Vehicles and Intermediate Entities (together with the Aquiline III Partnership, the "Fund" or the "Entities") with a capital commitment (the "Aquiline III Commitment") in an amount equal to $100,000, as a limited partner in the Aquiline III Partnership. For the three and nine months ended September 30, 2016, the Company incurred $520 and $1,095 (2015: $666 and $1,239), respectively, in partnership fees and made net capital contributions (distributions) of $nil and $15,732 (2015: ($345) and $13,793), respectively.
(b) Other
Certain shareholders of the Company and their affiliates, as well as employers of entities associated with directors or officers have purchased insurance and/or reinsurance from the Company in the ordinary course of business. The

Company believes these transactions were settled for arm's length consideration.

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17. Earnings per share

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Basic earnings per share | | | | |
| Net income available to Validus common shareholders | 89,844 | 66,650 | 351,617 | 305,851 |
| Less: Dividends on outstanding warrants | — | (1,080) | — | (3,566) |
| Net income allocated to Validus common shareholders | $ 89,844 | $ 65,570 | $ 351,617 | $ 302,285 |
| Weighted average number of common shares outstanding | 80,134,394 | 82,635,316 | 81,635,496 | 83,296,703 |
| Basic earnings per share available to Validus common shareholders | $ 1.12 | $ 0.79 | $ 4.31 | $ 3.63 |
| Earnings per diluted share | | | | |
| Net income available to Validus common shareholders | 89,844 | 66,650 | 351,617 | 305,851 |
| Less: Dividends on outstanding warrants | — | — | — | — |
| Net income allocated to Validus common shareholders | $ 89,844 | $ 66,650 | $ 351,617 | $ 305,851 |
| Weighted average number of common shares outstanding | 80,134,394 | 82,635,316 | 81,635,496 | 83,296,703 |
| Share equivalents: | | | | |
| Warrants | — | 2,054,378 | — | 2,290,892 |
| Stock options | 26,705 | 47,702 | 32,126 | 190,429 |
| Unvested restricted shares | 1,083,457 | 892,098 | 1,271,002 | 1,063,903 |
| Weighted average number of diluted common shares outstanding | 81,244,556 | 85,629,494 | 82,938,624 | 86,841,927 |
| Earnings per diluted share available to Validus common shareholders | $ 1.11 | $ 0.78 | $ 4.24 | $ 3.52 |

Share equivalents that would result in the issuance of common shares of 19,808 (2015: 25,237) and 175,690 (2015: 218,685) were outstanding for the three and nine months ended September 30, 2016, respectively, but were not included in the computation of earnings per diluted share because the effect would be antidilutive.

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18. Segment information

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

Validus Re Segment

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

Talbot Segment

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

Western World Segment

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

AlphaCat Segment

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

Corporate and Investments

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

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

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Validus Re Segment Information | 2016 | 2015 | 2016 | 2015 |
| Underwriting revenues | | | | |
| Gross premiums written | $94,741 | $103,297 | $1,072,219 | $1,112,410 |
| Reinsurance premiums ceded | (15,967) | (15,846) | (111,658) | (149,001) |
| Net premiums written | 78,774 | 87,451 | 960,561 | 963,409 |
| Change in unearned premiums | 149,705 | 153,210 | (241,129) | (205,110) |
| Net premiums earned | 228,479 | 240,661 | 719,432 | 758,299 |
| Other insurance related income (loss) | 58 | 2,569 | (107) | 3,318 |
| Total underwriting revenues | 228,537 | 243,230 | 719,325 | 761,617 |
| | | | | |
| Underwriting deductions | | | | |
| Losses and loss expenses | 98,425 | 120,958 | 313,432 | 357,491 |
| Policy acquisition costs | 42,837 | 42,989 | 127,660 | 128,909 |
| General and administrative expenses | 17,528 | 19,964 | 52,579 | 58,254 |
| Share compensation expenses | 2,695 | 2,691 | 8,371 | 7,665 |
| Total underwriting deductions | 161,485 | 186,602 | 502,042 | 552,319 |
| Underwriting income | $67,052 | $56,628 | $217,283 | $209,298 |
| | | | | |
| Selected ratios: | | | | |
| Ratio of net to gross premiums written | 83.1 % | 84.7 % | 89.6 % | 86.6 % |
| | | | | |
| Losses and loss expense ratio | 43.1 % | 50.3 % | 43.6 % | 47.1 % |
| Policy acquisition cost ratio | 18.7 % | 17.9 % | 17.7 % | 17.0 % |
| General and administrative expense ratio [(a)] | 8.9 % | 9.4 % | 8.5 % | 8.7 % |
| Expense ratio | 27.6 % | 27.3 % | 26.2 % | 25.7 % |
| Combined ratio | 70.7 % | 77.6 % | 69.8 % | 72.8 % |

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

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Talbot Segment Information | 2016 | 2015 | 2016 | 2015 |
| Underwriting revenues | | | | |
| Gross premiums written | $189,674 | $226,025 | $752,058 | $789,148 |
| Reinsurance premiums ceded | (22,877) | (35,823) | (137,496) | (164,144) |
| Net premiums written | 166,797 | 190,202 | 614,562 | 625,004 |
| Change in unearned premiums | 32,258 | 15,942 | (7,166) | 9,167 |
| Net premiums earned | 199,055 | 206,144 | 607,396 | 634,171 |
| Other insurance related income | 99 | 470 | 389 | 564 |
| Total underwriting revenues | 199,154 | 206,614 | 607,785 | 634,735 |
| | | | | |
| Underwriting deductions | | | | |
| Losses and loss expenses | 109,860 | 94,414 | 319,271 | 268,512 |
| Policy acquisition costs | 46,488 | 44,575 | 134,444 | 141,338 |
| General and administrative expenses | 32,333 | 43,292 | 109,929 | 115,341 |
| Share compensation expenses | 3,163 | 3,214 | 9,955 | 9,195 |
| Total underwriting deductions | 191,844 | 185,495 | 573,599 | 534,386 |
| Underwriting income | $7,310 | $21,119 | $34,186 | $100,349 |
| | | | | |
| Selected ratios: | | | | |
| Ratio of net to gross premiums written | 87.9 % | 84.2 % | 81.7 % | 79.2 % |
| | | | | |
| Losses and loss expense ratio | 55.2 % | 45.8 % | 52.6 % | 42.4 % |
| Policy acquisition cost ratio | 23.4 % | 21.6 % | 22.1 % | 22.3 % |
| General and administrative expense ratio [a] | 17.8 % | 22.6 % | 19.7 % | 19.6 % |
| Expense ratio | 41.2 % | 44.2 % | 41.8 % | 41.9 % |
| Combined ratio | 96.4 % | 90.0 % | 94.4 % | 84.3 % |

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

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Western World Segment Information | 2016 | 2015 | 2016 | 2015 |
| Underwriting revenues | | | | |
| Gross premiums written | $85,260 | $70,871 | $236,190 | $207,372 |
| Reinsurance premiums ceded | (6,202) | (4,716) | (15,347) | (13,390) |
| Net premiums written | 79,058 | 66,155 | 220,843 | 193,982 |
| Change in unearned premiums | (8,260) | (2,225) | (22,890) | 2,948 |
| Net premiums earned | 70,798 | 63,930 | 197,953 | 196,930 |
| Other insurance related income | 219 | 248 | 696 | 787 |
| Total underwriting revenues | 71,017 | 64,178 | 198,649 | 197,717 |
| | | | | |
| Underwriting deductions | | | | |
| Losses and loss expenses | 45,748 | 40,810 | 129,623 | 138,098 |
| Policy acquisition costs | 17,094 | 13,214 | 46,704 | 27,110 |
| General and administrative expenses | 10,171 | 9,587 | 33,704 | 29,137 |
| Share compensation expenses | 702 | 554 | 1,825 | 1,525 |
| Total underwriting deductions | 73,715 | 64,165 | 211,856 | 195,870 |
| Underwriting (loss) income | $(2,698) | $13 | $(13,207) | $1,847 |
| | | | | |
| Selected ratios: | | | | |
| Ratio of net to gross premiums written | 92.7 % | 93.3 % | 93.5 % | 93.5 % |
| | | | | |
| Losses and loss expense ratio | 64.6 % | 63.8 % | 65.5 % | 70.1 % |
| Policy acquisition cost ratio | 24.1 % | 20.7 % | 23.6 % | 13.8 % |
| General and administrative expense ratio [a] | 15.4 % | 15.9 % | 17.9 % | 15.6 % |
| Expense ratio | 39.5 % | 36.6 % | 41.5 % | 29.4 % |
| Combined ratio | 104.1 % | 100.4 % | 107.0 % | 99.5 % |

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

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| AlphaCat Segment Information [a] | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | |
| Third party | $7,025 | $5,762 | $14,843 | $14,622 |
| Related party | 1,373 | 1,738 | 2,592 | 4,058 |
| Total revenues | 8,398 | 7,500 | 17,435 | 18,680 |
| | | | | |
| Expenses | | | | |
| General and administrative expenses | 3,324 | 4,124 | 7,557 | 8,883 |
| Share compensation expenses | (107 ) | 141 | 167 | 440 |
| Finance expenses | 31 | 2,297 | 914 | 9,259 |
| Foreign exchange losses (gains) | 5 | (11 ) | 17 | (9 ) |
| Total expenses | 3,253 | 6,551 | 8,655 | 18,573 |
| Income before investments from AlphaCat Funds and Sidecars | 5,145 | 949 | 8,780 | 107 |
| | | | | |
| Investment income (loss) from AlphaCat Funds and Sidecars [b] | | | | |
| AlphaCat Sidecars | (72 ) | 1,445 | 593 | 3,886 |
| AlphaCat ILS Funds - Lower Risk [c] | 2,321 | 2,274 | 6,903 | 5,454 |
| AlphaCat ILS Funds - Higher Risk [c] | 2,479 | 1,807 | 5,607 | 6,608 |
| BetaCat ILS Funds | 1,303 | 1,007 | 2,979 | 1,241 |
| PaCRe | — | (7,963 ) | (23 ) | (2,241 ) |
| Total investment income (loss) from AlphaCat Funds and Sidecars | 6,031 | (1,430 ) | 16,059 | 14,948 |
| Validus' share of AlphaCat segment income (loss) | $11,176 | $(481 ) | $24,839 | $15,055 |
| | | | | |
| Supplemental information: | | | | |
| | | | | |
| Gross premiums written | | | | |
| AlphaCat Sidecars | $(112 ) | $2,079 | $(178 ) | $45,426 |
| AlphaCat ILS Funds - Lower Risk [c] | 2,049 | 1,653 | 112,241 | 90,088 |
| AlphaCat ILS Funds - Higher Risk [c] | 1,797 | 1,374 | 140,127 | 34,192 |
| AlphaCat Direct [d] | 679 | 4,785 | 18,476 | 4,785 |
| Total gross premiums written | $4,413 | $9,891 | $270,666 | $174,491 |

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

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| Corporate and Investment Information | 2016 | 2015 | 2016 | 2015 |
| Investment income | | | | |
| Net investment income [a] | $41,071 | $29,991 | $105,843 | $91,281 |
| | | | | |
| Operating expenses | | | | |
| General and administrative expenses | 18,221 | 18,804 | 52,276 | 51,502 |
| Share compensation expenses | 4,048 | 3,383 | 12,147 | 9,454 |
| Finance expenses [a] | 14,317 | 15,143 | 42,637 | 45,623 |
| Dividends on preferred shares | 2,252 | — | 2,252 | — |
| Tax expense | 1,830 | 2,018 | 1,418 | 7,132 |
| Total operating expenses | 40,668 | 39,348 | 110,730 | 113,711 |
| | | | | |
| Other items | | | | |
| Net realized gains (losses) on investments [a] | 4,080 | (1,233) | 5,514 | 5,051 |
| Change in net unrealized gains on investments [a] | 4,652 | 1,765 | 81,782 | 2,508 |
| Income (loss) from investment affiliate | 453 | 2,482 | (4,249) | 5,542 |
| Foreign exchange (losses) gains [a] | (1,067) | (2,331) | 11,628 | (9,024) |
| Other loss | (1,529) | (1,970) | (773) | (2,578) |
| Total other items | 6,589 | (1,287) | 93,902 | 1,499 |
| Total corporate and investment information | $6,992 | $(10,644) | $89,015 | $(20,931) |

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

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The following tables reconcile the results of our operating segments along with our corporate and investments function to the Consolidated results of the Company for the periods indicated:

| | Three Months Ended September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Validus Re Segment | Talbot Segment | Western World Segment | AlphaCat Segment and Consolidated VIEs | Corporate and Investments | Eliminations | Total |
| Underwriting revenues | | | | | | | |
| Gross premiums written | $94,741 | $189,674 | $85,260 | $ 4,413 | $— | $ (1,670 ) | $372,418 |
| Reinsurance premiums ceded | (15,967 ) | (22,877 ) | (6,202 ) | (1,630 ) | — | 1,670 | (45,006 ) |
| Net premiums written | 78,774 | 166,797 | 79,058 | 2,783 | — | — | 327,412 |
| Change in unearned premiums | 149,705 | 32,258 | (8,260 ) | 62,660 | — | — | 236,363 |
| Net premiums earned | 228,479 | 199,055 | 70,798 | 65,443 | — | — | 563,775 |
| Other insurance related income | 58 | 99 | 219 | 8,656 | — | (8,113 ) | 919 |
| Total underwriting revenues | 228,537 | 199,154 | 71,017 | 74,099 | — | (8,113 ) | 564,694 |
| Underwriting deductions | | | | | | | |
| Losses and loss expenses | 98,425 | 109,860 | 45,748 | 4,361 | — | — | 258,394 |
| Policy acquisition costs | 42,837 | 46,488 | 17,094 | 7,075 | — | (60 ) | 113,434 |
| General and administrative expenses | 17,528 | 32,333 | 10,171 | 12,255 | 18,221 | (8,065 ) | 82,443 |
| Share compensation expenses | 2,695 | 3,163 | 702 | (107 ) | 4,048 | — | 10,501 |
| Total underwriting deductions | 161,485 | 191,844 | 73,715 | 23,584 | 22,269 | (8,125 ) | 464,772 |
| Underwriting income (loss) | $67,052 | $7,310 | $(2,698 ) | $ 50,515 | $ (22,269 ) | $ 12 | $99,922 |
| Other items [(a)] | — | — | — | 1,221 | (9,558 ) | — | (8,337 ) |
| Dividends on preferred shares | — | — | — | — | (2,252 ) | — | (2,252 ) |
| Net investment income | — | — | — | 2,443 | 41,071 | — | 43,514 |
| (Income) attributable to AlphaCat investors | — | — | — | (5,564 ) | — | — | (5,564 ) |
| Net (income) attributable to noncontrolling interest | — | — | — | (37,439 ) | — | — | (37,439 ) |
| Segmental income (loss) | $67,052 | $7,310 | $(2,698 ) | $ 11,176 | $ 6,992 | $ 12 | |
| Net income available to Validus common shareholders | | | | | | | $89,844 |

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

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| | Three Months Ended September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Validus Re Segment | Talbot Segment | Western World Segment | AlphaCat Segment and Consolidated VIEs | Corporate and Investments | Eliminations | Total |
| Underwriting revenues | | | | | | | |
| Gross premiums written | $103,297 | $226,025 | $70,871 | $ 9,891 | $ — | $ (7,575 ) | $402,509 |
| Reinsurance premiums ceded | (15,846 ) | (35,823 ) | (4,716 ) | — | — | 7,575 | (48,810 ) |
| Net premiums written | 87,451 | 190,202 | 66,155 | 9,891 | — | — | 353,699 |
| Change in unearned premiums | 153,210 | 15,942 | (2,225 ) | 34,385 | — | — | 201,312 |
| Net premiums earned | 240,661 | 206,144 | 63,930 | 44,276 | — | — | 555,011 |
| Other insurance related income | 2,569 | 470 | 248 | 7,719 | — | (7,510 ) | 3,496 |
| Total underwriting revenues | 243,230 | 206,614 | 64,178 | 51,995 | — | (7,510 ) | 558,507 |
| | | | | | | | |
| Underwriting deductions | | | | | | | |
| Losses and loss expenses | 120,958 | 94,414 | 40,810 | (172 ) | — | — | 256,010 |
| Policy acquisition costs | 42,989 | 44,575 | 13,214 | 4,606 | — | (345 ) | 105,039 |
| General and administrative expenses | 19,964 | 43,292 | 9,587 | 12,419 | 18,804 | (7,180 ) | 96,886 |
| Share compensation expenses | 2,691 | 3,214 | 554 | 141 | 3,383 | — | 9,983 |
| Total underwriting deductions | 186,602 | 185,495 | 64,165 | 16,994 | 22,187 | (7,525 ) | 467,918 |
| | | | | | | | |
| Underwriting income (loss) | $56,628 | $21,119 | $13 | $ 35,001 | $ (22,187 ) | $ 15 | $90,589 |
| | | | | | | | |
| Other items [(a)] | — | — | — | (9,396 ) | (18,448 ) | — | (27,844 ) |
| Dividends on preferred shares | — | — | — | — | — | — | — |
| Net investment income | — | — | — | 1,581 | 29,991 | — | 31,572 |
| (Income) attributable to AlphaCat investors | — | — | — | (1,438 ) | — | — | (1,438 ) |
| Net (income) attributable to noncontrolling interest | — | — | — | (26,229 ) | — | — | (26,229 ) |
| Segmental income (loss) | $56,628 | $21,119 | $13 | $ (481 ) | $ (10,644 ) | $ 15 | |
| | | | | | | | |
| Net income available to Validus common shareholders | | | | | | | $66,650 |

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

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

| | Nine Months Ended September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Validus Re Segment | Talbot Segment | Western World Segment | AlphaCat Segment and Consolidated VIEs | Corporate and Investments | Eliminations | Total |
| Underwriting revenues | | | | | | | |
| Gross premiums written | $1,072,219 | $752,058 | $236,190 | $270,666 | $— | $(21,882) | $2,309,251 |
| Reinsurance premiums ceded | (111,658) | (137,496) | (15,347) | (6,451) | — | 21,882 | (249,070) |
| Net premiums written | 960,561 | 614,562 | 220,843 | 264,215 | — | — | 2,060,181 |
| Change in unearned premiums | (241,129) | (7,166) | (22,890) | (80,230) | — | — | (351,415) |
| Net premiums earned | 719,432 | 607,396 | 197,953 | 183,985 | — | — | 1,708,766 |
| Other insurance related (loss) income | (107) | 389 | 696 | 17,722 | — | (16,300) | 2,400 |
| Total underwriting revenues | 719,325 | 607,785 | 198,649 | 201,707 | — | (16,300) | 1,711,166 |
| Underwriting deductions | | | | | | | |
| Losses and loss expenses | 313,432 | 319,271 | 129,623 | 27,645 | — | — | 789,971 |
| Policy acquisition costs | 127,660 | 134,444 | 46,704 | 19,762 | — | 23 | 328,593 |
| General and administrative expenses | 52,579 | 109,929 | 33,704 | 26,272 | 52,276 | (16,421) | 258,339 |
| Share compensation expenses | 8,371 | 9,955 | 1,825 | 167 | 12,147 | — | 32,465 |
| Total underwriting deductions | 502,042 | 573,599 | 211,856 | 73,846 | 64,423 | (16,398) | 1,409,368 |
| Underwriting income (loss) | $217,283 | $34,186 | $(13,207) | $127,861 | $(64,423) | $98 | $301,798 |
| Other items [(a)] | — | — | — | 2,433 | 49,847 | — | 52,280 |
| Dividends on preferred shares | — | — | — | — | (2,252) | — | (2,252) |
| Net investment income | — | — | — | 6,986 | 105,843 | (597) | 112,232 |
| (Income) attributable to AlphaCat investors | — | — | — | (16,278) | — | — | (16,278) |
| Net (income) attributable to noncontrolling interest | — | — | — | (96,163) | — | — | (96,163) |
| Segmental income (loss) | $217,283 | $34,186 | $(13,207) | $24,839 | $89,015 | $(499) | |
| Net income available to Validus common shareholders | | | | | | | $351,617 |

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

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

| | Nine Months Ended September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Validus Re Segment | Talbot Segment | Western World Segment | AlphaCat Segment and Consolidated VIEs | Corporate and Investments | Eliminations | Total |
| Underwriting revenues | | | | | | | |
| Gross premiums written | $1,112,410 | $789,148 | $207,372 | $ 174,491 | $— | $ (35,520) | $2,247,901 |
| Reinsurance premiums ceded | (149,001) | (164,144) | (13,390) | (4,538) | — | 35,520 | (295,553) |
| Net premiums written | 963,409 | 625,004 | 193,982 | 169,953 | — | — | 1,952,348 |
| Change in unearned premiums | (205,110) | 9,167 | 2,948 | (55,764) | — | — | (248,759) |
| Net premiums earned | 758,299 | 634,171 | 196,930 | 114,189 | — | — | 1,703,589 |
| Other insurance related income | 3,318 | 564 | 787 | 19,175 | — | (18,700) | 5,144 |
| Total underwriting revenues | 761,617 | 634,735 | 197,717 | 133,364 | — | (18,700) | 1,708,733 |
| | | | | | | | |
| Underwriting deductions | | | | | | | |
| Losses and loss expenses | 357,491 | 268,512 | 138,098 | (1,016) | — | — | 763,085 |
| Policy acquisition costs | 128,909 | 141,338 | 27,110 | 11,783 | — | (1,367) | 307,773 |
| General and administrative expenses | 58,254 | 115,341 | 29,137 | 28,478 | 51,502 | (17,566) | 265,146 |
| Share compensation expenses | 7,665 | 9,195 | 1,525 | 440 | 9,454 | — | 28,279 |
| Total underwriting deductions | 552,319 | 534,386 | 195,870 | 39,685 | 60,956 | (18,933) | 1,364,283 |
| | | | | | | | |
| Underwriting income (loss) | $209,298 | $100,349 | $1,847 | $ 93,679 | $ (60,956) | $ 233 | $344,450 |
| | | | | | | | |
| Other items [(a)] | — | — | — | (15,149) | (51,256) | — | (66,405) |
| Dividends on preferred shares | — | — | — | — | — | — | — |
| Net investment income | — | — | — | 4,931 | 91,281 | — | 96,212 |
| (Income) attributable to AlphaCat investors | — | — | — | (1,438) | — | — | (1,438) |
| Net (income) attributable to noncontrolling interest | — | — | — | (66,968) | — | — | (66,968) |
| Segmental income (loss) | $209,298 | $100,349 | $1,847 | $ 15,055 | $ (20,931) | $ 233 | |
| | | | | | | | |
| Net income available to Validus | | | | | | | $305,851 |

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

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

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

| | Gross Premiums Written Three Months Ended September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Validus Re | Talbot | Western World | AlphaCat | Eliminations | Total | % |
| United States | $31,345 | $19,937 | $85,260 | $1,837 | $(76) | $138,303 | 37.1 % |
| Worldwide excluding United States [(a)] | 4,145 | 40,058 | — | (288) | (39) | 43,876 | 11.7 % |
| Australia and New Zealand | 57 | 3,238 | — | — | 6 | 3,301 | 0.9 % |
| Europe | 4,536 | 4,957 | — | — | 40 | 9,533 | 2.6 % |
| Latin America and Caribbean | 17,036 | 25,173 | — | — | (793) | 41,416 | 11.1 % |
| Japan | (33) | 997 | — | — | 7 | 971 | 0.3 % |
| Canada | 149 | 2,015 | — | — | (42) | 2,122 | 0.6 % |
| Rest of the world [(b)] | 2,360 | 19,166 | — | — | 66 | 21,592 | 5.8 % |
| Sub-total, non United States | 28,250 | 95,604 | — | (288) | (755) | 122,811 | 33.0 % |
| Worldwide including United States [(a)] | 22,399 | 12,771 | — | 2,872 | (838) | 37,204 | 10.0 % |
| Other locations non-specific [(c)] | 12,747 | 61,362 | — | (8) | (1) | 74,100 | 19.9 % |
| Total | $94,741 | $189,674 | $85,260 | $4,413 | $(1,670) | $372,418 | 100.0% |

| | Gross Premiums Written Three Months Ended September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Validus Re | Talbot | Western World | AlphaCat | Eliminations | Total | % |
| United States | $34,968 | $21,886 | $70,871 | $4,076 | $(307) | $131,494 | 32.6 % |
| Worldwide excluding United States [(a)] | 5,477 | 30,721 | — | 101 | (208) | 36,091 | 9.0 % |
| Australia and New Zealand | 473 | 3,520 | — | — | (85) | 3,908 | 1.0 % |
| Europe | 6,165 | 7,839 | — | (8) | (101) | 13,895 | 3.5 % |
| Latin America and Caribbean | 17,079 | 27,249 | — | — | (2,024) | 42,304 | 10.5 % |
| Japan | (10) | 1,149 | — | — | (84) | 1,055 | 0.3 % |
| Canada | 315 | 1,455 | — | (30) | (71) | 1,669 | 0.4 % |
| Rest of the world [(b)] | 2,643 | 28,380 | — | — | (521) | 30,502 | 7.6 % |
| Sub-total, non United States | 32,142 | 100,313 | — | 63 | (3,094) | 129,424 | 32.3 % |
| Worldwide including United States [(a)] | 9,542 | 20,296 | — | 4,960 | (4,072) | 30,726 | 7.6 % |
| Other locations non-specific [(c)] | 26,645 | 83,530 | — | 792 | (102) | 110,865 | 27.5 % |
| Total | $103,297 | $226,025 | $70,871 | $9,891 | $(7,575) | $402,509 | 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 since these exposures can span multiple geographic areas and, in some instances, are not fixed locations.

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

| | Gross Premiums Written Nine Months Ended September 30, 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Validus Re | Talbot | Western World | AlphaCat | Eliminations | Total | % |
| United States | $455,826 | $85,182 | $236,190 | $64,566 | $ (1,631) | $840,133 | 36.4 % |
| Worldwide excluding United States [(a)] | 51,384 | 105,590 | — | 22,219 | (650) | 178,543 | 7.8 % |
| Australia and New Zealand | 6,906 | 7,613 | — | 4,949 | (107) | 19,361 | 0.8 % |
| Europe | 30,270 | 25,673 | — | 3,306 | (668) | 58,581 | 2.5 % |
| Latin America and Caribbean | 36,610 | 76,577 | — | — | (6,330) | 106,857 | 4.6 % |
| Japan | 39,892 | 5,579 | — | 3,221 | (24) | 48,668 | 2.1 % |
| Canada | 3,646 | 5,577 | — | 223 | (129) | 9,317 | 0.4 % |
| Rest of the world [(b)] | 22,307 | 76,456 | — | — | (2,276) | 96,487 | 4.2 % |
| Sub-total, non United States | 191,015 | 303,065 | — | 33,918 | (10,184) | 517,814 | 22.4 % |
| Worldwide including United States [(a)] | 169,737 | 75,423 | — | 170,639 | (10,052) | 405,747 | 17.6 % |
| Other locations non-specific [(c)] | 255,641 | 288,388 | — | 1,543 | (15) | 545,557 | 23.6 % |
| Total | $1,072,219 | $752,058 | $236,190 | $270,666 | $ (21,882) | $2,309,251 | 100.0% |

| | Gross Premiums Written Nine Months Ended September 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Validus Re | Talbot | Western World | AlphaCat | Eliminations | Total | % |
| United States | $544,988 | $89,980 | $207,372 | $41,021 | $ (2,189) | $881,172 | 39.2 % |
| Worldwide excluding United States [(a)] | 52,765 | 95,894 | — | 8,107 | (1,141) | 155,625 | 6.9 % |
| Australia and New Zealand | 11,980 | 6,569 | — | 624 | (211) | 18,962 | 0.8 % |
| Europe | 47,182 | 31,637 | — | 2,504 | (1,005) | 80,318 | 3.6 % |
| Latin America and Caribbean | 34,011 | 78,634 | — | — | (9,837) | 102,808 | 4.6 % |
| Japan | 39,174 | 4,746 | — | 1,671 | (142) | 45,449 | 2.0 % |
| Canada | 3,097 | 5,452 | — | 458 | (195) | 8,812 | 0.4 % |
| Rest of the world [(b)] | 24,323 | 76,368 | — | — | (3,063) | 97,628 | 4.3 % |
| Sub-total, non United States | 212,532 | 299,300 | — | 13,364 | (15,594) | 509,602 | 22.6 % |
| Worldwide including United States [(a)] | 132,353 | 74,794 | — | 115,264 | (17,731) | 304,680 | 13.6 % |
| Other locations non-specific [(c)] | 222,537 | 325,074 | — | 4,842 | (6) | 552,447 | 24.6 % |
| Total | $1,112,410 | $789,148 | $207,372 | $174,491 | $ (35,520) | $2,247,901 | 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 since these exposures can span multiple geographic areas and, in some instances, are not fixed locations.

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

19. Subsequent events
Hurricane Matthew

On October 8, 2016, Hurricane Matthew made landfall in South Carolina causing widespread flooding and property damage across it and a number of other states. The Company is reviewing its exposure to this event based on in-force contracts and preliminary loss information from clients. The Company currently estimates that the net loss attributable to the Company from this event will likely be in the range of $24,000 to $64,000 based on an estimated industry loss of between $3,000,000 and $8,300,000.

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

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

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

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Executive Overview

Validus Holdings, Ltd. (the "Company" or "Validus Holdings") conducts its operations worldwide through four operating segments which have been determined under U.S. GAAP segment reporting to be Validus Re, Talbot, Western World, and AlphaCat. A summary of each of the Company's operating segments is as follows:

- Validus Re is a Bermuda-based reinsurance segment focused on treaty reinsurance;
- Talbot is a specialty insurance segment, primarily operating within the Lloyd's insurance market through Syndicate 1183;
- Western World is a U.S. based specialty excess and surplus lines insurance segment operating within the U.S. commercial market; and
- AlphaCat is a Bermuda based investment adviser managing capital for third parties and the Company in insurance linked securities and other property catastrophe and specialty reinsurance investments.

In addition, the Company has a corporate and investment function ("Corporate"), which includes the activities of the parent company, and which carries out certain functions for the group, including investment management. Corporate includes investment income on a managed basis and other non-segment expenses, predominantly general and administrative, stock compensation and finance expenses. The Company's corporate expenses, capital servicing and debt costs and investment results are presented separately within the corporate and investment function discussion.

The Company's strategy is to concentrate primarily on short-tail risks, which has been an area where management believes prices and terms provide an attractive risk-adjusted return and the management team has proven expertise. The Company's profitability in any given period is a function of net earned premium and investment revenues, less net losses and loss expenses, acquisition expenses and operating expenses. The Company's insurance and reinsurance portfolio, as measured by gross premium written, was comprised of 37% insurance and 63% reinsurance for the nine months ended September 30, 2016 (2015: 39% insurance and 61% reinsurance), compared to 46% insurance and 54% reinsurance for the year ended December 31, 2015. The change in portfolio composition was driven primarily by the seasonality of reinsurance renewals. Financial results in the insurance and reinsurance industry are influenced by the frequency and/or severity of claims and losses, including as a result of catastrophic events; changes in interest rates, financial markets and general economic conditions; the supply of insurance and reinsurance capacity and changes in legal, regulatory and judicial environments.

Business Outlook and Trends

The Company underwrites global property insurance and reinsurance and has 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 along with 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 have historically 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. The Company also expects that increases in the values and concentrations of insured property will increase the severity of such occurrences in the future. The Company seeks to reflect these types of trends when pricing contracts.

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

During the January 2016 renewal season, the Validus Re and AlphaCat segments in total underwrote $610.5 million in gross premiums written (excluding U.S. agriculture premiums and net of intercompany eliminations between Validus Re and AlphaCat), an increase of 12.9% from the prior year renewal period. This increase was primarily driven by an increase in AlphaCat AUM and new business in the casualty and specialty lines, partially offset by non-renewed business in the property and marine lines due to rate reductions. The U.S. property lines experienced rate declines in the low single-digits, while rate declines in the international property lines were more challenging, with rates down closer to 10%. The marine lines experienced rate declines in the mid-single digits due to the worldwide reduction in oil prices. During the mid-year 2016 renewal period, the U.S. property market saw a

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continuation of the rate trend observed at the January 2016 renewals where rate declines were in the low single-digits. However, the rate environment in the international property market proved to be more challenging as market participants actively pursued diversification of exposure, often at the expense of profit, which resulted in average rate reductions of about 10%.
Business written by the Talbot and Western World segments is distributed more evenly throughout the year. Through September 30, 2016, the Talbot segment experienced a whole account rate decrease of approximately 6.1% driven primarily by decreases in energy and political lines. The Western World segment experienced a modest whole account rate increase of approximately 0.8% through September 30, 2016.
Financial Measures
Key Financial Indicators
The Company believes that the key financial indicator for evaluating our performance and measuring the overall growth in value generated for its shareholders is book value per diluted common share plus accumulated dividends. Book value per diluted common share plus accumulated dividends, together with other key book value financial indicators, are shown in the table below:

| | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Book value per diluted common share plus accumulated dividends [a] | $56.37 | $52.49 |
| Book value per diluted common share [a] | $45.16 | $42.33 |
| Tangible book value per diluted common share [a] | $41.35 | $38.63 |

(a) These are non-GAAP financial measures which are described in the section entitled “Non-GAAP Financial Measures."

Book value per diluted common share plus accumulated dividends is considered by management to be the key financial indicator of performance, as the Company believes 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 is calculated based on total shareholders’ equity available to Validus excluding the $150.0 million liquidation value of the preferred shares, 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 increased by $3.88, or 7.4%, from $52.49 at December 31, 2015 to $56.37 at September 30, 2016. Cash dividends per common share are an integral part of the value created for shareholders. The Company has paid cash dividends of $1.05 per common share during the nine months ended September 30, 2016.
Book value per diluted common share is considered by management to be a measure of returns to common shareholders, as the Company believes growth in book value on a diluted basis ultimately translates into growth in stock price.
Book value per diluted common share after dividends paid increased by $2.83, or 6.7%, from $42.33 at December 31, 2015 to $45.16 at September 30, 2016. Growth in book value per diluted common share inclusive of dividends was 2.5% and 1.9% for the three months ended September 30, 2016 and 2015, respectively, and 9.2% and 8.1% for the nine months ended September 30, 2016 and 2015, respectively. All outstanding warrants expired on December 12, 2015 and no further warrants are anticipated to be issued.
Tangible book value per diluted common share is considered by management to be a measure of returns to common shareholders excluding intangible assets and goodwill, as the Company believes growth in tangible book value on a diluted basis ultimately translates into growth in the tangible value of the Company. Tangible book value per diluted common share is calculated based on total shareholders’ equity available to Validus excluding the $150.0 million liquidation value of the preferred shares, less goodwill and intangible assets, plus the assumed proceeds from the exercise of outstanding options and warrants; divided by the sum of common shares, unvested restricted shares, options and warrants outstanding (assuming their exercise).
Tangible book value per diluted common share increased by $2.72, or 7.0%, from $38.63 at December 31, 2015 to $41.35 at September 30, 2016.

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Other Financial Indicators

The Company believes that the following other financial indicators are beneficial in evaluating our performance and measuring the overall growth in value generated for shareholders:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2016 | 2015 | 2016 | 2015 |
| Underwriting income [(a)] | $99,922 | $90,589 | $301,798 | $344,450 |
| Net operating income available to Validus common shareholders [(a)] | $82,597 | $65,763 | $254,875 | $304,354 |
| Annualized return on average equity | 9.7% | 7.3% | 12.7% | 11.2% |
| Annualized net operating return on average equity [(a)] | 8.9% | 7.2% | 9.2% | 11.1% |

(a) This is a non-GAAP financial measure which is described 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, finance expenses, tax (expense) benefit, income (loss) from operating affiliates, (income) attributable to AlphaCat investors, net realized and change in unrealized gains (losses) on investments, income (loss) from investment affiliate, foreign exchange gains (losses), other income (loss), non-recurring items and net (income) attributable to noncontrolling interest. The Company believes the reporting of underwriting income enhances the understanding of results by highlighting the underlying profitability of the Company’s core insurance and reinsurance operations.

Underwriting income was $99.9 million and $90.6 million for the three months ended September 30, 2016 and 2015, respectively, and $301.8 million and $344.5 million for the nine months ended September 30, 2016 and 2015, respectively.

Net operating income available to Validus common shareholders is defined as net income (loss) excluding net realized and change in net unrealized gains (losses) on investments, income (loss) from investment affiliate, foreign exchange gains (losses), other income (loss), non-recurring items, operating (income) attributable to noncontrolling interest and dividends on preferred shares. This measure focuses on the underlying fundamentals of the Company's operations without the influence of gains (losses) from the sale of investments, translation of non-U.S. dollar currencies, non-recurring items, (income) attributable to noncontrolling interest and dividends on preferred shares.

Net operating income available to Validus common shareholders was $82.6 million and $65.8 million for the three months ended September 30, 2016 and 2015, respectively, and $254.9 million and $304.4 million for the nine months ended September 30, 2016 and 2015, respectively.

Annualized return on average equity represents the return generated on common shareholders’ equity during the period. Annualized return on average equity is calculated by dividing the net income available to Validus common shareholders for the period by the average shareholders’ equity available to Validus during the period. Average shareholders’ equity is the average of the beginning, ending and intervening quarter end shareholders’ equity balances, excluding the $150.0 million liquidation value of the preferred shares. The Company’s objective is to generate superior returns on capital that appropriately reward shareholders for the risks assumed.

The annualized return on average equity was 9.7% and 7.3% for the three months ended September 30, 2016 and 2015, respectively, and 12.7% and 11.2% for the nine months ended September 30, 2016 and 2015, respectively.

Annualized net operating return on average equity represents the net operating return generated on common shareholders’ equity during the period. Annualized net operating return on average equity is calculated by dividing the net operating income available to Validus common shareholders for the period by the average shareholders’ equity available to Validus during the period. Average shareholders’ equity is the average of the beginning, ending and intervening quarter end shareholders’ equity balances, excluding the $150.0 million liquidation value of the preferred shares.

The annualized net operating return on average equity was 8.9% and 7.2% for the three months ended September 30, 2016 and 2015, respectively, and 9.2% and 11.1% for the nine months ended September 30, 2016 and 2015, respectively.

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Third Quarter 2016 Summarized Results of Operations - Consolidated

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

| | Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Underwriting revenues | | | |
| Gross premiums written | $372,418 | $(30,091) | $402,509 |
| Reinsurance premiums ceded | (45,006) | 3,804 | (48,810) |
| Net premiums written | 327,412 | (26,287) | 353,699 |
| Change in unearned premiums | 236,363 | 35,051 | 201,312 |
| Net premiums earned | 563,775 | 8,764 | 555,011 |
| Other insurance related income | 919 | (2,577) | 3,496 |
| Total underwriting revenues | 564,694 | 6,187 | 558,507 |
| Underwriting deductions | | | |
| Losses and loss expenses | 258,394 | 2,384 | 256,010 |
| Policy acquisition costs | 113,434 | 8,395 | 105,039 |
| General and administrative expenses | 82,443 | (14,443) | 96,886 |
| Share compensation expenses | 10,501 | 518 | 9,983 |
| Total underwriting deductions | 464,772 | (3,146) | 467,918 |
| Underwriting income [(a)] | $99,922 | $9,333 | $90,589 |
| | | | |
| Net investment income | 43,514 | 11,942 | 31,572 |
| Finance expenses | (14,521) | 3,991 | (18,512) |
| Dividends on preferred shares | (2,252) | (2,252) | — |
| Tax expense | (1,830) | 188 | (2,018) |
| Loss from operating affiliates | — | 7,963 | (7,963) |
| (Income) attributable to AlphaCat investors | (5,564) | (4,126) | (1,438) |
| Net (income) attributable to noncontrolling interests | (36,672) | (10,205) | (26,467) |
| Net operating income available to Validus common shareholders [(a)] | $82,597 | $16,834 | $65,763 |
| | | | |
| Supplemental information: | | | |
| Losses and loss expenses: | | | |
| Current period excluding items below | $288,650 | $10,042 | $278,608 |
| Current period—notable loss events | 986 | (47,990) | 48,976 |
| Current period—non-notable loss events | 21,643 | (532) | 22,175 |
| Change in prior accident years | (52,885) | 40,864 | (93,749) |
| Total losses and loss expenses | $258,394 | $2,384 | $256,010 |
| Selected ratios: | | | |
| Ratio of net to gross premiums written | 87.9 % | — | 87.9 % |
| Losses and loss expense ratio: | | | |
| Current period excluding items below | 51.2 % | 1.0 | 50.2 % |
| Current period—notable loss events | 0.2 % | (8.6) | 8.8 % |
| Current period—non-notable loss events | 3.8 % | (0.2) | 4.0 % |
| Change in prior accident years | (9.4)% | 7.5 | (16.9)% |
| Losses and loss expense ratio | 45.8 % | (0.3) | 46.1 % |
| Policy acquisition cost ratio | 20.1 % | 1.2 | 18.9 % |
| General and administrative expense ratio [(b)] | 16.5 % | (2.8) | 19.3 % |
| Expense ratio | 36.6 % | (1.6) | 38.2 % |
| Combined ratio | 82.4 % | (1.9) | 84.3 % |

(a) Non-GAAP Financial Measures. In presenting the Company’s results, management has included and discussed underwriting income and operating income that are not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Further discussion of these measures is presented in the section entitled “Non-GAAP Financial Measures.”

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

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Third Quarter 2016 Summarized Results of Operations - Consolidated

Highlights for the third quarter 2016 as compared to 2015 were as follows:

- Gross premiums written for the three months ended September 30, 2016 were $372.4 million compared to $402.5 million for the three months ended September 30, 2015, a decrease of $30.1 million, or 7.5%. The decrease in gross premiums written was driven by:
  - Gross premiums written for the three months ended September 30, 2016 in the Talbot segment were $189.7 million compared to $226.0 million for the three months ended September 30, 2015, a decrease of $36.4 million or 16.1%. The decrease was primarily driven as a result of foreign exchange and the timing of renewals and current market conditions and was partially offset by an increase in premium estimates;
  - Gross premiums written for the three months ended September 30, 2016 in the Validus Re segment were $94.7 million compared to $103.3 million for the three months ended September 30, 2015, a decrease of $8.6 million or 8.3%. The decrease was primarily driven by a decrease across the property and marine classes due to the timing of renewals and current market conditions; and,
  - Gross premiums written in the AlphaCat segment, on behalf of the Company's variable interest entities ("VIEs"), were $4.4 million for the three months ended September 30, 2016, compared to $9.9 million for the three months ended September 30, 2015, a decrease of $5.5 million or 55.4%; partially offset by,
  - Gross premiums written for the three months ended September 30, 2016 in the Western World segment were $85.3 million compared to $70.9 million for the three months ended September 30, 2015, an increase of $14.4 million or 20.3%, primarily as a result of continued enhancements to the underwriting platform in short tail lines.
- Underwriting revenues for the three months ended September 30, 2016 were $564.7 million compared to $558.5 million for the three months ended September 30, 2015, an increase of $6.2 million or 1.1%.
- Losses and loss expenses for the three months ended September 30, 2016 were $258.4 million compared to $256.0 million for the three months ended September 30, 2015, an increase of $2.4 million or 0.9%.

Notable and Non-notable Loss Events

- The Company defines a notable loss event as an event whereby consolidated net losses and loss expenses aggregate to a threshold greater than or equal to $30.0 million.
- The Company defines a non-notable loss event as an event whereby consolidated net losses and loss expenses aggregate to a threshold greater than or equal to $15.0 million but less than $30.0 million.

| | Three Months Ended September 30, 2016 | | | |
|---|---|---|---|---|
| | Notable Loss Event | Non-notable Loss Events | | Total |
| (Dollars in thousands) | Canadian Wildfires | Texas Hailstorms | SpaceX | |
| Validus' Share of Net Losses and Loss Expenses | $986 | $1,400 | $20,243 | $22,629 |
| Less: Reinstatement Premiums, net | — | — | (1,240 ) | (1,240 ) |
| Net Loss Attributable to Validus | $986 | $1,400 | $19,003 | $21,389 |

- For the three months ended September 30, 2016, losses and loss expenses from the Canadian Wildfires second quarter 2016 notable loss event were $1.0 million, or 0.2 percentage points of the loss ratio.
- For the three months ended September 30, 2016, losses and loss expenses from non-notable loss events were $21.6 million, or 3.8 percentage points of the loss ratio. Losses and loss expenses related to SpaceX, the September 1st rocket explosion at Cape Canaveral, Florida, were $20.2 million, or 3.6 percentage points of the loss ratio. Net of reinstatement premiums of $1.2 million, the net loss attributable to the Company from this event was $19.0 million. In addition, losses and loss expenses of $1.4 million, or 0.2 percentage points of the loss ratio, related to the Texas Hailstorms second quarter 2016 non-notable loss event.

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| | Three Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Notable Loss Events | | Non-notable Loss Event | |
| (Dollars in thousands) | Tianjin | Pemex | 2015 Chilean Earthquake | Total |
| Validus' Share of Net Losses and Loss Expenses | $47,789 | $1,187 | $ 22,175 | $71,151 |
| Less: Reinstatement Premiums, net | (3,896 ) | — | (2,200 ) | (6,096 ) |
| Net Loss Attributable to Validus | $43,893 | $1,187 | $ 19,975 | $65,055 |

- During the three months ended September 30, 2015, the Company incurred losses and loss expenses from two notable loss events; the August 12th port explosion in Tianjin, China and Pemex, a second quarter 2015 event, and one non-notable loss event, the 2015 Chilean earthquake.
- The two notable loss events resulted in net losses and loss expenses to the Company of $49.0 million, or 8.8 percentage points of the loss ratio. Net of $3.9 million of reinstatement premiums, the effect of these events on the Company's underwriting income was a reduction of $45.1 million. Losses and loss expenses from the non-notable loss event were $22.2 million, or 4.0 percentage points of the loss ratio. Net of $2.2 million of reinstatement premiums, the effect of this event on the Company's underwriting income was a reduction of $20.0 million.

Loss Ratios

- For the three months ended September 30, 2016, the loss ratio across all lines of business was 45.8% which included favorable loss reserve development on prior accident years of $52.9 million, benefiting the loss ratio by 9.4 percentage points. The favorable loss reserve development on prior accident years of $52.9 million was primarily due to favorable development of attritional losses of $32.6 million and favorable development on event specific reserves of $20.3 million, primarily related to Tianjin and the 2015 Chilean earthquake. The term "events" refers to aggregate notable and non-notable losses incurred.
- For the three months ended September 30, 2015, the loss ratio across all lines of business was 46.1% which included favorable loss reserve development on prior accident years of $93.7 million, benefiting the loss ratio by 16.9 percentage points. The favorable loss reserve development on prior accident years of $93.7 million was primarily due to favorable development of attritional losses of $63.9 million and favorable development on event specific reserves of $29.8 million, primarily related to Superstorm Sandy.
- The combined ratio for the three months ended September 30, 2016 was 82.4% compared to 84.3% for the three months ended September 30, 2015.
- Loss ratios by line of business for the three months ended September 30, 2016 were as follows:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Property | 27.5 % | (6.9 ) | 34.4 % |
| Marine | 60.1 % | 6.3 | 53.8 % |
| Specialty | 55.6 % | 5.9 | 49.7 % |
| Liability | 66.8 % | 0.2 | 66.6 % |
| All lines | 45.8 % | (0.3 ) | 46.1 % |

- Policy acquisition costs for the three months ended September 30, 2016 were $113.4 million compared to $105.0 million for the three months ended September 30, 2015, an increase of $8.4 million or 8.0%. The year on year increase was primarily related to the amortization of the Western World acquisition date fair value adjustments which reduced the ratio during the three months ended September 30, 2015.
- Underwriting income for the three months ended September 30, 2016 was $99.9 million compared to $90.6 million for the three months ended September 30, 2015, an increase of $9.3 million or 10.3% primarily as a result of the changes in underwriting revenues and deductions described above.
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Net operating income available to Validus common shareholders for the three months ended September 30, 2016 was $82.6 million compared to $65.8 million for the three months ended September 30, 2015, an increase of $16.8 million, or 25.6%.

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Segment Reporting

The Company operates four reportable segments: Validus Re, Talbot, Western World and AlphaCat.

Third Quarter 2016 Results of Operations - Validus Re Segment

The following table presents a comparison of the underwriting income for the three months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Underwriting revenues | | | |
| Gross premiums written | $94,741 | $(8,556) | $103,297 |
| Reinsurance premiums ceded | (15,967) | (121) | (15,846) |
| Net premiums written | 78,774 | (8,677) | 87,451 |
| Change in unearned premiums | 149,705 | (3,505) | 153,210 |
| Net premiums earned | 228,479 | (12,182) | 240,661 |
| Other insurance related income | 58 | (2,511) | 2,569 |
| Total underwriting revenues | 228,537 | (14,693) | 243,230 |
| Underwriting deductions | | | |
| Losses and loss expenses | 98,425 | (22,533) | 120,958 |
| Policy acquisition costs | 42,837 | (152) | 42,989 |
| General and administrative expenses | 17,528 | (2,436) | 19,964 |
| Share compensation expenses | 2,695 | 4 | 2,691 |
| Total underwriting deductions | 161,485 | (25,117) | 186,602 |
| Underwriting income [(a)] | $67,052 | $10,424 | $56,628 |
| | | | |
| Supplemental information: | | | |
| Losses and loss expenses: | | | |
| Current period excluding items below | $121,103 | $4,163 | $116,940 |
| Current period—notable loss events | — | (36,993) | 36,993 |
| Current period—non-notable loss events | 10,355 | (7,145) | 17,500 |
| Change in prior accident years | (33,033) | 17,442 | (50,475) |
| Total losses and loss expenses | $98,425 | $(22,533) | $120,958 |
| | | | |
| Selected ratios: | | | |
| Ratio of net to gross premiums written | 83.1 % | (1.6) | 84.7 % |
| Losses and loss expense ratio: | | | |
| Current period excluding items below | 53.1 % | 4.5 | 48.6 % |
| Current period—notable loss events | — % | (15.4) | 15.4 % |
| Current period—non-notable loss events | 4.5 % | (2.8) | 7.3 % |
| Change in prior accident years | (14.5)% | 6.5 | (21.0)% |
| Losses and loss expense ratio | 43.1 % | (7.2) | 50.3 % |
| Policy acquisition cost ratio | 18.7 % | 0.8 | 17.9 % |
| General and administrative expense ratio [(b)] | 8.9 % | (0.5) | 9.4 % |
| Expense ratio | 27.6 % | 0.3 | 27.3 % |
| Combined ratio | 70.7 % | (6.9) | 77.6 % |

(a) Non-GAAP Financial Measures. In presenting the Company’s results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Further discussion of these measures is presented in the section entitled “Non-GAAP Financial Measures.”

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

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Gross Premiums Written

| | Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total |
| Property | $53,761 | 56.8 % | $(11,633) | (6.5 ) | $65,394 | 63.3 % |
| Marine | (4,533 ) | (4.8 )% | (17,939 ) | (17.8) | 13,406 | 13.0 % |
| Specialty | 45,513 | 48.0 % | 21,016 | 24.3 | 24,497 | 23.7 % |
| Total | $94,741 | 100.0 % | $(8,556 ) | | $103,297 | 100.0% |

The decrease in gross premiums written in the property lines of $11.6 million was primarily due to reductions in our participation and non-renewals on various programs due to the current rate environment and adjustments to existing business. The decrease in gross premiums written in the marine lines of $17.9 million was primarily due to the timing of renewals of certain proportional programs which incepted during the third quarter of 2015, as well as downwards premium adjustments on various proportional contracts. Gross premiums written in the specialty lines increased by $21.0 million primarily as a result of new casualty business written during the three months ended September 30, 2016 of $7.5 million, timing differences on the renewal of certain contracts and decreased downwards premium adjustments year on year.

Reinsurance Premiums Ceded

| | Reinsurance Premiums Ceded | | |
|---|---|---|---|
| | Three Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $5,357 | $(757 ) | $6,114 |
| Marine | 6,021 | (4,410) | 10,431 |
| Specialty | 4,589 | 5,288 | (699 ) |
| Total | $15,967 | $121 | $15,846 |

Reinsurance premiums ceded in the marine lines decreased by $4.4 million and specialty lines increased by $5.3 million, primarily due to a reclassification of composite business from specialty lines to marine lines during the three months ended September 30, 2015.

Net Premiums Written

| | Net Retention - Ratio of Net Premiums Written to Gross Premiums Written | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Net Premiums Written | % of Gross Premiums Written | Net Premiums Written | % of Gross Premiums Written | Net Premiums Written | % of Gross Premiums Written |
| Property | $48,404 | 90.0 % | $(10,876) | (0.7 ) | $59,280 | 90.7 % |
| Marine | (10,554 ) | 232.8 % | (13,529 ) | 210.6 | 2,975 | 22.2 % |
| Specialty | 40,924 | 89.9 % | 15,728 | (13.0 ) | 25,196 | 102.9 % |
| Total | $78,774 | 83.1 % | $(8,677 ) | (1.6 ) | $87,451 | 84.7 % |

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

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Net Premiums Earned

| | Net Premiums Earned Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $93,694 | $(12,392) | $106,086 |
| Marine | 21,157 | (9,435) | 30,592 |
| Specialty | 113,628 | 9,645 | 103,983 |
| Total | $228,479 | $(12,182) | $240,661 |

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

Losses and Loss Expenses

| | Losses and Loss Expense Ratio - All Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| All lines—current period excluding items below | 53.1 % | 4.5 | 48.6 % |
| All lines—current period—notable loss events | — % | (15.4) | 15.4 % |
| All lines—current period—non-notable loss events | 4.5 % | (2.8) | 7.3 % |
| All lines—change in prior accident years | (14.5)% | 6.5 | (21.0)% |
| All lines—loss ratio | 43.1 % | (7.2) | 50.3 % |

| | Losses and Loss Expenses - All Lines Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| All lines—current period excluding items below | $121,103 | $4,163 | $116,940 |
| All lines—current period—notable loss events | — | (36,993) | 36,993 |
| All lines—current period—non-notable loss events | 10,355 | (7,145) | 17,500 |
| All lines—change in prior accident years | (33,033) | 17,442 | (50,475) |
| All lines—losses and loss expenses | $98,425 | $(22,533) | $120,958 |

Notable Loss Events

For the three months ended September 30, 2016 there were no notable loss events. For the three months ended September 30, 2015, there were losses incurred on two notable loss events, Tianjin and Pemex, which resulted in net losses and loss expenses to Validus Re of $37.0 million, or 15.4 percentage points of the loss ratio. Losses and loss expenses from Tianjin, a third quarter 2015 event, were $35.8 million, or 14.9 percentage points of the loss ratio. The impact of the Tianjin loss event on the property and marine lines was $23.3 million and $15.5 million, respectively. Net of $3.1 million of reinstatement premiums, the effect of this event on underwriting income was a reduction of $32.7 million. Losses and loss expenses arising from Pemex, a second quarter 2015 event, were $1.2 million, or 0.5 percentage points of the loss ratio, and related solely to the marine lines.

Non-notable Loss Events

For the three months ended September 30, 2016, there was one non-notable loss event, SpaceX, which resulted in net losses and loss expenses to Validus Re of $10.4 million, or 4.5 percentage points of the loss ratio, and related solely to the marine lines. Net of reinstatement premiums, the impact of SpaceX on underwriting income was a reduction of $8.2 million.

For the three months ended September 30, 2015, the 2015 Chilean Earthquake non-notable loss event resulted in net losses and loss expenses to Validus Re of $17.5 million, or 7.3 percentage points of the loss ratio, and related solely to the property lines.

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Losses and Loss Expenses by Line of Business:
Property Lines

| | Losses and Loss Expense Ratio - Property Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Property—current period excluding items below | 31.8 % | 8.9 | 22.9 % |
| Property—current period—notable loss events | — % | (22.0 ) | 22.0 % |
| Property—current period—non-notable loss events | — % | (16.4 ) | 16.4 % |
| Property—change in prior accident years | (21.1 )% | 4.9 | (26.0 )% |
| Property—loss ratio | 10.7 % | (24.6 ) | 35.3 % |

| | Losses and Loss Expenses - Property Lines Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property—current period excluding items below | $29,754 | $5,356 | $24,398 |
| Property—current period—notable loss events | — | (23,298 ) | 23,298 |
| Property—current period—non-notable loss events | 6 | (17,378 ) | 17,384 |
| Property—change in prior accident years | (19,736 ) | 7,877 | (27,613 ) |
| Property—losses and loss expenses | $10,024 | $(27,443) | $37,467 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current quarter loss ratio for property lines increased by 8.9 percentage points, representing a higher level of attritional losses in the quarter. For the three months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $19.7 million was primarily due to favorable development on event reserves of $18.2 million, primarily related to Tianjin and the 2015 Chilean earthquake, with the remainder due to favorable development on attritional losses. For the three months ended September 30, 2015, the favorable development in losses and loss expenses on prior accident years of $27.6 million included favorable development on event reserves of $19.0 million, primarily related to Hurricane Ike, Superstorm Sandy and the 2010 Chilean earthquake, with the remainder attributable to favorable development on attritional losses.
The impact on Validus Re of the notable and non-notable loss events for the three months ended September 30, 2016, as compared to three months ended September 30, 2015, is described above.
Marine Lines

| | Losses and Loss Expense Ratio - Marine Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Marine—current period excluding items below | 53.8 % | 2.3 | 51.5 % |
| Marine—current period—notable loss events | — % | (44.8 ) | 44.8 % |
| Marine—current period—non-notable loss events | 48.9 % | 48.9 | — % |
| Marine—change in prior accident years | (40.2 )% | 4.1 | (44.3 )% |
| Marine—loss ratio | 62.5 % | 10.5 | 52.0 % |

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| (Dollars in thousands) | Losses and Loss Expenses - Marine Lines Three Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| Marine—current period excluding items below | $11,384 | $(4,384) | $15,768 |
| Marine—current period—notable loss events | — | (13,695) | 13,695 |
| Marine—current period—non-notable loss events | 10,349 | 10,349 | — |
| Marine—change in prior accident years | (8,504) | 5,052 | (13,556) |
| Marine—losses and loss expenses | $13,229 | $(2,678) | $15,907 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current quarter loss ratio for marine lines increased by 2.3 percentage points, primarily due to the decrease in net premiums earned in the current quarter as noted above. For the three months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident year of $8.5 million was primarily due to favorable development on attritional losses. For the three months ended September 30, 2015, the favorable development in losses and loss expenses on prior accident year of $13.6 million included favorable development on event reserves of $7.0 million related to Superstorm Sandy, with the remainder attributable to favorable development on attritional losses.

The impact on Validus Re of the notable and non-notable loss events for the three months ended September 30, 2016, as compared to three months ended September 30, 2015, is described above.

Specialty Lines

| | Losses and Loss Expense Ratio - Specialty Lines Three Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| Specialty—current period excluding items below | 70.4 % | (3.4) | 73.8 % |
| Specialty—current period—notable loss events | — % | — | — % |
| Specialty—current period—non-notable loss events | — % | (0.1) | 0.1 % |
| Specialty—change in prior accident years | (4.2)% | 4.7 | (8.9)% |
| Specialty—loss ratio | 66.2 % | 1.2 | 65.0 % |

| (Dollars in thousands) | Losses and Loss Expenses - Specialty Lines Three Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| Specialty—current period excluding items below | $79,965 | $3,191 | $76,774 |
| Specialty—current period—notable loss events | — | — | — |
| Specialty—current period—non-notable loss events | — | (116) | 116 |
| Specialty—change in prior accident years | (4,793) | 4,513 | (9,306) |
| Specialty—losses and loss expenses | $75,172 | $7,588 | $67,584 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current quarter loss ratio for specialty lines decreased by 3.4 percentage points, primarily due to lower losses attributable to a change in the business mix during the period. For the three months ended September 30, 2016 and 2015, the favorable development in losses and loss expenses on prior accident years of $4.8 million and $9.3 million, respectively, was primarily due to favorable development on attritional losses.

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Policy Acquisition Costs

| | Policy Acquisition Costs | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | | | | | | | |
| | 2016 | | | Change | | | | 2015 | | | |
| (Dollars in thousands) | Policy Acquisition Costs | % of Net Premiums Earned | | Policy Acquisition Costs | | % of Net Premiums Earned | | Policy Acquisition Costs | % of Net Premiums Earned | | |
| Property | $18,138 | 19.4 | % | $(3,240 | ) | (0.8 | ) | $21,378 | 20.2 | % | |
| Marine | 3,744 | 17.7 | % | (3,908 | ) | (7.3 | ) | 7,652 | 25.0 | % | |
| Specialty | 20,955 | 18.4 | % | 6,996 | | 5.0 | | 13,959 | 13.4 | % | |
| Total | $42,837 | 18.7 | % | $(152 | ) | 0.8 | | $42,989 | 17.9 | % | |

The acquisition cost ratio for the marine lines decreased by 7.3 percentage points primarily as a result of reinstatement premiums and profit commissions, along with a reduction in proportional business written which carries a higher cost, and was partially offset by the impact of adjustments to existing business. The acquisition costs ratio for the specialty lines increased by 5.0 percentage points primarily due to the impact of profit commissions, retrocession business and adjustments to existing business, along with new casualty business which carries higher cost.

Underwriting Income Before General and Administrative and Share Compensation Expenses

| | Underwriting Income Before General and Administrative and Share Compensation Expenses | | | |
|---|---|---|---|---|
| | Three Months Ended September 30, | | | |
| (Dollars in thousands) | 2016 | Change | | 2015 |
| Property | $65,532 | $18,291 | | $47,241 |
| Marine | 4,184 | (2,849 | ) | 7,033 |
| Specialty | 17,501 | (4,939 | ) | 22,440 |
| Other insurance related income | 58 | (2,511 | ) | 2,569 |
| Total | $87,275 | $7,992 | | $79,283 |

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

General and Administrative and Share Compensation Expenses

| | General and Administrative and Share Compensation Expenses | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | | | | | | |
| | 2016 | | | Change | | | | 2015 | | |
| (Dollars in thousands) | Expenses | % of Net Premiums Earned | | Expenses | | % of Net Premiums Earned | | Expenses | % of Net Premiums Earned | |
| General and administrative expenses | $17,528 | 7.7 | % | $(2,436 | ) | (0.6 | ) | $19,964 | 8.3 | % |
| Share compensation expenses | 2,695 | 1.2 | % | 4 | | 0.1 | | 2,691 | 1.1 | % |
| Total | $20,223 | 8.9 | % | $(2,432 | ) | (0.5 | ) | $22,655 | 9.4 | % |

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

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Selected Underwriting Ratios

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

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

| | Select Underwriting Ratios Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Losses and loss expense ratio | 43.1 % | (7.2 ) | 50.3 % |
| Policy acquisition cost ratio | 18.7 % | 0.8 | 17.9 % |
| General and administrative expense ratio [(a)] | 8.9 % | (0.5 ) | 9.4 % |
| Expense ratio | 27.6 % | 0.3 | 27.3 % |
| Combined ratio | 70.7 % | (6.9 ) | 77.6 % |

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

The decrease in the combined ratio for the three months ended September 30, 2016 of 6.9 percentage points compared to the three months ended September 30, 2015 was due to the movement in the underlying ratios as discussed above.

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Third Quarter 2016 Results of Operations - Talbot Segment

The following table presents a comparison of the underwriting income for the three months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Underwriting revenues | | | |
| Gross premiums written | $189,674 | $(36,351) | $226,025 |
| Reinsurance premiums ceded | (22,877) | 12,946 | (35,823) |
| Net premiums written | 166,797 | (23,405) | 190,202 |
| Change in unearned premiums | 32,258 | 16,316 | 15,942 |
| Net premiums earned | 199,055 | (7,089) | 206,144 |
| Other insurance related income | 99 | (371) | 470 |
| Total underwriting revenues | 199,154 | (7,460) | 206,614 |
| Underwriting deductions | | | |
| Losses and loss expenses | 109,860 | 15,446 | 94,414 |
| Policy acquisition costs | 46,488 | 1,913 | 44,575 |
| General and administrative expenses | 32,333 | (10,959) | 43,292 |
| Share compensation expenses | 3,163 | (51) | 3,214 |
| Total underwriting deductions | 191,844 | 6,349 | 185,495 |
| Underwriting income (a) | $7,310 | $(13,809) | $21,119 |
| | | | |
| Supplemental information: | | | |
| Losses and loss expenses: | | | |
| Current period excluding items below | $117,282 | $3,554 | $113,728 |
| Current period—notable loss events | — | (11,983) | 11,983 |
| Current period—non-notable loss events | 11,269 | 6,594 | 4,675 |
| Change in prior accident years | (18,691) | 17,281 | (35,972) |
| Total losses and loss expenses | $109,860 | $15,446 | $94,414 |
| | | | |
| Selected ratios: | | | |
| Ratio of net to gross premiums written | 87.9 % | 3.7 | 84.2 % |
| Losses and loss expense ratio: | | | |
| Current period excluding items below | 58.9 % | 3.8 | 55.1 % |
| Current period—notable loss events | — % | (5.8) | 5.8 % |
| Current period—non-notable loss events | 5.7 % | 3.4 | 2.3 % |
| Change in prior accident years | (9.4)% | 8.0 | (17.4)% |
| Losses and loss expense ratio | 55.2 % | 9.4 | 45.8 % |
| Policy acquisition cost ratio | 23.4 % | 1.8 | 21.6 % |
| General and administrative expense ratio (b) | 17.8 % | (4.8) | 22.6 % |
| Expense ratio | 41.2 % | (3.0) | 44.2 % |
| Combined ratio | 96.4 % | 6.4 | 90.0 % |

(a) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

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

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Gross Premiums Written

| | Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total |
| Property | $64,301 | 33.9 % | $(8,416 ) | 1.8 | $72,717 | 32.1 % |
| Marine | 48,093 | 25.4 % | (18,720 ) | (4.2 ) | 66,813 | 29.6 % |
| Specialty | 77,280 | 40.7 % | (9,215 ) | 2.4 | 86,495 | 38.3 % |
| Total | $189,674 | 100.0% | $(36,351) | | $226,025 | 100.0% |

Talbot gross premiums written for the three months ended September 30, 2016 translated at 2015 exchange rates would have been $196.8 million, a decrease of $29.2 million on the prior year period.

The decrease in gross premiums written in the property and marine lines of $8.4 million and $18.7 million, respectively, were primarily driven by the impact of foreign exchange and reductions in our participation and non-renewals on various programs due to the current rate environment, notably in the downstream and upstream energy classes. The decrease in gross premiums written in the specialty lines of $9.2 million was primarily due to reductions in our participation and the timing of renewals of various aviation direct and political lines contracts.

Reinsurance Premiums Ceded

| | Reinsurance Premiums Ceded Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $12,497 | $(6,646 ) | $19,143 |
| Marine | 352 | (3,136 ) | 3,488 |
| Specialty | 10,028 | (3,164 ) | 13,192 |
| Total | $22,877 | $(12,946) | $35,823 |

The decrease in reinsurance premiums ceded in the property lines of $6.6 million was primarily driven by a reduction in quota share movements along with a reduction in purchased reinsurance on certain of treaty layers. The decrease in reinsurance premiums ceded in the marine and specialty lines of $3.1 million and $3.2 million, respectively, was primarily due to a reduction in reinstatement premiums during the three months ended September 30, 2016 compared to the three months ended September 30, 2015.

Net Premiums Written

| | Net Retention - Ratio of Net Premiums Written to Gross Premiums Written Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Net Premiums Written | % of Gross Premiums Written | Net Premiums Written | % of Gross Premiums Written | Net Premiums Written | % of Gross Premiums Written |
| Property | $51,804 | 80.6 % | $(1,770 ) | 6.9 | $53,574 | 73.7 % |
| Marine | 47,741 | 99.3 % | (15,584 ) | 4.5 | 63,325 | 94.8 % |
| Specialty | 67,252 | 87.0 % | (6,051 ) | 2.3 | 73,303 | 84.7 % |
| Total | $166,797 | 87.9 % | $(23,405) | 3.7 | $190,202 | 84.2 % |

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

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Net Premiums Earned

| (Dollars in thousands) | Net Premiums Earned Three Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| Property | $57,269 | $1,912 | $55,357 |
| Marine | 64,236 | (11,750) | 75,986 |
| Specialty | 77,550 | 2,749 | 74,801 |
| Total | $199,055 | $(7,089) | $206,144 |

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

Losses and Loss Expenses

| | Losses and Loss Expense Ratio - All Lines Three Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| All lines—current period excluding items below | 58.9 % | 3.8 | 55.1 % |
| All lines—current period—notable loss events | — % | (5.8 ) | 5.8 % |
| All lines—current period—non-notable loss events | 5.7 % | 3.4 | 2.3 % |
| All lines—change in prior accident years | (9.4 )% | 8.0 | (17.4)% |
| All lines—loss ratio | 55.2 % | 9.4 | 45.8 % |

| (Dollars in thousands) | Losses and Loss Expenses - All Lines Three Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| All lines—current period excluding items below | $117,282 | $3,554 | $113,728 |
| All lines—current period—notable loss events | — | (11,983 ) | 11,983 |
| All lines—current period—non-notable loss events | 11,269 | 6,594 | 4,675 |
| All lines—change in prior accident years | (18,691 ) | 17,281 | (35,972 ) |
| All lines - losses and loss expenses | $109,860 | $15,446 | $94,414 |

Notable Loss Events

There were no notable loss events during the three months ended September 30, 2016. For the three months ended September 30, 2015, losses and loss expenses from the single notable loss event, Tianjin, were $12.0 million, which represented 5.8 percentage points of the loss ratio. The impact of the Tianjin loss on the property and marine lines was $3.2 million and $8.8 million, respectively. Net of reinstatement premiums of $0.8 million, the effect of this event on underwriting income was a reduction of $11.2 million.

Non-notable Loss Events

For the three months ended September 30, 2016, losses and loss expenses incurred from two non-notable loss events, the Texas Hailstorms and SpaceX, were $11.3 million, or 5.7 percentage points of the loss ratio. SpaceX, a current quarter non-notable loss event, resulted in losses and loss expenses of $9.9 million, or 5.0 percentage points of the loss ratio, and related solely to Talbot's marine lines. Inclusive of reinstatement premiums payable, the impact of SpaceX on underwriting income was a reduction of $10.8 million. Losses and loss expenses from the Texas Hailstorms second quarter non-notable loss event were $1.4 million, or 0.7 percentage points of the loss ratio, and related solely to Talbot's property lines.

For the three months ended September 30, 2015, losses and loss expenses from the Chilean earthquake non-notable loss event were $4.7 million, or 2.3 percentage points of the loss ratio, and related solely to Talbot's property lines.

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Losses and Loss Expenses by Line of Business

Property Lines

| | Losses and Loss Expense Ratio - Property Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Property—current period excluding items below | 72.3 % | 10.7 | 61.6 % |
| Property—current period—notable loss events | — % | (5.7 ) | 5.7 % |
| Property—current period—non-notable loss events | 2.4 % | (5.1 ) | 7.5 % |
| Property—change in prior accident years | (4.3 )% | 13.2 | (17.5)% |
| Property—loss ratio | 70.4 % | 13.1 | 57.3 % |

| | Losses and Loss Expenses - Property Lines Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property—current period excluding items below | $41,384 | $7,294 | $34,090 |
| Property—current period—notable loss events | — | (3,166 ) | 3,166 |
| Property—current period—non-notable loss events | 1,375 | (2,800 ) | 4,175 |
| Property—change in prior accident years | (2,429 ) | 7,277 | (9,706 ) |
| Property—losses and loss expenses | $40,330 | $8,605 | $31,725 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current quarter loss ratio for property lines increased by 10.7 percentage points, representing a higher level of attritional losses during the quarter. For the three months ended September 30, 2016 and 2015, the favorable development in losses and loss expenses for prior accident years of $2.4 million and $9.7 million, respectively, was primarily related to favorable development of attritional losses.

The impact on Talbot of the notable and non-notable loss events for the three months ended September 30, 2016 as compared to three months ended September 30, 2015 is described above.

Marine Lines

| | Losses and Loss Expense Ratio - Marine Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Marine—current period excluding items below | 51.0 % | (10.8 ) | 61.8 % |
| Marine—current period—notable loss events | — % | (11.6 ) | 11.6 % |
| Marine—current period—non-notable loss events | 15.4 % | 14.7 | 0.7 % |
| Marine—change in prior accident years | (7.1 )% | 12.4 | (19.5)% |
| Marine—loss ratio | 59.3 % | 4.7 | 54.6 % |

| | Losses and Loss Expenses - Marine Lines Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Marine—current period excluding items below | $32,729 | $(14,266) | $46,995 |
| Marine—current period—notable loss events | — | (8,817 ) | 8,817 |
| Marine—current period—non-notable loss events | 9,894 | 9,394 | 500 |
| Marine—change in prior accident years | (4,547 ) | 10,307 | (14,854 ) |

| | | | |
|---|---|---|---|
| Marine—losses and loss expenses | $38,076 | $(3,382 ) | $41,458 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current quarter loss ratio for marine lines decreased by 10.8 percentage points, representing a lower level of attritional losses during the quarter. For the three months ended September 30, 2016 and 2015, the favorable development in losses and loss expenses for prior accident years of $4.5 million and $14.9 million, respectively, was primarily due to favorable development of attritional losses.

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The impact on Talbot of the notable and non-notable loss events for the three months ended September 30, 2016 as compared to three months ended September 30, 2015 is described above.

Specialty Lines

| | Losses and Loss Expense Ratio - Specialty Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Specialty—current period excluding items below | 55.7 % | 12.0 | 43.7 % |
| Specialty—current period—notable loss events | — % | — | — % |
| Specialty—current period—non-notable loss events | — % | — | — % |
| Specialty—change in prior accident years | (15.1 )% | 0.2 | (15.3 )% |
| Specialty—loss ratio | 40.6 % | 12.2 | 28.4 % |

| | Losses and Loss Expenses - Specialty Lines Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Specialty—current period excluding items below | $43,169 | $10,526 | $32,643 |
| Specialty—current period—notable loss events | — | — | — |
| Specialty—current period—non-notable loss events | — | — | — |
| Specialty—change in prior accident years | (11,715 ) | (303 ) | (11,412 ) |
| Specialty—losses and loss expenses | $31,454 | $10,223 | $21,231 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current quarter loss ratio for specialty lines increased by 12.0 percentage points, representing higher attritional losses during the quarter. For the three months ended September 30, 2016 and 2015, the favorable development in losses and loss expenses for prior accident years of $11.7 million and $11.4 million, respectively, was primarily due to favorable development of attritional losses.

Policy Acquisition Costs

| | Policy Acquisition Costs Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned |
| Property | $10,476 | 18.3 % | $2,271 | 3.5 | $8,205 | 14.8 % |
| Marine | 17,680 | 27.5 % | (1,032 ) | 2.9 | 18,712 | 24.6 % |
| Specialty | 18,332 | 23.6 % | 674 | — | 17,658 | 23.6 % |
| Total | $46,488 | 23.4 % | $1,913 | 1.8 | $44,575 | 21.6 % |

The property lines acquisition cost ratio increased by 3.5 percentage points primarily as a result of lower profit commission income on ceded reinsurance. The marine acquisition cost ratio increased by 2.9 percentage points primarily due to increased profit commissions on the yachts class and increases across a number of other classes due to a change in business mix in the marine lines.

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Underwriting Income Before General and Administrative and Share Compensation Expenses

| | Underwriting Income Before General and Administrative and Share Compensation Expenses | | |
|---|---|---|---|
| | Three Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $6,463 | $(8,964) | $15,427 |
| Marine | 8,480 | (7,336) | 15,816 |
| Specialty | 27,764 | (8,148) | 35,912 |
| Other insurance related income | 99 | (371) | 470 |
| Total | $42,806 | $(24,819) | $67,625 |

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

General and Administrative and Share Compensation Expenses

| | General and Administrative and Share Compensation Expenses | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Expenses | % of Net Premiums Earned | Expenses | % of Net Premiums Earned | Expenses | % of Net Premiums Earned |
| General and administrative expenses | $32,333 | 16.2 % | $(10,959) | (4.8) | $43,292 | 21.0 % |
| Share compensation expenses | 3,163 | 1.6 % | (51) | — | 3,214 | 1.6 % |
| Total | $35,496 | 17.8 % | $(11,010) | (4.8) | $46,506 | 22.6 % |

General and administrative expenses for the three months ended September 30, 2016 translated at 2015 exchange rates would have been $36.9 million, a decrease of $6.4 million. This decrease was primarily due to reduced accruals relating to performance bonuses. Share compensation expenses were comparable for the three months ended September 30, 2016 and 2015.

Selected Underwriting Ratios

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

| | Selected Underwriting Ratios | | |
|---|---|---|---|
| | Three Months Ended September 30, | | |
| | 2016 | Change | 2015 |
| Losses and loss expense ratio | 55.2 % | 9.4 | 45.8 % |
| Policy acquisition cost ratio | 23.4 % | 1.8 | 21.6 % |
| General and administrative expense ratio [(a)] | 17.8 % | (4.8) | 22.6 % |
| Expense ratio | 41.2 % | (3.0) | 44.2 % |
| Combined ratio | 96.4 % | 6.4 | 90.0 % |

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

The increase in the combined ratio for the three months ended September 30, 2016 of 6.4 percentage points compared to the three months ended September 30, 2015 was due to the movement in the underlying ratios as discussed above.

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Third Quarter 2016 Results of Operations - Western World Segment

The following table presents a comparison of the underwriting income for the three months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Underwriting revenues | | | |
| Gross premiums written | $85,260 | $14,389 | $70,871 |
| Reinsurance premiums ceded | (6,202) | (1,486) | (4,716) |
| Net premiums written | 79,058 | 12,903 | 66,155 |
| Change in unearned premiums | (8,260) | (6,035) | (2,225) |
| Net premiums earned | 70,798 | 6,868 | 63,930 |
| Other insurance related income | 219 | (29) | 248 |
| Total underwriting revenues | 71,017 | 6,839 | 64,178 |
| Underwriting deductions | | | |
| Losses and loss expenses | 45,748 | 4,938 | 40,810 |
| Policy acquisition costs | 17,094 | 3,880 | 13,214 |
| General and administrative expenses | 10,171 | 584 | 9,587 |
| Share compensation expenses | 702 | 148 | 554 |
| Total underwriting deductions | 73,715 | 9,550 | 64,165 |
| Underwriting (loss) income [(a)] | $(2,698) | $(2,711) | $13 |
| | | | |
| Supplemental information: | | | |
| Losses and loss expenses: | | | |
| Current period excluding items below | $46,610 | $746 | $45,864 |
| Current period—notable loss events | — | — | — |
| Current period—non-notable loss events | 18 | 18 | — |
| Change in prior accident years | (880) | 4,174 | (5,054) |
| Total losses and loss expenses | $45,748 | $4,938 | $40,810 |
| | | | |
| Selected ratios: | | | |
| Ratio of net to gross premiums written | 92.7% | (0.6) | 93.3% |
| Losses and loss expense ratio: | | | |
| Current period excluding items below | 65.8% | (5.9) | 71.7% |
| Current period—notable loss events | —% | — | —% |
| Current period—non-notable loss events | —% | — | —% |
| Change in prior accident years | (1.2)% | 6.7 | (7.9)% |
| Losses and loss expense ratio | 64.6% | 0.8 | 63.8% |
| Policy acquisition cost ratio | 24.1% | 3.4 | 20.7% |
| General and administrative expense ratio [(b)] | 15.4% | (0.5) | 15.9% |
| Expense ratio | 39.5% | 2.9 | 36.6% |
| Combined ratio | 104.1% | 3.7 | 100.4% |

(a) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

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

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Gross Premiums Written

| (Dollars in thousands) | Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | | | | | |
| | 2016 | | | Change | | | 2015 | | |
| | Gross Premiums Written | % of Total | | Gross Premiums Written | % of Total | | Gross Premiums Written | % of Total | |
| Property | $23,757 | 27.9 | % | $9,895 | 8.3 | | $13,862 | 19.6 | % |
| Liability | 61,503 | 72.1 | % | 4,494 | (8.3 | ) | 57,009 | 80.4 | % |
| Total | $85,260 | 100.0 | % | $14,389 | | | $70,871 | 100.0 | % |

The increase in gross premiums written in the property lines of $9.9 million was primarily due to additional business written in the contract commercial package and monoline property, program flood and brokerage property classes of $4.0 million, $2.9 million and $2.6 million, respectively, as a result of the continued build out of the underwriting platform in short tail lines. Gross premiums written in the liability lines consist largely of commercial package liability, program and other liability business. The increase in gross premiums written in the liability lines of $4.5 million was driven by increases in the contract liability and brokerage professional lines of $8.6 million and $2.0 million, respectively, and was partially offset by decreases arising from the discontinuation of underperforming programs and brokerage general liability lines.

Reinsurance Premiums Ceded

| | Reinsurance Premiums Ceded | | |
|---|---|---|---|
| | Three Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $2,688 | $1,445 | $1,243 |
| Liability | 3,514 | 41 | 3,473 |
| Total | $6,202 | $1,486 | $4,716 |

The increase in reinsurance premiums ceded in the property lines was consistent with the increase in gross premiums written as noted above. Reinsurance premiums ceded in the liability lines were comparable for the three months ended September 30, 2016 and 2015.

Net Premiums Written

| (Dollars in thousands) | Net Retention - Ratio of Net Premiums Written to Gross Premiums Written | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30, | | | | | | | | |
| | 2016 | | | Change | | | 2015 | | |
| | Net Premiums Written | % of Gross Premiums Written | | Net Premiums Written | % of Gross Premiums Written | | Net Premiums Written | % of Gross Premiums Written | |
| Property | $21,069 | 88.7 | % | $8,450 | (2.3 | ) | $12,619 | 91.0 | % |
| Liability | 57,989 | 94.3 | % | 4,453 | 0.4 | | 53,536 | 93.9 | % |
| Total | $79,058 | 92.7 | % | $12,903 | (0.6 | ) | $66,155 | 93.3 | % |

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

Net Premiums Earned

Net Premiums Earned

| | Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $16,698 | $5,615 | $11,083 |
| Liability | 54,100 | 1,253 | 52,847 |
| Total | $70,798 | $6,868 | $63,930 |

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

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Losses and Loss Expenses

| | Losses and Loss Expense Ratio - All Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| All lines—current period excluding items below | 65.8 % | (5.9 ) | 71.7 % |
| All lines—current period—notable loss events | — % | — | — % |
| All lines—current period—non-notable loss events | — % | — | — % |
| All lines—change in prior accident years [(a)] | (1.2 )% | 6.7 | (7.9 )% |
| All lines—loss ratio [(a)] | 64.6 % | 0.8 | 63.8 % |

| | Losses and Loss Expenses - All Lines Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| All lines—current period excluding items below | $46,610 | $746 | $45,864 |
| All lines—current period—notable loss events | — | — | — |
| All lines—current period—non-notable loss events | 18 | 18 | — |
| All lines—change in prior accident years [(a)] | (880 ) | 4,174 | (5,054 ) |
| All lines—losses and loss expenses [(a)] | $45,748 | $4,938 | $40,810 |

(a) Upon closing the acquisition, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $2,524 during the three months ended September 30, 2015, benefiting the loss ratio by 3.9 percentage points. The remaining fair value adjustment of $2,340 was fully amortized during the year ended December 31, 2015.

Notable and Non-notable Loss Events

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

Losses and Loss Expenses by Line of Business

Property Lines

| | Losses and Loss Expense Ratio - Property Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Property—current period excluding items below | 60.7 % | 0.7 | 60.0 % |
| Property—current period—notable loss events | — % | — | — % |
| Property—current period—non-notable loss events | 0.1 % | 0.1 | — % |
| Property—change in prior accident years [(a)] | (3.3 )% | 6.2 | (9.5 )% |
| Property—loss ratio [(a)] | 57.5 % | 7.0 | 50.5 % |

| | Losses and Loss Expenses - Property Lines Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property—current period excluding items below | $10,139 | $3,487 | $6,652 |
| Property—current period—notable loss events | — | — | — |
| Property—current period—non-notable loss events | 18 | 18 | — |

| | | | |
|---|---|---|---|
| Property—change in prior accident years[(a)] | (553 ) | 501 | (1,054 ) |
| Property—losses and loss expenses[(a)] | $9,604 | $4,006 | $5,598 |

(a) Upon closing the acquisition, an adjustment of $409 was made to decrease net reserves to reflect fair value. This adjustment was amortized to income through an increase in losses and loss expenses of $66 during the three months ended September 30, 2015, increasing the loss ratio by 0.6 percentage points. The remaining fair value adjustment of $61 was fully amortized during the year ended December 31, 2015.

Excluding the impact of non-notable loss events and the change in prior accident years, the current quarter loss ratio for property lines increased by 0.7 percentage points, representing a higher level of attritional losses in the current quarter. For the three months

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ended September 30, 2016 and 2015, the favorable development in losses and loss expenses for prior accident years of $0.6 million and $1.1 million, respectively, primarily related to favorable development on attritional losses.

Liability Lines

| | Losses and Loss Expense Ratio - Liability Lines Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Liability—current period excluding items below | 67.4 % | (6.8 ) | 74.2 % |
| Liability—current period—notable loss events | — % | — | — % |
| Liability—current period—non-notable loss events | — % | — | — % |
| Liability—change in prior accident years (a) | (0.6 )% | 7.0 | (7.6 )% |
| Liability—loss ratio (a) | 66.8 % | 0.2 | 66.6 % |

| | Losses and Loss Expenses - Liability Lines Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Liability—current period excluding items above | $36,471 | $(2,741) | $39,212 |
| Liability—current period—notable loss events | — | — | — |
| Liability—current period—non-notable loss events | — | — | — |
| Liability—change in prior accident years (a) | (327 ) | 3,673 | (4,000 ) |
| Liability—losses and loss expenses (a) | $36,144 | $932 | $35,212 |

(a) Upon closing the acquisition, an adjustment of $15,995 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $2,590 during the three months ended September 30, 2015, benefiting the loss ratio by 4.9 percentage points. The remaining fair value adjustment of $2,401 was fully amortized during the year ended December 31, 2015.

Excluding the change in prior accident years, the current quarter loss ratio for liability lines decreased by 6.8 percentage points as Western World discontinued writing business in several underperforming classes during the fourth quarter of 2014. For the three months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $0.3 million was due to favorable development on attritional losses; whereas, for the three months ended September 30, 2015, the favorable development in losses and loss expenses for prior accident years of $4.0 million was primarily due to the amortization of the fair value adjustment as noted in footnote (a) above.

Policy Acquisition Costs

| | Policy Acquisition Costs Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned |
| Property | $4,382 | 26.2 % | $1,869 | 3.5 | $2,513 | 22.7 % |
| Liability | 12,712 | 23.5 % | 2,011 | 3.3 | 10,701 | 20.2 % |
| Total (a) | $17,094 | 24.1 % | $3,880 | 3.4 | $13,214 | 20.7 % |

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

The acquisition cost ratio for the property and liability lines increased by 3.5 and 3.3 percentage points, respectively, primarily due to the impact of the acquisition fair value adjustments during the three months ended September 30, 2015 as noted in footnote (a) above.

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Underwriting Income Before General and Administrative and Share Compensation Expenses

| | Underwriting Income Before General and Administrative and Share Compensation Expenses Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $2,712 | $(260) | $2,972 |
| Liability | 5,244 | (1,690) | 6,934 |
| Other insurance related income | 219 | (29) | 248 |
| Total | $8,175 | $(1,979) | $10,154 |

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

General and Administrative and Share Compensation Expenses

| | General and Administrative and Share Compensation Expenses Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Expenses | % of Net Premiums Earned | Expenses | % of Net Premiums Earned | Expenses | % of Net Premiums Earned |
| General and administrative expenses | $10,171 | 14.4 % | $584 | (0.6) | $9,587 | 15.0 % |
| Share compensation expenses | 702 | 1.0 % | 148 | 0.1 | 554 | 0.9 % |
| Total | $10,873 | 15.4 % | $732 | (0.5) | $10,141 | 15.9 % |

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

Selected Underwriting Ratios

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

| | Select Underwriting Ratios Three Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Losses and loss expense ratio | 64.6 % | 0.8 | 63.8 % |
| Policy acquisition cost ratio | 24.1 % | 3.4 | 20.7 % |
| General and administrative expense ratio [(a)] | 15.4 % | (0.5) | 15.9 % |
| Expense ratio | 39.5 % | 2.9 | 36.6 % |
| Combined ratio | 104.1 % | 3.7 | 100.4 % |

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

The increase in the combined ratio for the three months ended September 30, 2016 of 3.7 percentage points compared to the three months ended September 30, 2015 was due to the movement in the underlying ratios as discussed above.

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Third Quarter 2016 Results of Operations - AlphaCat Segment

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

| | Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Revenues | | | |
| Third party | $7,025 | $1,263 | $5,762 |
| Related party | 1,373 | (365) | 1,738 |
| Total revenues | 8,398 | 898 | 7,500 |
| | | | |
| Expenses | | | |
| General and administrative expenses | 3,324 | (800) | 4,124 |
| Share compensation expenses | (107) | (248) | 141 |
| Finance expenses | 31 | (2,266) | 2,297 |
| Foreign exchange losses (gains) | 5 | 16 | (11) |
| Total expenses | 3,253 | (3,298) | 6,551 |
| Income before investments from AlphaCat Funds and Sidecars | $5,145 | $4,196 | $949 |
| | | | |
| Investment income (loss) from AlphaCat Funds and Sidecars (b) | | | |
| AlphaCat Sidecars | (72) | (1,517) | 1,445 |
| AlphaCat ILS Funds - Lower Risk (c) | 2,321 | 47 | 2,274 |
| AlphaCat ILS Funds - Higher Risk (c) | 2,479 | 672 | 1,807 |
| BetaCat ILS Funds | 1,303 | 296 | 1,007 |
| PaCRe | — | 7,963 | (7,963) |
| Total investment income (loss) from AlphaCat Funds and Sidecars | 6,031 | 7,461 | (1,430) |
| Validus' share of AlphaCat segment income (loss) | $11,176 | $11,657 | $(481) |
| | | | |
| Supplemental information: | | | |
| Gross premiums written | | | |
| AlphaCat Sidecars | $(112) | $(2,191) | $2,079 |
| AlphaCat ILS Funds - Lower Risk (c) | 2,049 | 396 | 1,653 |
| AlphaCat ILS Funds - Higher Risk (c) | 1,797 | 423 | 1,374 |
| AlphaCat Direct (d) | 679 | (4,106) | 4,785 |
| Total | $4,413 | $(5,478) | $9,891 |

(a) In presenting the Company’s results, management has included and discussed the results of AlphaCat, which are presented on an asset manager basis. Validus' share of AlphaCat income is a non-GAAP measure and is not calculated under standards or rules that comprise U.S. GAAP. Further discussion of these measures is presented in the section entitled “Non-GAAP Financial Measures.”

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

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

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

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Revenues

Revenues earned for the three months ended September 30, 2016 were $8.4 million, of which $7.0 million were earned from third parties, compared to $7.5 million for the three months ended September 30, 2015, of which $5.8 million were earned from third parties. The increase in revenues earned from third parties of $1.3 million was primarily due to an increase in the capital base of the AlphaCat ILS Funds.

Expenses

Total expenses for the three months ended September 30, 2016 were $3.3 million, compared to $6.6 million for the three months ended September 30, 2015, a decrease of $3.3 million. The decrease was primarily due to reduced placement fees incurred in relation to raising new capital during the three months ended September 30, 2016.

Investment income from AlphaCat Funds and Sidecars

Investment income available to Validus from the AlphaCat Funds and Sidecars was $6.0 million for the three months ended September 30, 2016 as compared to $6.5 million for the three months ended September 30, 2015 (exclusive of PaCRe), a decrease of $0.5 million.

Assets Under Management

| | Assets Under Management [a] | | |
|---|---|---|---|
| (Dollars in thousands) | October 1, 2016 | Change | July 1, 2016 |
| Assets Under Management - Related Party | | | |
| AlphaCat Sidecars | $7,922 | $(123 ) | $8,045 |
| AlphaCat ILS Funds - Lower Risk [b] | 181,744 | 5,912 | 175,832 |
| AlphaCat ILS Funds - Higher Risk [b] | 81,636 | 5,349 | 76,287 |
| AlphaCat Direct [c] | — | — | — |
| BetaCat ILS Funds | 51,160 | (12,293 ) | 63,453 |
| Total Assets Under Management - Related Party | $322,462 | $(1,155 ) | $323,617 |
| | | | |
| Assets Under Management - Third Party | | | |
| AlphaCat Sidecars | $29,603 | $(475 ) | $30,078 |
| AlphaCat ILS Funds - Lower Risk [b] | 1,276,874 | 50,165 | 1,226,709 |
| AlphaCat ILS Funds - Higher Risk [b] | 612,456 | 47,943 | 564,513 |
| AlphaCat Direct [c] | 373,659 | 8,101 | 365,558 |
| BetaCat ILS Funds | — | — | — |
| Total Assets Under Management - Third party | 2,292,592 | 105,734 | 2,186,858 |
| Total Assets Under Management | $2,615,054 | $104,579 | $2,510,475 |

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

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

(c) AlphaCat Direct includes direct investments from third party investors in AlphaCat Reinsurance, Ltd.

AlphaCat's assets under management were $2.6 billion as at October 1, 2016, compared to $2.5 billion as at July 1, 2016. Third party assets under management were $2.3 billion as at October 1, 2016, compared to $2.2 billion as at July 1, 2016.

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Third Quarter 2016 Consolidated Results - Corporate and Investment Function

The following table presents a comparison of the corporate and investment function's income and expense items on a consolidated basis for the three months ended September 30, 2016 and 2015:

| | Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Investment income | | | |
| Net investment income [(a)] | $41,071 | $11,080 | $29,991 |
| | | | |
| Operating expenses | | | |
| General and administrative expenses | 18,221 | (583) | 18,804 |
| Share compensation expenses | 4,048 | 665 | 3,383 |
| Finance expenses [(a)] | 14,317 | (826) | 15,143 |
| Dividends on preferred shares | 2,252 | 2,252 | — |
| Tax expense | 1,830 | (188) | 2,018 |
| Total operating expenses | 40,668 | 1,320 | 39,348 |
| | | | |
| Other items | | | |
| Net realized gains (losses) on investments [(a)] | 4,080 | 5,313 | (1,233) |
| Change in net unrealized gains on investments [(a)] | 4,652 | 2,887 | 1,765 |
| Income from investment affiliate | 453 | (2,029) | 2,482 |
| Foreign exchange losses [(a)] | (1,067) | 1,264 | (2,331) |
| Other loss | (1,529) | 441 | (1,970) |
| Total other items | 6,589 | 7,876 | (1,287) |
| Total corporate and investment function | $6,992 | $17,636 | $(10,644) |

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

Managed Net Investment Income

| | Managed Net Investment Income Three Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Managed net investment income | | | |
| Fixed maturities and short-term investments | $30,572 | $3,951 | $26,621 |
| Other investments | 11,768 | 6,682 | 5,086 |
| Cash and cash equivalents | 891 | 555 | 336 |
| Securities lending income | 22 | 18 | 4 |
| Total gross investment income | 43,253 | 11,206 | 32,047 |
| Investment expenses | (2,182) | (126) | (2,056) |
| Total managed net investment income | $41,071 | $11,080 | $29,991 |

The increase in managed net investment income for the three months ended September 30, 2016 was $11.1 million or 36.9% and was primarily due to increased yield on a certain investment fund within other investments. Managed net investment income from other investments includes distributed and undistributed net income from certain investment funds.

The Company's managed yield-bearing portfolio had an annualized effective yield of 2.58% for the three months ended September 30, 2016 compared to 1.91% for the three months ended September 30, 2015, an increase of 67 basis points. Investment yield is calculated by dividing total managed net investment income by the average balance of the yield bearing assets managed by the Company's portfolio managers. Average assets for the period ended is the average of the beginning, ending and intervening quarter end asset balances.

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General and Administrative and Share Compensation Expenses

Corporate general and administrative expenses for the three months ended September 30, 2016 were $18.2 million compared to $18.8 million for the three months ended September 30, 2015, a decrease of $0.6 million or 3.1%. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses for the corporate and investment function and other costs relating to the Company as a whole.

Corporate share compensation expenses for the three months ended September 30, 2016 were $4.0 million compared to $3.4 million for the three months ended September 30, 2015, an increase of $0.7 million or 19.7%.

Finance Expenses

Finance expenses for the three months ended September 30, 2016 were $14.3 million compared to $15.1 million for the three months ended September 30, 2015, a decrease of $0.8 million or 5.5% due to reduced credit facility expenses.

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

Net realized gains on managed investments for the three months ended September 30, 2016 were $4.1 million compared to losses of $1.2 million for the three months ended September 30, 2015, a favorable movement of $5.3 million. The increase in net realized gains primarily resulted from the sale of managed fixed maturity investments.

The change in net unrealized gains on managed investments for the three months ended September 30, 2016 was $4.7 million compared to $1.8 million for the three months ended September 30, 2015, a favorable movement of $2.9 million.

Income from Investment Affiliate

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

Foreign Exchange Losses

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

| | Three Months Ended September 30, | |
|---|---|---|
| U.S. dollar (weakened) strengthened against: | 2016 | 2015 |
| British Pound sterling | 2.7 % | 3.7 % |
| Euro | (1.2)% | (0.2 )% |
| Canadian dollar | 1.2 % | 6.4 % |
| Swiss franc | (0.4)% | 4.4 % |
| Australian dollar | (2.8)% | 9.5 % |
| New Zealand dollar | (2.2)% | 5.9 % |
| Singapore dollar | 1.3 % | 5.6 % |
| Japanese yen | (1.6)% | (2.0 )% |
| South African rand | (6.9)% | 13.7 % |

Foreign exchange losses for the three months ended September 30, 2016 were $1.1 million compared to $2.3 million for the three months ended September 30, 2015, a favorable movement of $1.3 million.

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

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

The following table presents a comparison of the results of operations for the nine months ended September 30, 2016 and 2015:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Underwriting revenues | | | |
| Gross premiums written | $2,309,251 | $61,350 | $2,247,901 |
| Reinsurance premiums ceded | (249,070) | 46,483 | (295,553) |
| Net premiums written | 2,060,181 | 107,833 | 1,952,348 |
| Change in unearned premiums | (351,415) | (102,656) | (248,759) |
| Net premiums earned | 1,708,766 | 5,177 | 1,703,589 |
| Other insurance related income | 2,400 | (2,744) | 5,144 |
| Total underwriting revenues | 1,711,166 | 2,433 | 1,708,733 |
| Underwriting deductions | | | |
| Losses and loss expenses | 789,971 | 26,886 | 763,085 |
| Policy acquisition costs | 328,593 | 20,820 | 307,773 |
| General and administrative expenses | 258,339 | (6,807) | 265,146 |
| Share compensation expenses | 32,465 | 4,186 | 28,279 |
| Total underwriting deductions | 1,409,368 | 45,085 | 1,364,283 |
| Underwriting income [a] | $301,798 | $(42,652) | $344,450 |
| Net investment income | 112,232 | 16,020 | 96,212 |
| Finance expenses | (43,890) | 14,271 | (58,161) |
| Dividends on preferred shares | (2,252) | (2,252) | — |
| Tax expense | (1,418) | 5,714 | (7,132) |
| Loss from operating affiliates | (23) | 2,218 | (2,241) |
| (Income) attributable to AlphaCat investors | (16,278) | (14,840) | (1,438) |
| Net (income) attributable to noncontrolling interest | (95,294) | (27,958) | (67,336) |
| Net operating income available to Validus common shareholders [a] | $254,875 | $(49,479) | $304,354 |
| | | | |
| Supplemental information: | | | |
| Losses and loss expenses: | | | |
| Current period excluding items below | $851,540 | $(40,346) | $891,886 |
| Current period—notable loss events | 37,901 | (59,149) | 97,050 |
| Current period—non-notable loss events | 69,935 | 47,760 | 22,175 |
| Change in prior accident years | (169,405) | 78,621 | (248,026) |
| Total losses and loss expenses | $789,971 | $26,886 | $763,085 |
| | | | |
| Selected ratios: | | | |
| Ratio of net to gross premiums written | 89.2% | 2.3 | 86.9% |
| Losses and loss expense ratio: | | | |
| Current period excluding items below | 49.8% | (2.6) | 52.4% |
| Current period—notable loss events | 2.2% | (3.5) | 5.7% |
| Current period—non-notable loss events | 4.1% | 2.8 | 1.3% |
| Change in prior accident years | (9.9)% | 4.7 | (14.6)% |
| Losses and loss expense ratio | 46.2% | 1.4 | 44.8% |
| Policy acquisition cost ratio | 19.2% | 1.1 | 18.1% |
| General and administrative expense ratio [b] | 17.1% | (0.1) | 17.2% |
| Expense ratio | 36.3% | 1.0 | 35.3% |
| Combined ratio | 82.5% | 2.4 | 80.1% |

(a) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

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

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

Highlights for the year to date 2016 as compared to year to date 2015 include the following:

- Gross premiums written for the nine months ended September 30, 2016 were $2,309.3 million compared to $2,247.9 million for the nine months ended September 30, 2015, an increase of $61.4 million, or 2.7%. The increase in gross premiums written was driven by:

Gross premiums written for the nine months ended September 30, 2016 in the AlphaCat segment, on behalf of the Company's VIEs, were $270.7 million, compared to $174.5 million for the nine months ended September 30, 2015, an increase of $96.2 million or 55.1%, primarily due to an increase in the capital base of the AlphaCat ILS Funds; and

Gross premiums written for the nine months ended September 30, 2016 in the Western World segment were $236.2 million compared to $207.4 million for the nine months ended September 30, 2015, an increase of $28.8 million or 13.9%, primarily driven by an increase in the property lines; partially offset by

Gross premiums written for the nine months ended September 30, 2016 in the Validus Re segment were $1,072.2 million compared to $1,112.4 million for the nine months ended September 30, 2015, a decrease of $40.2 million or 3.6%. The decrease was primarily attributable to decreases in the property and marine lines as a result of current market conditions, partially offset by increased specialty business; and

Gross premiums written for the nine months ended September 30, 2016 in the Talbot segment were $752.1 million compared to $789.1 million for the nine months ended September 30, 2015, a decrease of $37.1 million or 4.7%. The decrease was primarily attributable to the impact of foreign exchange and decreases in the marine lines as a result of reductions in our participation and non-renewals on various programs due to the current rate environment, and was partially offset by an increase in premium estimates.

- Underwriting revenues for the nine months ended September 30, 2016 were $1,711.2 million compared to $1,708.7 million for the nine months ended September 30, 2015, an increase of $2.4 million or 0.1%.
- Losses and loss expenses for the nine months ended September 30, 2016 were $790.0 million compared to $763.1 million for the nine months ended September 30, 2015, an increase of $26.9 million or 3.5%, primarily as a result of increased non-notable loss events and reduced favorable development during the nine months ended September 30, 2016.

Notable and Non-notable Loss Events

- During the nine months ended September 30, 2016, there was one notable loss event and four non-notable loss events that impacted the Company as set out in the table below:

| | Nine Months Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Notable Loss Event | Non-notable Loss Events | | | | Total |
| (Dollars in thousands) | Canadian Wildfires | Texas Hailstorms | Kumamoto Earthquake | Jubilee Oil | SpaceX | |
| Validus' Share of Net Losses and Loss Expenses | $37,901 | $19,160 | $ 15,318 | $15,214 | $20,243 | $107,836 |
| Less: Reinstatement Premiums, net | (3,632 ) | (1,967 ) | — | (7,667 ) | (1,240 ) | (14,506 ) |
| Net Loss Attributable to Validus | $34,269 | $17,193 | $ 15,318 | $7,547 | $19,003 | $93,330 |

- For the nine months ended September 30, 2016, losses and loss expenses incurred from the Canadian Wildfires notable loss event were $37.9 million, or 2.2 percentage points of the loss ratio. Net of reinstatement premiums of $3.6 million, the net loss attributable to the Company was $34.3 million.
- For the nine months ended September 30, 2016, losses and loss expenses incurred four non-notable loss events were $69.9 million, or 4.1 percentage points of the loss ratio. Net of reinstatement premiums of $10.8 million, the net loss attributable to the Company was $59.1 million.

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- During the nine months ended September 30, 2015, there were two notable loss events, Tianjin and Pemex, and one non-notable loss event, the Chilean earthquake. The net losses and loss expenses incurred associated with these events is set out in the table below:

| | Nine Months Ended September 30, 2015 | | | |
|---|---|---|---|---|
| | Notable Loss Events | | Non-notable Loss Event | Total |
| (Dollars in thousands) | Tianjin | Pemex | Chilean Earthquake | |
| Validus' Share of Net Losses and Loss Expenses | 47,789 | 49,261 | 22,175 | 119,225 |
| Less: Reinstatement Premiums, net | (3,896) | 2,145 | (2,200) | (3,951) |
| Net Loss Attributable to Validus | $43,893 | $51,406 | $ 19,975 | $115,274 |

- For the nine months ended September 30, 2015, the two notable loss events resulted in net losses and loss expenses to the Company of $97.1 million, or 5.7 percentage points of the loss ratio. Net of $1.8 million of reinstatement premiums, the effect of these events on the Company was a reduction of $95.3 million in underwriting income.
- Losses and loss expenses from the non-notable loss event for the nine months ended September 30, 2015 were $22.2 million, or 1.3 percentage points of the loss ratio. Net of $2.2 million of reinstatement premiums, the effect of this event on the Company was a reduction of $20.0 million in underwriting income.

Loss Ratio

- For the nine months ended September 30, 2016, the loss ratio across all lines was 46.2% which included $169.4 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 9.9 percentage points compared to a loss ratio for the nine months ended September 30, 2015 of 44.8% which included $248.0 million of favorable loss reserve development on prior accident years, benefiting the loss ratio by 14.6 percentage points.
- For the nine months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $169.4 million was primarily due to favorable development on attritional and event reserves of $160.4 million and $9.0 million, respectively. For the nine months ended September 30, 2015, the favorable development in losses and loss expenses on prior accident years of $248.0 million was primarily due to favorable development on attritional reserves of $205.9 million and event specific reserves of $42.1 million, primarily related to Superstorm Sandy. The term "events" refers to aggregate notable and non-notable losses incurred.
- Combined ratio for the nine months ended September 30, 2016 was 82.5% compared to 80.1% for the nine months ended September 30, 2015.
- Loss ratios by line of business for the nine months ended September 30, 2016 were as follows:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Property | 30.2% | 8.2 | 22.0% |
| Marine | 52.4% | 1.0 | 51.4% |
| Specialty | 57.6% | (1.4) | 59.0% |
| Liability | 65.1% | (6.5) | 71.6% |
| All lines | 46.2% | 1.4 | 44.8% |

- Policy acquisition costs for the nine months ended September 30, 2016 were $328.6 million compared to $307.8 million for the nine months ended September 30, 2015, an increase of $20.8 million or 6.8%, primarily driven by an increase in the Western World segment due to the impact of the acquisition fair value adjustments during the nine months ended September 30, 2015.
- Underwriting income for the nine months ended September 30, 2016 was $301.8 million compared to $344.5 million for the nine months ended September 30, 2015, a decrease of $42.7 million or 12.4% primarily as a result of the changes in underwriting revenues and deductions as described above.
- Net operating income available to Validus common shareholders for the nine months ended September 30, 2016 was $254.9 million compared to $304.4 million for the nine months ended September 30, 2015, a decrease of $49.5

million, or 16.3%.

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Year to Date 2016 Results of Operations - Validus Re Segment

The following table presents a comparison of the results of operations for the nine months ended September 30, 2016 and 2015:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Underwriting revenues | | | |
| Gross premiums written | $1,072,219 | $(40,191) | $1,112,410 |
| Reinsurance premiums ceded | (111,658) | 37,343 | (149,001) |
| Net premiums written | 960,561 | (2,848) | 963,409 |
| Change in unearned premiums | (241,129) | (36,019) | (205,110) |
| Net premiums earned | 719,432 | (38,867) | 758,299 |
| Other insurance related (loss) income | (107) | (3,425) | 3,318 |
| Total underwriting revenues | 719,325 | (42,292) | 761,617 |
| | | | |
| Underwriting deductions | | | |
| Losses and loss expenses | 313,432 | (44,059) | 357,491 |
| Policy acquisition costs | 127,660 | (1,249) | 128,909 |
| General and administrative expenses | 52,579 | (5,675) | 58,254 |
| Share compensation expenses | 8,371 | 706 | 7,665 |
| Total underwriting deductions | 502,042 | (50,277) | 552,319 |
| Underwriting income [(a)] | $217,283 | $7,985 | $209,298 |
| | | | |
| Supplemental information: | | | |
| Losses and loss expenses: | | | |
| Current period excluding items below | $342,331 | $(31,528) | $373,859 |
| Current period—notable loss events | 17,884 | (54,298) | 72,182 |
| Current period—non-notable loss events | 42,811 | 25,311 | 17,500 |
| Change in prior accident years | (89,594) | 16,456 | (106,050) |
| Total losses and loss expenses | $313,432 | $(44,059) | $357,491 |
| | | | |
| Selected ratios: | | | |
| Ratio of net to gross premiums written | 89.6 % | 3.0 | 86.6 % |
| Losses and loss expense ratio: | | | |
| Current period excluding items below | 47.6 % | (1.7) | 49.3 % |
| Current period—notable loss events | 2.5 % | (7.0) | 9.5 % |
| Current period—non-notable loss events | 6.0 % | 3.7 | 2.3 % |
| Change in prior accident years | (12.5)% | 1.5 | (14.0)% |
| Losses and loss expense ratio | 43.6 % | (3.5) | 47.1 % |
| Policy acquisition cost ratio | 17.7 % | 0.7 | 17.0 % |
| General and administrative expense ratio [(b)] | 8.5 % | (0.2) | 8.7 % |
| Expense ratio | 26.2 % | 0.5 | 25.7 % |
| Combined ratio | 69.8 % | (3.0) | 72.8 % |

(a) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

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

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Gross Premiums Written

| | Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total |
| Property | $462,432 | 43.1 % | $(69,414) | (4.7 ) | $531,846 | 47.8 % |
| Marine | 109,876 | 10.3 % | (43,475 ) | (3.5 ) | 153,351 | 13.8 % |
| Specialty | 499,911 | 46.6 % | 72,698 | 8.2 | 427,213 | 38.4 % |
| Total | $1,072,219 | 100.0% | $(40,191) | | $1,112,410 | 100.0% |

The decrease in gross premiums written in the property lines of $69.4 million was primarily due to a reduction in business written in the catastrophe excess of loss lines driven by reductions in participation on various programs due to current market conditions. The decrease in gross premiums written in the marine lines of $43.5 million was due to reductions in participation on various programs as a result of current market conditions and business historically written in marine lines being renewed in specialty lines. The increase in gross premiums written in the specialty lines of $72.7 million was primarily due to new casualty lines written during the period of $54.1 million and business historically written in marine lines being renewed in specialty lines.

Reinsurance Premiums Ceded

| | Reinsurance Premium Ceded | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $86,745 | $(34,468) | $121,213 |
| Marine | 12,568 | (4,628 ) | 17,196 |
| Specialty | 12,345 | 1,753 | 10,592 |
| Total | $111,658 | $(37,343) | $149,001 |

Reinsurance premiums ceded in the property and specialty lines decreased by $34.5 million and $1.8 million, respectively, due to a reduction in the costs associated with the Company's main proportional retrocession program during the nine months ended September 30, 2016.

Net Premiums Written

| | Net Retention - Ratio of Net Premiums Written to Gross Premiums Written | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Net Premiums Written | % of Gross Premiums Written | Net Premiums Written | % of Gross Premiums Written | Net Premiums Written | % of Gross Premiums Written |
| Property | $375,687 | 81.2 % | $(34,946) | 4.0 | $410,633 | 77.2 % |
| Marine | 97,308 | 88.6 % | (38,847 ) | (0.2 ) | 136,155 | 88.8 % |
| Specialty | 487,566 | 97.5 % | 70,945 | — | 416,621 | 97.5 % |
| Total | $960,561 | 89.6 % | $(2,848 ) | 3.0 | $963,409 | 86.6 % |

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

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Net Premiums Earned

| | Net Premiums Earned Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $301,074 | $(22,542) | $323,616 |
| Marine | 87,125 | (26,114 ) | 113,239 |
| Specialty | 331,233 | 9,789 | 321,444 |
| Total | $719,432 | $(38,867) | $758,299 |

The decrease in property and marine lines net premiums earned of $22.5 million and $26.1 million, respectively was as a result of lower gross premiums written during the nine months ended September 30, 2016, offset by the earned impact of the reduction in reinsurance premiums ceded. Net premiums earned in the specialty lines increased by $9.8 million, primarily due to the increase in gross premiums written as noted above, the impact of reinstatement premiums and adjustments to existing business.

Losses and Loss Expenses

| | Losses and Loss Expense Ratio - All Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| All lines—current period excluding items below | 47.6 % | (1.7 ) | 49.3 % |
| All lines—current period—notable loss events | 2.5 % | (7.0 ) | 9.5 % |
| All lines—current period—non-notable loss events | 6.0 % | 3.7 | 2.3 % |
| All lines—change in prior accident years | (12.5)% | 1.5 | (14.0)% |
| All lines—loss ratio | 43.6 % | (3.5 ) | 47.1 % |

| | Losses and Loss Expenses - All Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| All lines—current period excluding items below | $342,331 | $(31,528) | $373,859 |
| All lines—current period—notable loss events | 17,884 | (54,298 ) | 72,182 |
| All lines—current period—non-notable loss events | 42,811 | 25,311 | 17,500 |
| All lines—change in prior accident years | (89,594 ) | 16,456 | (106,050 ) |
| All lines—losses and loss expenses | $313,432 | $(44,059) | $357,491 |

Notable Loss Events

For the nine months ended September 30, 2016, losses and loss expenses from the Canadian Wildfires notable loss event were $17.9 million, or 2.5 percentage points of the loss ratio, and related solely to the property lines. Net of reinstatement premiums of $3.1 million, the effect of this event on underwriting income was a reduction of $14.8 million.

For the nine months ended September 30, 2015, losses and loss expenses from two notable loss events, Tianjin and Pemex, were $72.2 million, or 9.5 percentage points of the loss ratio. Losses and loss expenses from Tianjin, a third quarter 2015 notable loss event, were $35.8 million, or 4.7 percentage points of the loss ratio, with the associated impact on the property and marine lines being $23.3 million and $12.5 million, respectively. Net of $3.1 million of reinstatement premiums, the effect of this event on underwriting income was a reduction of $32.7 million. Losses and loss expenses from Pemex, a second quarter 2015 notable loss event, were $36.4 million, or 4.8 percentage points of the loss ratio, and related solely to the marine lines. Net of $8.9 million of reinstatement premiums, the effect of this event on underwriting income was a reduction of $27.4 million.

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Non-notable Loss Events

For the nine months ended September 30, 2016, losses and loss expenses incurred from the 2016 non-notable loss events, Texas Hailstorms, Kumamoto Earthquake, Jubilee Oil and SpaceX, were $42.8 million, or 6.0 percentage points of the loss ratio. Net of reinstatement premiums of $10.7 million, these events resulted in an aggregate reduction of underwriting income of $32.1 million. The losses and loss expenses of the 2016 non-notable loss events by line of business were as follows:

- Texas Hailstorms and Kumamoto Earthquake - impact on property lines of $22.1 million;
- Jubilee Oil - impact on marine and specialty lines of $0.7 million and $9.7 million, respectively; and
- SpaceX - impact on marine lines of $10.3 million.

For the nine months ended September 30, 2015, losses and loss expenses from the 2015 Chilean earthquake non-notable loss event were $17.5 million, or 2.3 percentage points of the loss ratio, and related solely to Validus Re's property lines.

Losses and Loss Expenses by Line of Business

Property Lines

| | Losses and Loss Expense Ratio - Property Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Property—current period excluding items below | 23.6 % | 0.8 | 22.8 % |
| Property—current period—notable loss events | 5.9 % | (1.3 ) | 7.2 % |
| Property—current period—non-notable loss events | 7.3 % | 1.9 | 5.4 % |
| Property—change in prior accident years | (17.3)% | 0.7 | (18.0)% |
| Property—loss ratio | 19.5 % | 2.1 | 17.4 % |

| | Losses and Loss Expenses - Property Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property—current period excluding items below | $70,705 | $(3,221) | $73,926 |
| Property—current period—notable loss events | 17,884 | (5,414 ) | 23,298 |
| Property—current period—non-notable loss events | 22,085 | 4,701 | 17,384 |
| Property—change in prior accident years | (52,036 ) | 6,401 | (58,437 ) |
| Property—losses and loss expenses | $58,638 | $2,467 | $56,171 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current period loss ratio for property lines increased by 0.8 percentage points, primarily due to a change in the business mix during the period. For the nine months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $52.0 million included favorable development on event reserves of $29.1 million, primarily related to the Tianjin notable, and the 2015 Chilean earthquake non-notable, loss events, with the remainder attributable to favorable development on attritional losses. For the nine months ended September 30, 2015, the favorable development in losses and loss expenses on prior accident years of $58.4 million was primarily due to favorable development on event reserves of $27.8 million, including Superstorm Sandy and Hurricane Ike.

The impact on Validus Re of the notable and non-notable loss events for the nine months ended September 30, 2016, as compared to nine months ended September 30, 2015, is described above.

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Marine Lines

| | Losses and Loss Expense Ratio - Marine Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Marine—current period excluding items below | 51.1 % | (3.7 ) | 54.8 % |
| Marine—current period—notable loss events | — % | (41.7 ) | 41.7 % |
| Marine—current period—non-notable loss events | 12.6 % | 12.6 | — % |
| Marine—change in prior accident years | (17.1)% | 8.7 | (25.8)% |
| Marine—loss ratio | 46.6 % | (24.1 ) | 70.7 % |

| | Losses and Loss Expenses - Marine Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Marine—current period excluding items below | $44,509 | $(17,531) | $62,040 |
| Marine—current period—notable loss events | — | (47,219 ) | 47,219 |
| Marine—current period—non-notable loss events | 11,019 | 11,019 | — |
| Marine—change in prior accident years | (14,967 ) | 14,258 | (29,225 ) |
| Marine—losses and loss expenses | $40,561 | $(39,473) | $80,034 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current period loss ratio for marine lines decreased by 3.7 percentage points, representing a lower level of attritional losses in the period. For the nine months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $15.0 million was primarily due to favorable development of attritional losses of $26.6 million, partially offset by adverse development on event reserves of $11.6 million. The adverse development was driven by reserves established following the receipt of a loss advice on an individual marine policy that incepted during the second half of 2015. For the nine months ended September 30, 2015, the favorable development in losses and loss expenses on prior accident years of $29.2 million was primarily due to favorable development on attritional losses.
The impact on Validus Re of the notable and non-notable loss events for the nine months ended September 30, 2016, as compared to nine months ended September 30, 2015, is described above.

Specialty Lines

| | Losses and Loss Expense Ratio - Specialty Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Specialty—current period excluding items below | 68.6 % | (5.5 ) | 74.1 % |
| Specialty—current period—notable loss events | — % | (0.5 ) | 0.5 % |
| Specialty—current period—non-notable loss events | 2.9 % | 2.9 | — % |
| Specialty—change in prior accident years | (6.8 )% | (1.1 ) | (5.7 )% |
| Specialty—loss ratio | 64.7 % | (4.2 ) | 68.9 % |

| | Losses and Loss Expenses - Specialty Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Specialty—current period excluding items below | $227,117 | $(10,776) | $237,893 |

| | | | |
|---|---|---|---|
| Specialty—current period—notable loss events | — | (1,665 ) | 1,665 |
| Specialty—current period—non-notable loss events | 9,707 | 9,591 | 116 |
| Specialty—change in prior accident years | (22,591 ) | (4,203 ) | (18,388 ) |
| Specialty—losses and loss expenses | $214,233 | $(7,053 ) | $221,286 |

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Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current period loss ratio for specialty lines decreased by 5.5 percentage points, representing a lower level of attritional losses in the period. For the nine months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $22.6 million was primarily due to favorable development on attritional and agriculture losses. For the nine months ended September 30, 2015, the favorable development in losses and loss expenses on prior accident years of $18.4 million was primarily due to favorable development on attritional losses.

The impact on Validus Re of the notable and non-notable loss events for the nine months ended September 30, 2016, as compared to nine months ended September 30, 2015, is described above.

Policy Acquisition Costs

| | Policy Acquisition Costs | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned |
| Property | $55,351 | 18.4 % | $(2,703) | 0.5 | $58,054 | 17.9 % |
| Marine | 13,937 | 16.0 % | (9,321) | (4.5) | 23,258 | 20.5 % |
| Specialty | 58,372 | 17.6 % | 10,775 | 2.8 | 47,597 | 14.8 % |
| Total | $127,660 | 17.7 % | $(1,249) | 0.7 | $128,909 | 17.0 % |

The acquisition cost ratio for the marine lines decreased by 4.5 percentage points primarily due to a reduction in proportional business, along with adjustments to existing business. The acquisition costs ratio for the specialty lines increased by 2.8 percentage points primarily due a change in the business mix during the period, along with new casualty business which carries higher acquisition costs.

Underwriting Income Before General and Administrative and Share Compensation Expenses

| | Underwriting Income Before General and Administrative and Share Compensation Expenses | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $187,085 | $(22,306) | $209,391 |
| Marine | 32,627 | 22,680 | 9,947 |
| Specialty | 58,628 | 6,067 | 52,561 |
| Other insurance related (loss) income | (107) | (3,425) | 3,318 |
| Total | $278,233 | $3,016 | $275,217 |

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

General and Administrative and Share Compensation Expenses

| | General and Administrative and Share Compensation Expenses | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Expenses | % of Net Premiums Earned | Expenses | % of Net Premiums Earned | Expenses | % of Net Premiums Earned |
| General and administrative expenses | $52,579 | 7.3 % | $(5,675) | (0.4) | $58,254 | 7.7 % |
| Share compensation expenses | 8,371 | 1.2 % | 706 | 0.2 | 7,665 | 1.0 % |
| Total | $60,950 | 8.5 % | $(4,969) | (0.2) | $65,919 | 8.7 % |

General and administrative expenses decreased by $5.7 million, or 9.7%, primarily due to reductions in office related expenses and staff costs. Share compensation expenses were comparable for the nine months ended September 30, 2016 and 2015.

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Selected Underwriting Ratios

The following table presents a comparison of the losses and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the nine months ended September 30, 2016 and 2015.

| | Select Underwriting Ratios Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Losses and loss expense ratio | 43.6% | (3.5) | 47.1% |
| Policy acquisition cost ratio | 17.7% | 0.7 | 17.0% |
| General and administrative expense ratio [(a)] | 8.5% | (0.2) | 8.7% |
| Expense ratio | 26.2% | 0.5 | 25.7% |
| Combined ratio | 69.8% | (3.0) | 72.8% |

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

The decrease in the combined ratio for the nine months ended September 30, 2016 of 3.0 percentage points compared to the nine months ended September 30, 2015 was due to the movement in the underlying ratios as discussed above.

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Year to Date 2016 Results of Operations - Talbot Segment

The following table presents a comparison of the results of operations for the nine months ended September 30, 2016 and 2015:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Underwriting revenues | | | |
| Gross premiums written | $752,058 | $(37,090) | $789,148 |
| Reinsurance premiums ceded | (137,496 ) | 26,648 | (164,144 ) |
| Net premiums written | 614,562 | (10,442 ) | 625,004 |
| Change in unearned premiums | (7,166 ) | (16,333 ) | 9,167 |
| Net premiums earned | 607,396 | (26,775 ) | 634,171 |
| Other insurance related income | 389 | (175 ) | 564 |
| Total underwriting revenues | 607,785 | (26,950 ) | 634,735 |
| Underwriting deductions | | | |
| Losses and loss expenses | 319,271 | 50,759 | 268,512 |
| Policy acquisition costs | 134,444 | (6,894 ) | 141,338 |
| General and administrative expenses | 109,929 | (5,412 ) | 115,341 |
| Share compensation expenses | 9,955 | 760 | 9,195 |
| Total underwriting deductions | 573,599 | 39,213 | 534,386 |
| Underwriting income (a) | $34,186 | $(66,163) | $100,349 |
| | | | |
| Supplemental information: | | | |
| Losses and loss expenses: | | | |
| Current period excluding items below | $356,927 | $(5,287 ) | $362,214 |
| Current period—notable loss events | 11,703 | (13,165 ) | 24,868 |
| Current period—non-notable loss events | 20,380 | 15,705 | 4,675 |
| Change in prior accident years | (69,739 ) | 53,506 | (123,245 ) |
| Total losses and loss expenses | $319,271 | $50,759 | $268,512 |
| | | | |
| Selected ratios: | | | |
| Ratio of net to gross premiums written | 81.7 % | 2.5 | 79.2 % |
| Losses and loss expense ratio: | | | |
| Current period excluding items below | 58.8 % | 1.6 | 57.2 % |
| Current period—notable loss events | 1.9 % | (2.0 ) | 3.9 % |
| Current period—non-notable loss events | 3.4 % | 2.7 | 0.7 % |
| Change in prior accident years | (11.5 )% | 7.9 | (19.4 )% |
| Losses and loss expense ratio | 52.6 % | 10.2 | 42.4 % |
| Policy acquisition cost ratio | 22.1 % | (0.2 ) | 22.3 % |
| General and administrative expense ratio (b) | 19.7 % | 0.1 | 19.6 % |
| Expense ratio | 41.8 % | (0.1 ) | 41.9 % |
| Combined ratio | 94.4 % | 10.1 | 84.3 % |

(a) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

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

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Gross Premiums Written

| | Business Mix - Ratio of Gross Premiums Written by Line of Business to Total Gross Premiums Written | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total |
| Property | $245,714 | 32.6 % | $(7,482 ) | 0.5 | $253,196 | 32.1 % |
| Marine | 222,305 | 29.6 % | (44,586 ) | (4.2 ) | 266,891 | 33.8 % |
| Specialty | 284,039 | 37.8 % | 14,978 | 3.7 | 269,061 | 34.1 % |
| Total | $752,058 | 100.0% | $(37,090) | | $789,148 | 100.0% |

Talbot gross premiums written for the nine months ended September 30, 2016 translated at 2015 exchange rates would have been $765.9 million, a decrease of $23.2 million on the prior year period.

The decrease in gross premiums written in the property lines of $7.5 million includes an increase in premium estimates of $2.1 million, which had no impact on earned premium. After the impact of these changes in estimates, the decrease was primarily driven by decreases in the downstream energy classes as a result of non-renewals on various programs due to the current rate environment. The decrease in gross premiums written in the marine lines of $44.6 million includes an increase in premium estimates of $6.8 million, which had no impact on earned premium. After the impact of these changes in estimates, the decrease was primarily driven by decreases in the upstream energy class as a result of reductions in our participation and non-renewals on various programs due to the current rate environment. The increase in gross premiums written in the specialty lines of $15.0 million includes an increase in premium estimates of $14.5 million, which had no impact on earned premium. After the impact of these changes in estimates, the increase was primarily driven by increases in the contingency and accident and health classes as a result of increased renewals and upwards premium adjustments, respectively.

Reinsurance Premiums Ceded

| | Reinsurance Premium Ceded | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $66,286 | $(15,434) | $81,720 |
| Marine | 26,453 | (5,713 ) | 32,166 |
| Specialty | 44,757 | (5,501 ) | 50,258 |
| Total | $137,496 | $(26,648) | $164,144 |

The decrease in reinsurance premiums ceded in the property lines of $15.4 million was due primarily to a decrease in proportional premium adjustments on prior period policies during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease in reinsurance premiums ceded in the marine lines of $5.7 million was primarily due to a higher reinsurance premiums for the nine months ended September 30, 2015, which was primarily attributable to $10.1 million of reinstatement premiums from Pemex, a 2015 notable loss event and was partially offset by reinstatement premiums on other events and favorable adjustments on prior period contracts. The decrease in reinsurance premiums ceded in the specialty lines of $5.5 million was primarily due to a decrease in reinstatement premiums.

Net Premiums Written

| | Net Retention - Ratio of Net Premiums Written to Gross Premiums Written | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Net Premiums | % of Gross | Net Premiums | % of Gross Premiums Written | Net Premiums | % of Gross |

| | Written | Premiums Written | | Written | | | Written | Premiums Written | |
|---|---|---|---|---|---|---|---|---|---|
| Property | $179,428 | 73.0 | % | $7,952 | | 5.3 | $171,476 | 67.7 | % |
| Marine | 195,852 | 88.1 | % | (38,873 | ) | 0.2 | 234,725 | 87.9 | % |
| Specialty | 239,282 | 84.2 | % | 20,479 | | 2.9 | 218,803 | 81.3 | % |
| Total | $614,562 | 81.7 | % | $(10,442 | ) | 2.5 | $625,004 | 79.2 | % |

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

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Net Premiums Earned

| | Net Premiums Earned | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $173,124 | $6,624 | $166,500 |
| Marine | 208,029 | (38,010) | 246,039 |
| Specialty | 226,243 | 4,611 | 221,632 |
| Total | $607,396 | $(26,775) | $634,171 |

Excluding the impact of the changes in estimates noted above on gross premiums written, which had no impact on earned premium, the changes in the net premiums earned in the property and specialty lines was consistent with the pattern of net premiums written for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. Net premiums earned in the marine lines decreased by $38.0 million, primarily as a result of an overall reduction in net premiums written during both the nine months ended September 30, 2016 and 2015.

Losses and Loss Expenses

| | Losses and Loss Expense Ratio - All Lines | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| | 2016 | Change | 2015 |
| All lines—current period excluding items below | 58.8 % | 1.6 | 57.2 % |
| All lines—current period—notable loss events | 1.9 % | (2.0) | 3.9 % |
| All lines—current period—non-notable loss events | 3.4 % | 2.7 | 0.7 % |
| All lines—change in prior accident years | (11.5)% | 7.9 | (19.4)% |
| All lines—loss ratio | 52.6 % | 10.2 | 42.4 % |

| | Losses and Loss Expenses - All Lines | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| All lines—current period excluding items below | $356,927 | $(5,287) | $362,214 |
| All lines—current period—notable loss events | 11,703 | (13,165) | 24,868 |
| All lines—current period—non-notable loss events | 20,380 | 15,705 | 4,675 |
| All lines—change in prior accident years | (69,739) | 53,506 | (123,245) |
| All lines—losses and loss expenses | $319,271 | $50,759 | $268,512 |

Notable Loss Events

Losses and loss expenses from the Canadian Wildfires notable loss event were $11.7 million, which represented 1.9 percentage points of the loss ratio and related solely to Talbot's property lines. Net of reinstatement premiums of $0.5 million, the effect of this event on underwriting income was a reduction of $11.2 million.

For the nine months ended September 30, 2015, losses and loss expenses from two notable loss events, Tianjin and Pemex, were $24.9 million, which represented 3.9 percentage points of the loss ratio. Losses and loss expenses from Tianjin, a third quarter 2015 notable loss event, were $12.0 million, or 1.9 percentage points of the loss ratio. The impact of the Tianjin loss event on the property and marine lines was $3.2 million and $8.8 million, respectively. Net of $0.8 million of reinstatement premiums, the effect of this event on underwriting income was a reduction of $11.2 million. Losses and loss expenses from Pemex, a second quarter 2015 notable loss event, were $12.9 million, or 2.0 percentage points of the loss ratio. The impact of the Pemex loss event on the property and marine lines was $0.4 million and $12.5 million, respectively. Including reinstatement premiums payable, the effect of this event on underwriting income was a reduction of $24.0 million.

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Non-notable Loss Events

For the nine months ended September 30, 2016, losses and loss expenses from the 2016 non-notable loss events, Texas Hailstorms, Kumamoto Earthquake, Jubilee Oil and SpaceX, were $20.4 million, which represented 3.4 percentage points of the loss ratio. These loss events, net of reinstatement premiums of $0.2 million, resulted in an aggregate reduction of underwriting income of $20.2 million. The Texas Hailstorms and Kumamoto Earthquake non-notable loss events impacted Talbot's property lines by $5.6 million, while the Jubilee Oil and SpaceX non-notable loss events impacted Talbot's marine lines by $14.7 million.

For the nine months ended September 30, 2015, losses and loss expenses from the Chilean earthquake non-notable loss event were $4.7 million, or 0.7 percentage points of the loss ratio and impacted Talbot's property and marine lines.

Losses and Loss Expenses by Line of Business

Property Lines

| | Losses and Loss Expense Ratio - Property Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Property—current period excluding items below | 63.6 % | 1.0 | 62.6 % |
| Property—current period—notable loss events | 6.8 % | 4.6 | 2.2 % |
| Property—current period—non-notable loss events | 3.3 % | 0.8 | 2.5 % |
| Property—change in prior accident years | (17.9)% | 10.4 | (28.3)% |
| Property—loss ratio | 55.8 % | 16.8 | 39.0 % |

| | Losses and Loss Expenses - Property Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property—current period excluding items below | $110,258 | $5,988 | $104,270 |
| Property—current period—notable loss events | 11,703 | 8,111 | 3,592 |
| Property—current period—non-notable loss events | 5,649 | 1,474 | 4,175 |
| Property—change in prior accident years | (30,969 ) | 16,172 | (47,141 ) |
| Property—losses and loss expenses | $96,641 | $31,745 | $64,896 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current period loss ratio for property lines increased by 1.0 percentage point, representing a higher level of attritional losses incurred during the period. For the nine months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $31.0 million included favorable development on event reserves of $9.2 million and attritional losses of $21.8 million; whereas the favorable development for the nine months ended September 30, 2015 of $47.1 million included favorable development on attritional losses of $38.9 million and event reserves of $8.2 million, including the Thailand floods, which was a 2011 notable loss event.

The impact on Talbot of the notable and non-notable loss events for the nine months ended September 30, 2016, as compared to nine months ended September 30, 2015, is described above.

Marine Lines

| | Losses and Loss Expense Ratio - Marine Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Marine—current period excluding items below | 52.8 % | (1.7 ) | 54.5 % |
| Marine—current period—notable loss events | — % | (8.6 ) | 8.6 % |

| | | | |
|---|---|---|---|
| Marine—current period—non-notable loss events | 7.1 % | 6.9 | 0.2 % |
| Marine—change in prior accident years | (5.0 )% | 15.8 | (20.8)% |
| Marine—loss ratio | 54.9 % | 12.4 | 42.5 % |

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| (Dollars in thousands) | Losses and Loss Expenses - Marine Lines Nine Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| Marine—current period excluding items below | $109,885 | $(24,097) | $133,982 |
| Marine—current period—notable loss events | — | (21,276 ) | 21,276 |
| Marine—current period—non-notable loss events | 14,731 | 14,231 | 500 |
| Marine—change in prior accident years | (10,511 ) | 40,667 | (51,178 ) |
| Marine—losses and loss expenses | $114,105 | $9,525 | $104,580 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current period loss ratio for marine lines decreased by 1.7 percentage points, primarily due to the decrease in net premiums earned during the nine months ended September 30, 2016 as noted above. For the nine months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $10.5 million was comprised of favorable development of attritional losses of $29.1 million, partially offset by adverse development of $18.6 million on prior year events. The adverse development was driven by reserves established following the receipt of a loss advice on an individual marine policy that incepted during the second half of 2015. For the nine months ended September 30, 2015, the favorable development in losses and loss expenses for prior accident years of $51.2 million was primarily due to favorable development of attritional losses.

The impact on Talbot of the notable and non-notable loss events for the nine months ended September 30, 2016, as compared to nine months ended September 30, 2015, is described above.

Specialty Lines

| | Losses and Loss Expense Ratio - Specialty Lines Nine Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| Specialty—current period excluding items below | 60.5 % | 4.6 | 55.9 % |
| Specialty—current period—notable loss events | — % | — | — % |
| Specialty—current period—non-notable loss events | — % | — | — % |
| Specialty—change in prior accident years | (12.5)% | (1.3 ) | (11.2)% |
| Specialty—loss ratio | 48.0 % | 3.3 | 44.7 % |

| (Dollars in thousands) | Losses and Loss Expenses - Specialty Lines Nine Months Ended September 30, 2016 | Change | 2015 |
|---|---|---|---|
| Specialty—current period excluding items above | $136,784 | $12,822 | $123,962 |
| Specialty—current period—notable loss events | — | — | — |
| Specialty—current period—non-notable loss events | — | — | — |
| Specialty—change in prior accident years | (28,259 ) | (3,333 ) | (24,926 ) |
| Specialty—losses and loss expenses | $108,525 | $9,489 | $99,036 |

Excluding the impact of notable and non-notable loss events and the change in prior accident years, the current period loss ratio for specialty lines increased by 4.6 percentage points, representing a higher level of attritional losses in the current period. For the nine months ended September 30, 2016 and 2015, the favorable development in losses and loss expenses on prior accident years of $28.3 million and $24.9 million, respectively, was primarily due to favorable development of attritional losses.

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Policy Acquisition Costs

| | Policy Acquisition Costs | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned |
| Property | $27,950 | 16.1 % | $3,656 | 1.5 | $24,294 | 14.6 % |
| Marine | 53,777 | 25.9 % | (10,424) | (0.2) | 64,201 | 26.1 % |
| Specialty | 52,717 | 23.3 % | (126) | (0.5) | 52,843 | 23.8 % |
| Total | $134,444 | 22.1 % | $(6,894) | (0.2) | $141,338 | 22.3 % |

Policy acquisition costs across all classes were consistent with the earning pattern of net premiums written during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

Underwriting Income Before General and Administrative and Share Compensation Expenses

| | Underwriting Income Before General and Administrative and Share Compensation Expenses | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $48,533 | $(28,777) | $77,310 |
| Marine | 40,147 | (37,111) | 77,258 |
| Specialty | 65,001 | (4,752) | 69,753 |
| Other insurance related income | 389 | (175) | 564 |
| Total | $154,070 | $(70,815) | $224,885 |

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

General and Administrative and Share Compensation Expenses

| | General and Administrative and Share Compensation Expenses | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | |
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Expenses | % of Net Premiums Earned | Expenses | % of Net Premiums Earned | Expenses | % of Net Premiums Earned |
| General and administrative expenses | $109,929 | 18.1 % | $(5,412) | (0.1) | $115,341 | 18.2 % |
| Share compensation expenses | 9,955 | 1.6 % | 760 | 0.2 | 9,195 | 1.4 % |
| Total | $119,884 | 19.7 % | $(4,652) | 0.1 | $124,536 | 19.6 % |

General and administrative expenses for the nine months ended September 30, 2016 translated at 2015 exchange rates would have been $118.9 million, an increase of $3.6 million. This increase was primarily due to a greater retention of costs within the segment and an increase in Lloyd's related costs and was partially offset by reduced accruals relating to performance bonuses. Share compensation expenses were comparable for the nine months ended September 30, 2016 and 2015.

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Selected Underwriting Ratios

The following table presents a comparison of the losses and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the nine months ended September 30, 2016 and 2015.

| | Select Underwriting Ratios Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Losses and loss expense ratio | 52.6% | 10.2 | 42.4% |
| Policy acquisition cost ratio | 22.1% | (0.2) | 22.3% |
| General and administrative expense ratio [(a)] | 19.7% | 0.1 | 19.6% |
| Expense ratio | 41.8% | (0.1) | 41.9% |
| Combined ratio | 94.4% | 10.1 | 84.3% |

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

The increase in the combined ratio for the nine months ended September 30, 2016 of 10.1 percentage points compared to the nine months ended September 30, 2015 was due to the movement in the underlying ratios as discussed above.

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Year to Date 2016 Results of Operations - Western World Segment

The following table presents a comparison of the results of operations for the nine months ended September 30, 2016 and 2015:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Underwriting revenues | | | |
| Gross premiums written | $236,190 | $28,818 | $207,372 |
| Reinsurance premiums ceded | (15,347) | (1,957) | (13,390) |
| Net premiums written | 220,843 | 26,861 | 193,982 |
| Change in unearned premiums | (22,890) | (25,838) | 2,948 |
| Net premiums earned | 197,953 | 1,023 | 196,930 |
| Other insurance related income | 696 | (91) | 787 |
| Total underwriting revenues | 198,649 | 932 | 197,717 |
| Underwriting deductions | | | |
| Losses and loss expenses | 129,623 | (8,475) | 138,098 |
| Policy acquisition costs | 46,704 | 19,594 | 27,110 |
| General and administrative expenses | 33,704 | 4,567 | 29,137 |
| Share compensation expenses | 1,825 | 300 | 1,525 |
| Total underwriting deductions | 211,856 | 15,986 | 195,870 |
| Underwriting (loss) income [(a)] | $(13,207) | $(15,054) | $1,847 |
| | | | |
| Supplemental information: | | | |
| Losses and loss expenses: | | | |
| Current period excluding items below | $137,444 | $(16,293) | $153,737 |
| Current period—notable loss events | — | — | — |
| Current period—non-notable loss events | 643 | 643 | — |
| Change in prior accident years | (8,464) | 7,175 | (15,639) |
| Total losses and loss expense | $129,623 | $(8,475) | $138,098 |
| | | | |
| Selected ratios: | | | |
| Ratio of net to gross premiums written | 93.5 % | — | 93.5 % |
| Losses and loss expense ratio: | | | |
| Current period excluding items below | 69.5 % | (8.6) | 78.1 % |
| Current period—notable loss events | — % | — | — % |
| Current period—non-notable loss events | 0.3 % | 0.3 | — % |
| Change in prior accident years | (4.3)% | 3.7 | (8.0)% |
| Losses and loss expense ratio | 65.5 % | (4.6) | 70.1 % |
| Policy acquisition cost ratio | 23.6 % | 9.8 | 13.8 % |
| General and administrative expense ratio [(b)] | 17.9 % | 2.3 | 15.6 % |
| Expense ratio | 41.5 % | 12.1 | 29.4 % |
| Combined ratio | 107.0 % | 7.5 | 99.5 % |

(a) Non-GAAP Financial Measures. In presenting the Company's results, management has included and discussed underwriting income that is not calculated under standards or rules that comprise U.S. GAAP. Such measures are referred to as non-GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

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

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Gross Premiums Written

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

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total | Gross Premiums Written | % of Total |
| Property | $65,401 | 27.7 % | $26,267 | 8.8 | $39,134 | 18.9 % |
| Liability | 170,789 | 72.3 % | 2,551 | (8.8 ) | 168,238 | 81.1 % |
| Total | $236,190 | 100.0% | $28,818 | | $207,372 | 100.0% |

The property lines consist largely of commercial package property, program and brokerage business. The increase in gross premiums written in the property lines of $26.3 million was primarily due to increases in the brokerage property, contract commercial package and monoline property and program flood classes of $9.4 million, $8.3 million and $5.3 million, respectively, as a result of the continued build out of the underwriting platform in short tail lines. Gross premiums written in the liability lines consist largely of commercial package liability, program and other liability business. The increase in gross premiums written in the liability lines of $2.6 million was driven by increases in the contract liability and brokerage professional lines of $11.7 million and $4.3 million, respectively, and was partially offset by decreases arising from the discontinuation of underperforming programs and brokerage general liability lines.

Reinsurance Premiums Ceded

| | Reinsurance Premiums Ceded | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $6,395 | $3,215 | $3,180 |
| Liability | 8,952 | (1,258 ) | 10,210 |
| Total | $15,347 | $1,957 | $13,390 |

Reinsurance premiums ceded in the property lines were driven by the factors highlighted above in respect of gross premiums written for the nine months ended September 30, 2016 and 2015. The decrease in reinsurance premiums ceded in the liability lines was primarily due to the discontinuation of underperforming programs and brokerage general liability lines which were ceded at a higher rate.

Net Premiums Written

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

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | Change | | 2015 | |
| (Dollars in thousands) | Net Premiums Written | % of Gross Premiums Written | Net Premiums Written | % of Gross Premiums Written | Net Premiums Written | % of Gross Premiums Written |
| Property | $59,006 | 90.2 % | $23,052 | (1.7 ) | $35,954 | 91.9 % |
| Liability | 161,837 | 94.8 % | 3,809 | 0.9 | 158,028 | 93.9 % |
| Total | $220,843 | 93.5 % | $26,861 | — | $193,982 | 93.5 % |

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

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Net Premiums Earned

| | Net Premiums Earned | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $43,070 | $10,565 | $32,505 |
| Liability | 154,883 | (9,542 ) | 164,425 |
| Total | $197,953 | $1,023 | $196,930 |

Net premiums earned in the property lines during the nine months ended September 30, 2016 were driven by the factors highlighted above in respect of gross premiums written and reinsurance premiums ceded. Net premiums earned in the liability lines during the nine months ended September 30, 2016 have decreased primarily as a result of the discontinuation of liability lines as discussed above. Net premiums earned exceeded net premiums written for the nine months ended September 30, 2015 as Western World discontinued writing business in several underperforming classes during the three months ended December 31, 2014, including binding authority commercial auto business, a large bar and tavern program and certain brokerage general liability habitational accounts.

Losses and Loss Expenses

| | Losses and Loss Expense Ratio - All Lines | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| | 2016 | Change | 2015 |
| All lines—current period excluding items below | 69.5 % | (8.6 ) | 78.1 % |
| All lines—current period—notable loss events | — % | — | — % |
| All lines—current period—non-notable loss events | 0.3 % | 0.3 | — % |
| All lines—change in prior accident years [(a)] | (4.3 )% | 3.7 | (8.0 )% |
| All lines—loss ratio [(a)] | 65.5 % | (4.6 ) | 70.1 % |

| | Losses and Loss Expenses - All Lines | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| All lines—current period excluding items below | $137,444 | $(16,293) | $153,737 |
| All lines—current period—notable loss events | — | — | — |
| All lines—current period—non-notable loss events | 643 | 643 | — |
| All lines—change in prior accident years [(a)] | (8,464 ) | 7,175 | (15,639 ) |
| All lines—losses and loss expenses [(a)] | $129,623 | $(8,475 ) | $138,098 |

(a) Upon closing the acquisition, an adjustment of $15,586 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $8,639 during the nine months ended September 30, 2015, benefiting the loss ratio by 4.4 percentage points. The remaining fair value adjustment of $2,340 was fully amortized during the year ended December 31, 2015.

Notable Loss Events

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

Non-notable Loss Events

For the nine months ended September 30, 2016, losses and loss expenses from the Texas Hailstorm non-notable loss event were $0.6 million, or 0.3 percentage points of the loss ratio which solely impacted Western World's property lines. For the nine months ended September 30, 2015, there were no non-notable loss events.

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Losses and Loss Expenses by Line of Business

Property Lines

| | Losses and Loss Expense Ratio - Property Lines | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| | 2016 | Change | 2015 |
| Property—current period excluding items below | 71.4 % | (5.4 ) | 76.8 % |
| Property—current period—notable loss events | — % | — | — % |
| Property—current period—non-notable loss events | 1.5 % | 1.5 | — % |
| Property—change in prior accident years (a) | (6.0 )% | 8.3 | (14.3 )% |
| Property—loss ratio (a) | 66.9 % | 4.4 | 62.5 % |

| | Losses and Loss Expenses - Property Lines | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property—current period excluding items below | $30,768 | $5,803 | $24,965 |
| Property—current period—notable loss events | — | — | — |
| Property—current period—non-notable loss events | 643 | 643 | — |
| Property—change in prior accident years (a) | (2,576 ) | 2,072 | (4,648 ) |
| Property—losses and loss expenses (a) | $28,835 | $8,518 | $20,317 |

(a) Upon closing the acquisition, an adjustment of $409 was made to decrease net reserves to reflect fair value. This adjustment was amortized to income through an increase in losses and loss expenses of $227 during the nine months ended September 30, 2015, increasing the loss ratio by 0.7 percentage points. The remaining fair value adjustment of $61 was fully amortized during the year ended December 31, 2015.

Excluding the impact of non-notable loss events and the change in prior accident years, the current period loss ratio for property lines decreased by 5.4 percentage points, primarily as a result of the increase in net premiums earned during the period. Included as part of current period losses and loss expenses for the nine months ended September 30, 2016 are $11.5 million, or 26.7 percentage points of the property lines loss ratio, of losses from other U.S.-based weather events including floods. For the nine months ended September 30, 2016 and 2015, the favorable development on prior accident years of $2.6 million and $4.6 million, respectively, primarily related to favorable development on attritional losses.

The impact on Western World of the non-notable loss event for the nine months ended September 30, 2016 is described above.

Liability Lines

| | Losses and Loss Expense Ratio - Liability Lines | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| | 2016 | Change | 2015 |
| Liability—current period excluding items below | 68.9 % | (9.4 ) | 78.3 % |
| Liability—current period—notable loss events | — % | — | — % |
| Liability—current period—non-notable loss events | — % | — | — % |
| Liability—change in prior accident years (a) | (3.8 )% | 2.9 | (6.7 )% |
| Liability—loss ratio (a) | 65.1 % | (6.5 ) | 71.6 % |

| | Losses and Loss Expenses - Liability Lines Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Liability—current period excluding items above | $106,676 | $(22,096) | $128,772 |
| Liability—current period—notable loss events | — | — | — |
| Liability—current period—non-notable loss events | — | — | — |
| Liability—change in prior accident years [(a)] | (5,888) | 5,103 | (10,991) |
| Liability—losses and loss expenses [(a)] | $100,788 | $(16,993) | $117,781 |

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(a) Upon closing the acquisition, an adjustment of $15,995 was made to increase net reserves to reflect fair value. This adjustment was amortized to income through a reduction in losses and loss expenses of $8,866 during the nine months ended September 30, 2015, benefiting the loss ratio by 5.4 percentage points. The remaining fair value adjustment of $2,401 was fully amortized during the year ended December 31, 2015.

Excluding the change in prior accident years, the current period loss ratio for liability lines decreased by 9.4 percentage points as Western World discontinued writing business in several underperforming classes during the fourth quarter of 2014. For the nine months ended September 30, 2016, the favorable development in losses and loss expenses on prior accident years of $5.9 million was due to favorable development on attritional losses; whereas the favorable development of $11.0 million during the nine months ended September 30, 2015 was primarily due to the amortization of the fair value adjustment, as noted in footnote (a) above and favorable development on attritional losses.

Policy Acquisition Costs

| | Policy Acquisition Costs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, | | | | | | | |
| | 2016 | | | Change | | 2015 | | |
| (Dollars in thousands) | Policy Acquisition Costs | % of Net Premiums Earned | | Policy Acquisition Costs | % of Net Premiums Earned | Policy Acquisition Costs | % of Net Premiums Earned | |
| Property | $10,665 | 24.8 | % | $6,603 | 12.3 | $4,062 | 12.5 | % |
| Liability | 36,039 | 23.3 | % | 12,991 | 9.3 | 23,048 | 14.0 | % |
| Total [(a)] | $46,704 | 23.6 | % | $19,594 | 9.8 | $27,110 | 13.8 | % |

(a) Upon closing the acquisition, an adjustment of $34,736 was made to reduce deferred acquisition costs to reflect fair value. These deferred acquisition costs would otherwise have been expensed in the amount of $19,917 during the nine months ended September 30, 2015, benefiting the policy acquisition cost ratio by 10.1 percentage points.

The acquisition cost ratio for the property and liability lines increased by 12.3 and 9.3 percentage points, respectively, primarily due to the impact of the acquisition fair value adjustments during the nine months ended September 30, 2015 as noted in footnote (a) above.

Underwriting Income Before General and Administrative and Share Compensation Expenses

| | Underwriting Income Before General and Administrative and Share Compensation Expenses | | |
|---|---|---|---|
| | Nine Months Ended September 30, | | |
| (Dollars in thousands) | 2016 | Change | 2015 |
| Property | $3,570 | $(4,556) | $8,126 |
| Liability | 18,056 | (5,540) | 23,596 |
| Other insurance related income | 696 | (91) | 787 |
| Total | $22,322 | $(10,187) | $32,509 |

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

General and Administrative and Share Compensation Expenses

| | General and Administrative and Share Compensation Expenses | | | |
|---|---|---|---|---|
| | Nine Months Ended September 30, | | | |
| | 2016 | Change | | 2015 |
| (Dollars in thousands) | Expenses | Expenses | % of Net Premiums Earned | Expenses |

| | | % of Net Premiums Earned | | | | | % of Net Premiums Earned | |
|---|---|---|---|---|---|---|---|---|
| General and administrative expenses | $33,704 | 17.0 | % | $4,567 | 2.2 | $29,137 | 14.8 | % |
| Share compensation expenses | 1,825 | 0.9 | % | 300 | 0.1 | 1,525 | 0.8 | % |
| Total | $35,529 | 17.9 | % | $4,867 | 2.3 | $30,662 | 15.6 | % |

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The increase in general and administrative expenses of $4.6 million for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was primarily due to increases in staff related costs associated with the opening of new offices in Arizona, Atlanta and New York. Share compensation expenses were comparable for the nine months ended September 30, 2016 and 2015.

Selected Underwriting Ratios

The following table presents a comparison of the losses and loss expense ratio, policy acquisition cost ratio, general and administrative expense ratio, expense ratio and combined ratio for the nine months ended September 30, 2016 and 2015.

| | Select Underwriting Ratios Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2016 | Change | 2015 |
| Losses and loss expense ratio | 65.5 % | (4.6 ) | 70.1% |
| Policy acquisition cost ratio | 23.6 % | 9.8 | 13.8% |
| General and administrative expense ratio [(a)] | 17.9 % | 2.3 | 15.6% |
| Expense ratio | 41.5 % | 12.1 | 29.4% |
| Combined ratio | 107.0% | 7.5 | 99.5% |

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

The increase in the combined ratio for the nine months ended September 30, 2016 of 7.5% percentage points compared to the nine months ended September 30, 2015 was due to the movement in the underlying ratios as discussed above.

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Year to Date 2016 Results of Operations - AlphaCat Segment

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

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Revenues | | | |
| Third party | $14,843 | $221 | $14,622 |
| Related party | 2,592 | (1,466) | 4,058 |
| Total revenues | 17,435 | (1,245) | 18,680 |
| | | | |
| Expenses | | | |
| General and administrative expenses | 7,557 | (1,326) | 8,883 |
| Share compensation expenses | 167 | (273) | 440 |
| Finance expenses | 914 | (8,345) | 9,259 |
| Foreign exchange gains | 17 | 26 | (9) |
| Total expenses | 8,655 | (9,918) | 18,573 |
| Income before investments from AlphaCat Funds and Sidecars | $8,780 | $8,673 | $107 |
| | | | |
| Investment income (loss) from AlphaCat Funds and Sidecars (b) | | | |
| AlphaCat Sidecars | 593 | (3,293) | 3,886 |
| AlphaCat ILS Funds - Lower Risk (c) | 6,903 | 1,449 | 5,454 |
| AlphaCat ILS Funds - Higher Risk (c) | 5,607 | (1,001) | 6,608 |
| BetaCat ILS Funds | 2,979 | 1,738 | 1,241 |
| PaCRe | (23) | 2,218 | (2,241) |
| Total investment income from AlphaCat Funds and Sidecars | 16,059 | 1,111 | 14,948 |
| Validus' share of AlphaCat income | $24,839 | $9,784 | $15,055 |
| | | | |
| Supplemental information: | | | |
| Gross premiums written | | | |
| AlphaCat Sidecars | $(178) | $(45,604) | $45,426 |
| AlphaCat ILS Funds - Lower Risk (c) | 112,241 | 22,153 | 90,088 |
| AlphaCat ILS Funds - Higher Risk (c) | 140,127 | 105,935 | 34,192 |
| AlphaCat Direct (d) | 18,476 | 13,691 | 4,785 |
| Total | $270,666 | $96,175 | $174,491 |

(a) In presenting the Company's results, management has included and discussed the results of AlphaCat, which are presented on an asset manager basis. Validus' share of AlphaCat income is a non-GAAP measure and is not calculated under standards or rules that comprise U.S. GAAP. Further discussion of these measures is presented in the section entitled "Non-GAAP Financial Measures."

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

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

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

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Revenues

Revenues earned for the nine months ended September 30, 2016 were $17.4 million, of which $14.8 million were earned from third parties, compared to $18.7 million for the nine months ended September 30, 2015, of which $14.6 million were earned from third parties. The overall decrease in revenues of $1.2 million was primarily due to lower performance fees due to losses arising from notable and non-notable loss events during the nine months ended September 30, 2016.

Expenses

Total expenses for the nine months ended September 30, 2016 were $8.7 million, compared to $18.6 million for the nine months ended September 30, 2015, a decrease of $9.9 million. The decrease was primarily attributable to reduced placement fees incurred in relation to raising new capital during the nine months ended September 30, 2016.

Investment income from AlphaCat Funds and Sidecars

Investment income available to Validus from the AlphaCat Funds and Sidecars was $16.1 million for the nine months ended September 30, 2016 as compared to $17.2 million for the nine months ended September 30, 2015 (exclusive of PaCRe), a decrease of $1.1 million. The decrease was primarily due to Validus' share of the net losses and loss expenses of $2.3 million from notable and non-notable loss events during the nine months ended September 30, 2016.

Assets Under Management

| | Assets Under Management [(a)] | | |
|---|---|---|---|
| (Dollars in thousands) | October 1, 2016 | Change | January 1, 2016 |
| Assets Under Management - Related Party | | | |
| AlphaCat Sidecars | $7,922 | $(27,494) | $35,416 |
| AlphaCat ILS Funds - Lower Risk [(b)] | 181,744 | 17,730 | 164,014 |
| AlphaCat ILS Funds - Higher Risk [(b)] | 81,636 | 16,172 | 65,464 |
| AlphaCat Direct [(c)] | — | — | — |
| BetaCat ILS Funds | 51,160 | (10,589) | 61,749 |
| Total Assets Under Management - Related Party | $322,462 | $(4,181) | $326,643 |
| | | | |
| Assets Under Management - Third Party | | | |
| AlphaCat Sidecars | $29,603 | $(124,783) | $154,386 |
| AlphaCat ILS Funds - Lower Risk [(b)] | 1,276,874 | 174,412 | 1,102,462 |
| AlphaCat ILS Funds - Higher Risk [(b)] | 612,456 | 177,605 | 434,851 |
| AlphaCat Direct [(c)] | 373,659 | 5,839 | 367,820 |
| BetaCat ILS Funds | — | — | — |
| Total Assets Under Management - Third Party | 2,292,592 | 233,073 | 2,059,519 |
| Total Assets Under Management | $2,615,054 | $228,892 | $2,386,162 |

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

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

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

AlphaCat's assets under management were $2.6 billion as at October 1, 2016, compared to $2.4 billion as at January 1, 2016. Third party assets under management were $2.3 billion as at October 1, 2016, compared to $2.1 billion as at January 1, 2016. During the nine months ended October 1, 2016, a total of $255.5 million of capital was raised, of which $235.9 million was raised from third parties. During the nine months ended October 1, 2016, $185.9 million was returned to investors, of which $143.9 million was returned to third party investors.

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Year to Date 2016 Consolidated Results - Corporate and Investment Function

The following table presents a comparison of the corporate and investment function's income and expense items on a consolidated basis for the nine months ended September 30, 2016 and 2015:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Investment income | | | |
| Net investment income [(a)] | $105,843 | $14,562 | $91,281 |
| | | | |
| Operating expenses | | | |
| General and administrative expenses | 52,276 | 774 | 51,502 |
| Share compensation expenses | 12,147 | 2,693 | 9,454 |
| Finance expenses [(a)] | 42,637 | (2,986) | 45,623 |
| Dividends on preferred shares | 2,252 | 2,252 | — |
| Tax expenses | 1,418 | (5,714) | 7,132 |
| Total operating expenses | 110,730 | (2,981) | 113,711 |
| | | | |
| Other items | | | |
| Net realized gains on investments [(a)] | 5,514 | 463 | 5,051 |
| Change in net unrealized gains on investments [(a)] | 81,782 | 79,274 | 2,508 |
| (Loss) income from investment affiliate | (4,249) | (9,791) | 5,542 |
| Foreign exchange gains (losses) [(a)] | 11,628 | 20,652 | (9,024) |
| Other loss | (773) | 1,805 | (2,578) |
| Total other items | 93,902 | 92,403 | 1,499 |
| Total corporate and investment function | $89,015 | $109,946 | $(20,931) |

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

Managed Net Investment Income

| | Managed Net Investment Income Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Managed net investment income | | | |
| Fixed maturities and short-term investments | $89,210 | $5,483 | $83,727 |
| Other investments | 20,666 | 8,378 | 12,288 |
| Cash and cash equivalents | 2,136 | 957 | 1,179 |
| Securities lending income | 39 | 26 | 13 |
| Total gross investment income | 112,051 | 14,844 | 97,207 |
| Investment expenses | (6,208) | (282) | (5,926) |
| Total managed net investment income | $105,843 | $14,562 | $91,281 |

The increase in managed net investment income for the nine months ended September 30, 2016 of $14.6 million, or 16.0%, was primarily due to increased yield on a certain investment fund within other investments. Managed net investment income from other investments includes distributed and undistributed net income from certain investment funds.

The Company's managed yield-bearing portfolio had an annualized effective yield of 2.24% for the nine months ended September 30, 2016 compared to 1.92% for the nine months ended September 30, 2015, an increase of 32 basis points. Investment yield is calculated by dividing total managed net investment income by the average balance of the yield bearing assets managed by the Company's portfolio managers. Average assets for the period ended is the average of the beginning, ending and intervening quarter end asset balances.

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General and Administrative and Share Compensation Expenses

Corporate general and administrative expenses for the nine months ended September 30, 2016 were $52.3 million compared to $51.5 million for the nine months ended September 30, 2015, an increase of $0.8 million or 1.5%. Corporate general and administrative expenses are comprised of executive and board expenses, internal and external audit expenses and other costs relating to the Company as a whole.

Corporate share compensation expenses for the nine months ended September 30, 2016 were $12.1 million compared to $9.5 million for the nine months ended September 30, 2015, an increase of $2.7 million or 28.5%. The increase was primarily due to increased performance share award grants.

Finance Expenses

Finance expenses for the nine months ended September 30, 2016 were $42.6 million compared to $45.6 million for the nine months ended September 30, 2015, a decrease of $3.0 million or 6.5%. The decrease was primarily due to reduced credit facility expenses.

Net Realized and Change in Net Unrealized Gains on Investments

Net realized gains on managed investments for the nine months ended September 30, 2016 were $5.5 million compared to $5.1 million for the nine months ended September 30, 2015, an increase of $0.5 million.

The change in net unrealized gains on managed investments for the nine months ended September 30, 2016 was $81.8 million compared to $2.5 million for the nine months ended September 30, 2015, an increase of $79.3 million. The increase was primarily due to the impact of declining interest rates on our fixed maturity investments during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015.

(Loss) Income from Investment Affiliate

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

Foreign Exchange Gains (Losses)

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

| | Nine Months Ended September 30, | |
|---|---|---|
| U.S. dollar (weakened) strengthened against: | 2016 | 2015 |
| British Pound sterling | 13.8 % | 2.9 % |
| Euro | (3.4 )% | 8.4 % |
| Canadian dollar | (5.3 )% | 14.5 % |
| Swiss franc | (3.0 )% | (1.9 )% |
| Australian dollar | (4.6 )% | 15.9 % |
| New Zealand dollar | (6.3 )% | 21.6 % |
| Singapore dollar | (3.4 )% | 7.3 % |
| Japanese yen | (16.0)% | 0.3 % |
| South African rand | (11.5)% | 19.6 % |

Foreign exchange gains for the nine months ended September 30, 2016 were $11.6 million compared to losses of $9.0 million for the nine months ended September 30, 2015, a favorable movement of $20.7 million, The foreign exchange gains for the nine months ended September 30, 2016 were primarily attributable to the U.S. dollar strengthening against the British Pound sterling.

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

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Non-GAAP Financial Measures

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (Dollars in thousands) | 2016 | 2015 | 2016 | 2015 |
| Underwriting income | $99,922 | $90,589 | $301,798 | $344,450 |
| Net investment income | 43,514 | 31,572 | 112,232 | 96,212 |
| Finance expenses | (14,521) | (18,512) | (43,890) | (58,161) |
| Dividends on preferred shares | (2,252) | — | (2,252) | — |
| Tax expense | (1,830) | (2,018) | (1,418) | (7,132) |
| Income from operating affiliates | — | (7,963) | (23) | (2,241) |
| (Income) attributable to AlphaCat investors | (5,564) | (1,438) | (16,278) | (1,438) |
| Net operating (income) attributable to noncontrolling interest | (36,672) | (26,467) | (95,294) | (67,336) |
| Net operating income available to Validus common shareholders | $82,597 | $65,763 | $254,875 | $304,354 |
| Net realized gains (losses) on investments | 4,397 | (1,187) | 6,537 | 5,226 |
| Change in net unrealized gains on investments | 5,459 | 3,916 | 84,331 | 2,467 |
| Income (loss) from investment affiliate | 453 | 2,482 | (4,249) | 5,542 |
| Foreign exchange (losses) gains | (766) | (2,592) | 11,765 | (9,528) |
| Other loss | (1,529) | (1,970) | (773) | (2,578) |
| Net (income) loss attributable to noncontrolling interest | (767) | 238 | (869) | 368 |
| Net income available to Validus common shareholders | $89,844 | $66,650 | $351,617 | $305,851 |

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

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

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

The Company excludes the U.S. GAAP measures noted above, in particular net realized and change in net unrealized gains and losses on investments, from its calculation of net operating income available to Validus common shareholders because the amount of these gains and losses is heavily influenced by, and fluctuates in part, according to availability of investment market opportunities. The Company believes these amounts are largely independent of its core underwriting activities and including them distorts the analysis of trends in its operations. In addition to presenting net income available to Validus common shareholders determined in accordance with U.S. GAAP, the Company believes that showing underwriting income and net operating income available to Validus common shareholders provides investors with a valuable measure of profitability and enables investors, analysts, rating agencies

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and other users of its financial information to more easily analyze the Company’s results in a manner similar to how management analyzes the Company’s underlying business performance.

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

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

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

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

| | September 30, 2016 | | | |
|---|---|---|---|---|
| (Dollars in thousands, except share and per share amounts) | Equity Amount | Shares | Exercise Price[a] | Book Value Per Share |
| Book value per common share | | | | |
| Total shareholders' equity available to Validus common shareholders [b] | $3,717,620 | 79,443,030 | | $46.80 |
| Tangible book value per common share | | | | $42.85 |
| Book value per diluted common share | | | | |
| Total shareholders' equity available to Validus common shareholders [b] | 3,717,620 | 79,443,030 | | |
| Assumed exercise of outstanding stock options [c] | 689 | 30,050 | $ 22.93 | |
| Unvested restricted shares | — | 2,868,227 | | |
| Book value per diluted common share | $3,718,309 | 82,341,307 | | $45.16 |
| Adjustment for accumulated dividends | | | | 11.21 |
| Book value per diluted common share plus accumulated dividends | | | | $56.37 |
| Tangible book value per diluted common share | | | | $41.35 |

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

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

(b) Total shareholders' equity available to Validus common shareholders excludes the liquidation value of the preferred shares of $150,000.

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

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Liquidity and Capital Resources
Investments
Managed investments represent assets governed by the Company’s investment policy statement (“IPS”) whereas, non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company’s IPS. Refer to Note 5, "Variable interest entities," to the Consolidated Financial Statements in Part I, Item 1 for further details.
As at September 30, 2016, the Company's managed cash and investment portfolio totaled $6.5 billion (December 31, 2015: $6.4 billion). Refer to Note 3, "Investments,” to the Consolidated Financial Statements in Part I, Item 1 for further details related to the Company's managed investments.
A significant portion of (re)insurance contracts written by the Company provide short-tail reinsurance coverage for losses resulting mainly from natural and man-made catastrophes, which could result in payment of a substantial amount of losses at short notice. Accordingly, the Company’s investment portfolio is primarily structured to provide liquidity, which means the investment portfolio contains a significant amount of relatively short-term fixed maturity investments. The Company’s IPS specifically requires certain minimum thresholds of cash, short-term investments, and highly-rated fixed maturity securities relative to our consolidated net reserves and estimates of probable maximum loss exposures at the 1 in 100 year threshold to provide necessary liquidity in a wide range of reasonable scenarios. As such, the Company structures its managed cash and investment portfolio to support policyholder reserves and contingent risk exposures with a liquid portfolio of high quality fixed-income investments with a comparable duration profile.
The Company’s IPS requires managed investments to have an average duration in the range of 0.75 years to 3.00 years. At September 30, 2016, the average duration of the Company’s managed investment portfolio was 2.29 years (December 31, 2015: 2.15 years). This duration is reviewed regularly based on changes in the duration of the Company's liabilities and in general market conditions.
The Company’s IPS also requires certain minimum credit quality standards for its managed fixed maturity portfolio, including a minimum weighted average portfolio rating of A+ for securities assigned ratings. Further limits on asset classes and security types are also mandated. In addition, the Company stress-tests the downside risks within its asset portfolio using internal and external inputs and stochastic modeling processes to help define and limit asset risks to acceptable levels that are consistent with our overall ERM framework. At September 30, 2016, the Company’s rated managed fixed maturity portfolio had an average credit quality rating of AA- (December 31, 2015: AA-).
The value of the Company’s managed fixed maturity portfolio will fluctuate with, among other factors, changes in the interest rate environment and in overall economic conditions. Additionally, the structure of the Company’s overall managed investment portfolio exposes the Company to other risks, including insolvency or reduced credit quality of corporate debt securities, prepayment, default and structural risks on asset-backed securities, mortgage-backed securities and bank loans and liquidity risks on certain other investments, including hedge funds, investment funds and private equity investments. For further details on market risks, refer to
Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on
Form 10-K for the year ended December 31, 2015

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

| | September 30, 2016 | | |
|---|---|---|---|
| (Dollars in thousands) | Fair Value | % of Total | |
| Germany | $62,352 | 9.1 | % |
| Supranational | 43,402 | 6.4 | % |
| United Kingdom | 39,143 | 5.8 | % |
| Canada | 16,032 | 2.4 | % |
| France | 15,586 | 2.3 | % |
| Norway | 12,629 | 1.9 | % |
| Province of Ontario | 12,344 | 1.8 | % |
| Jordan | 10,240 | 1.5 | % |
| Other (individual jurisdictions below $10,000) | 36,662 | 5.4 | % |
| Total Managed Non-U.S. Government Securities | 248,390 | 36.6 | % |
| European Corporate Securities | 171,662 | 25.2 | % |
| United Kingdom Corporate Securities | 110,049 | 16.2 | % |
| Other Non-U.S. Corporate Securities | 149,921 | 22.0 | % |
| Total Managed Non-U.S. Fixed Maturity Portfolio | $680,022 | 100.0 | % |

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

| | | September 30, 2016 | | |
|---|---|---|---|---|
| Issuer [(a)] | S&P Rating [(b)] | Fair Value [(c)] | % of Total Yield Bearing Assets | |
| JPMorgan Chase & Co | A- | $61,652 | 0.9 | % |
| Citigroup Inc | BBB | 50,429 | 0.8 | % |
| Goldman Sachs Group | BBB+ | 50,191 | 0.8 | % |
| Morgan Stanley | BBB+ | 42,452 | 0.7 | % |
| Bank of New York Mellon Corp | A | 38,243 | 0.6 | % |
| Bank of America Corp | BBB | 37,280 | 0.6 | % |
| Anheuser-Busch Inbev NV | A- | 31,274 | 0.5 | % |
| US Bancorp | AA- | 30,493 | 0.5 | % |
| Ford Motor Company | BBB | 29,550 | 0.5 | % |
| HSBC Holdings plc | A | 28,841 | 0.4 | % |
| Total | | $400,405 | 6.3 | % |

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

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

(c)

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

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Reserves for Losses and Loss Expenses

At September 30, 2016, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The following tables show the breakdown of the Company's gross and net reserves for losses and loss expenses by line of business and split between case reserves and IBNR.

| | September 30, 2016 | | |
|---|---|---|---|
| (Dollars in thousands) | Gross Case Reserves | Gross IBNR | Total Gross Reserve for Losses and Loss Expenses |
| Property | $418,106 | $419,853 | $ 837,959 |
| Marine | 402,992 | 472,667 | 875,659 |
| Specialty | 274,591 | 474,676 | 749,267 |
| Liability | 199,696 | 373,406 | 573,102 |
| Total | $1,295,385 | $1,740,602 | $ 3,035,987 |

| | September 30, 2016 | | |
|---|---|---|---|
| (Dollars in thousands) | Net Case Reserves | Net IBNR | Total Net Reserve for Losses and Loss Expenses |
| Property | $350,203 | $369,520 | $ 719,723 |
| Marine | 357,968 | 370,858 | 728,826 |
| Specialty | 227,852 | 428,414 | 656,266 |
| Liability | 185,152 | 301,411 | 486,563 |
| Total | $1,121,175 | $1,470,203 | $ 2,591,378 |

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

| | Three Months Ended September 30, 2016 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | Validus Re Segment | Talbot Segment | Western World Segment | AlphaCat Segment | Eliminations | Total |
| Reserve for losses and loss expenses, beginning of period | $1,240,393 | $1,322,793 | $588,152 | $34,111 | $ (62,732 ) | $3,122,717 |
| Loss reserves recoverable | (111,015 ) | (308,686 ) | (86,018 ) | — | 62,732 | (442,987 ) |
| Net reserves for losses and loss expenses, beginning of period | 1,129,378 | 1,014,107 | 502,134 | 34,111 | — | 2,679,730 |
| Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in: | | | | | | |
| Current year | 131,458 | 128,551 | 46,628 | 4,642 | — | 311,279 |
| Prior years | (33,033 ) | (18,691 ) | (880 ) | (281 ) | — | (52,885 ) |
| Total net incurred losses and loss expenses | 98,425 | 109,860 | 45,748 | 4,361 | — | 258,394 |
| Less net losses and loss expenses paid in respect of losses occurring in: | | | | | | |
| Current year | (123,677 ) | (41,773 ) | (12,087 ) | (1,172 ) | — | (178,709 ) |
| Prior years | (73,880 ) | (56,447 ) | (36,175 ) | (35 ) | — | (166,537 ) |
| Total net paid losses | (197,557 ) | (98,220 ) | (48,262 ) | (1,207 ) | — | (345,246 ) |
| Effect of foreign exchange rate movements | 3,915 | (5,294 ) | — | (121 ) | — | (1,500 ) |
| Net reserve for losses and loss expenses, end of period | 1,034,161 | 1,020,453 | 499,620 | 37,144 | — | 2,591,378 |
| Loss reserves recoverable | 113,121 | 304,216 | 89,225 | — | (61,953 ) | 444,609 |
| Reserve for losses and loss expenses, end of period | $1,147,282 | $1,324,669 | $588,845 | $37,144 | $ (61,953 ) | $3,035,987 |

The amount of recorded reserves represents management’s best estimate of expected losses and loss expenses on premiums earned. For the three months ended September 30, 2016, favorable loss reserve development on prior accident years was $52.9 million of which $33.0 million related to the Validus Re segment, $18.7 million related to the Talbot segment, $0.9 million related to the Western World segment and $0.3 million related to the AlphaCat segment.

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

| (Dollars in thousands) | Nine Months Ended September 30, 2016 Validus Re Segment | Talbot Segment | Western World | AlphaCat Segment | Eliminations | Total |
|---|---|---|---|---|---|---|
| Reserve for losses and loss expenses, beginning of period | $1,146,869 | $1,302,635 | $600,331 | $11,013 | $(64,281) | $2,996,567 |
| Loss reserves recoverable | (36,055) | (293,662) | (85,150) | — | 64,281 | (350,586) |
| Net reserves for losses and loss expenses, beginning of period | 1,110,814 | 1,008,973 | 515,181 | 11,013 | — | 2,645,981 |
| Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in: | | | | | | |
| Current year | 403,026 | 389,010 | 138,087 | 29,253 | — | 959,376 |
| Prior years | (89,594) | (69,739) | (8,464) | (1,608) | — | (169,405) |
| Total net incurred losses and loss expenses | 313,432 | 319,271 | 129,623 | 27,645 | — | 789,971 |
| Less net losses and loss expenses paid in respect of losses occurring in: | | | | | | |
| Current year | (133,736) | (79,206) | (26,248) | (1,172) | — | (240,362) |
| Prior years | (272,365) | (205,161) | (118,936) | (156) | — | (596,618) |
| Total net paid losses | (406,101) | (284,367) | (145,184) | (1,328) | — | (836,980) |
| Effect of foreign exchange rate movements | 16,016 | (23,424) | — | (186) | — | (7,594) |
| Net reserves for losses and loss expenses, end of period | 1,034,161 | 1,020,453 | 499,620 | 37,144 | — | 2,591,378 |
| Loss reserves recoverable | 113,121 | 304,216 | 89,225 | — | (61,953) | 444,609 |
| Reserve for losses and loss expenses, end of period | $1,147,282 | $1,324,669 | $588,845 | $37,144 | $(61,953) | $3,035,987 |

For the nine months ended September 30, 2016, favorable loss reserve development on prior accident years was $169.4 million, of which $89.6 million related to the Validus Re segment, $69.7 million related to the Talbot segment, $8.5 million related to the Western World segment and $1.6 million related to the AlphaCat segment.

The management of insurance and reinsurance companies use significant judgment in the estimation of reserves for losses and loss expenses. Given the magnitude of some notable loss events and other uncertainties inherent in loss estimation, meaningful uncertainty remains regarding the estimation for these events. The Company's actual ultimate net loss may vary materially from these estimates. Ultimate losses for notable loss events are estimated through detailed review of contracts which are identified by the Company as potentially exposed to the specific notable loss event. However, there can be no assurance that the ultimate loss amount estimated for a specific contract will be accurate, or that all contracts with exposure to a specific notable loss event will be identified in a timely manner. Potential losses in excess of the estimated ultimate loss assigned to a contract on the basis of a specific review, or loss amounts from contracts not specifically included in the detailed review may be reserved for in the reserve for potential development on notable loss events ("RDE") and would be included as part of the Company's overall reserves. As at September 30, 2016, the Company had no RDE.

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

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The reserves for notable loss events table below does not disclose notable loss events prior to 2014. The following pre-2014 notable loss events had closing reserves associated with them as at September 30, 2016 as follows: Deepwater Horizon, a 2010 event, had $10.1 million; the New Zealand earthquakes of 2010 and 2011 had $68.7 million; Superstorm Sandy, a 2012 event had $59.1 million; and Costa Concordia, also a 2012 event had $25.4 million.

Reserves for Notable Loss Events (Dollars in thousands)

| 2014 Notable Loss Event | | Year Ended December 31, 2014 | | | Year Ended December 31, 2015 | | | Nine Months Ended September 30, 2016 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Notable Loss Event | Initial Estimate (a) | Development (Favorable) / Unfavorable (b) | Allocations of RDE | Closing Estimate (c) December 31, 2014 | Development (Favorable) / Unfavorable (b) | Allocations of RDE | Closing Estimate (c) December 31, 2015 | Development (Favorable) / Unfavorable (b) | Allocations of RDE | Closing Estimate (c) September 30, 2016 |
| Tripoli Airport (e) | $28,134 | $6,810 | — | $34,944 | $(1,196) | — | $33,748 | $21 | — | $33,769 |

| | Year Ended December 31, 2014 | | Year Ended December 31, 2015 | | Nine Months Ended September 30, 2016 | |
|---|---|---|---|---|---|---|
| Notable Loss Event | Paid Loss (Recovery) | Closing Reserve (d) December 31, 2014 | Paid Loss (Recovery) | Closing Reserve (d) December 31, 2015 | Paid Loss (Recovery) | Closing Reserve (d) September 30, 2016 |
| Tripoli Airport (e) | $ — | $34,944 | $22,938 | $10,810 | $82 | $10,749 |

| 2015 Notable Loss Events | | Year Ended December 31, 2015 | | | Nine Months Ended September 30, 2016 | | |
|---|---|---|---|---|---|---|---|
| Notable Loss Events | Initial Estimate (a) | Development (Favorable) / Unfavorable (b) | Allocations of RDE | Closing Estimate (c) December 31, 2015 | Development (Favorable) / Unfavorable (b) | Allocations of RDE | Closing Estimate (c) September 30, 2016 |
| Pemex | $48,074 | $1,464 | — | $49,538 | $(426) | — | $49,112 |
| Tianjin | 47,789 | (362) | — | 47,427 | (6,644) | — | 40,783 |
| Total 2015 Notable Loss Events | $95,863 | $1,102 | $— | $96,965 | $(7,070) | $— | $89,895 |

| | Year Ended December 31, 2015 | | Nine Months Ended September 30, 2016 | |
|---|---|---|---|---|
| Notable Loss Events | Paid Loss (Recovery) | Closing Reserve (d) December 31, 2015 | Paid Loss (Recovery) | Closing Reserve (d) September 30, 2016 |
| Pemex | $44 | $49,494 | $46 | $49,022 |
| Tianjin | — | 47,427 | 12,528 | 28,255 |
| Total 2015 Notable Loss Events | $44 | $96,921 | $12,574 | $77,277 |

2016 Notable Loss Event

| Notable Loss Event | Initial Estimate (a) | Nine Months Ended September 30, 2016 Development (Favorable) / Unfavorable (b) | Allocations of RDE | Closing Estimate (c) September 30, 2016 |
|---|---|---|---|---|
| Canadian Wildfires | $36,915 | $986 | — | $37,901 |

| Notable Loss Event | Nine Months Ended September 30, 2016 Paid Loss (Recovery) | Closing Reserve (d) September 30, 2016 |
|---|---|---|
| Canadian Wildfires | 1,048 | 36,853 |

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

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Sources of Liquidity

Holding Company Liquidity

Validus Holdings is a holding company and conducts no operations of its own. The Company relies primarily on cash dividends and other permitted payments from operating subsidiaries within the Validus Re, Talbot, Western World and AlphaCat segments to pay dividends, finance expenses and other holding company expenses. There are restrictions on the payment of dividends from most operating subsidiaries, primarily due to regulatory requirements in the jurisdictions in which the operating subsidiaries are domiciled. The Company believes the dividend/distribution capacity of the Company’s subsidiaries will provide the Company with sufficient liquidity for the foreseeable future.

The Company continues to generate substantial cash from operating activities and remains in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing capital structure to meet its short and long-term objectives.

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

| (Dollars in thousands) | September 30, 2016 |
|---|---|
| Validus Reinsurance, Ltd. (excluding capital supporting FAL) [(a) (b)] | $3,698,182 |
| Talbot Holdings, Ltd. (including capital supporting FAL) [(b)] | 932,351 |
| Other, net | 20,566 |
| Redeemable noncontrolling interest in AlphaCat | 1,559,580 |
| Noncontrolling interest in AlphaCat | 222,996 |
| Total consolidated capitalization | 6,433,675 |
| Senior notes payable | (245,311 ) |
| Debentures payable | (538,168 ) |
| Redeemable noncontrolling interest in AlphaCat | (1,559,580 ) |
| Total shareholders’ equity | 4,090,616 |
| Preferred shares [(c)] | (150,000 ) |
| Noncontrolling interest in AlphaCat | (222,996 ) |
| Total shareholders' equity available to Validus common shareholders [(c)] | $3,717,620 |

(a) Validus Reinsurance, Ltd. (excluding capital supporting FAL) includes capital of $665,111 relating to Western World Insurance Group, Inc.

(b) Validus Reinsurance, Ltd. (excluding capital supporting FAL) excludes capital of $746,854 which supports Talbot's FAL. This capital was included in Talbot Holdings, Ltd. (including capital supporting FAL).

(c) Total shareholders' equity available to Validus common shareholders excludes the liquidation value of the preferred shares of $150,000.

Sources and Uses of Cash

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

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

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There are three main sources of cash flows for the Company: operating activities, investing activities and financing activities. The movement in net cash provided by or used in operating, investing and financing activities and the effect of foreign currency rate changes on cash and cash equivalents for the nine months ended September 30, 2016 and 2015 is provided in the following table:

| | Nine Months Ended September 30, | | |
|---|---|---|---|
| (Dollars in thousands) | 2016 | Change | 2015 |
| Net cash provided by operating activities | $254,596 | $107,736 | $146,860 |
| Net cash used in investing activities | (669,307) | (490,114) | (179,193) |
| Net cash provided by (used in) financing activities | 149,847 | 241,540 | (91,693) |
| Effect of foreign currency rate changes on cash and cash equivalents | (14,253) | (352) | (13,901) |
| Net decrease in cash and cash equivalents | $(279,117) | $(141,190) | $(137,927) |

Operating Activities

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

Net cash provided by operating activities during the nine months ended September 30, 2016 was $254.6 million compared to $146.9 million during the nine months ended September 30, 2015, a favorable movement of $107.7 million. This favorable movement was primarily due to the timing of premium receipts.

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

Investing Activities

Cash flow from investing activities is derived primarily from the receipt of net proceeds on the Company’s investment portfolio. As at September 30, 2016, the Company’s portfolio was composed of fixed income, short-term and other investments amounting to $8.5 billion or 93.8% of total cash and investments. For further details related to investments pledged as collateral, refer to Note 3, "Investments," to the Consolidated Financial Statements in Part I, Item 1.

Net cash used in investing activities during the nine months ended September 30, 2016 was $669.3 million compared to $179.2 million for the nine months ended September 30, 2015, representing an increase in net cash used of $490.1 million. This increase was primarily due to increased purchases of short-term investments in the Company's non-managed portfolio on behalf of AlphaCat investors.

Financing Activities

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

Net cash provided by financing activities during the nine months ended September 30, 2016 was $149.8 million compared to net cash used in financing activities of $91.7 million during the nine months ended September 30, 2015, a favorable movement of $241.5 million. This favorable movement was driven primarily by an increase in the issuance of notes payable to AlphaCat investors of $220.9 million, an increase of $144.9 million resulting from the issuance of preferred shares, an increase in third party investments in noncontrolling interests of $162.1 million; partially offset by a decrease in third party investments in redeemable noncontrolling interest of $115.8 million and an increase in third party subscriptions deployed on AlphaCat funds and sidecars of $250.8 million.

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

| Capitalization (Dollars in thousands) | September 30, 2016 | December 31, 2015 |
|---|---|---|
| Senior Notes [(a)] | $245,311 | $245,161 |
| Junior Subordinated Deferrable Debentures (JSDs) [(a)] | 289,800 | 289,800 |
| Flagstone Junior Subordinated Deferrable Debentures (JSDs) [(a)] | 248,368 | 247,868 |
| Total debt | $783,479 | $782,829 |
| | | |
| Redeemable noncontrolling interest | $1,559,580 | $1,111,714 |
| | | |
| Preferred shares [(b)] | $150,000 | $— |
| Ordinary shares, capital and surplus available to Validus | 3,738,712 | 3,651,544 |
| Accumulated other comprehensive loss | (21,092) | (12,569) |
| Noncontrolling interest | 222,996 | 154,662 |
| Total shareholders' equity | $4,090,616 | $3,793,637 |
| | | |
| Total capitalization [(c)] | $6,433,675 | $5,688,180 |
| | | |
| Total capitalization available to Validus [(d)] | $4,651,099 | $4,421,804 |
| | | |
| Debt to total capitalization | 12.2 % | 13.8 % |
| Debt (excluding JSDs) to total capitalization | 3.8 % | 4.3 % |
| Debt and preferred shares to total capitalization | 14.5 % | 13.8 % |
| | | |
| Debt to total capitalization available to Validus | 16.8 % | 17.7 % |
| Debt (excluding JSDs) to total capitalization available to Validus | 5.3 % | 5.5 % |
| Debt and preferred shares to total capitalization available to Validus | 20.1 % | 17.7 % |

(a) Refer to Part I, Item 1, Note 13 to the Consolidated Financial Statements, “Debt and financing arrangements," for further details and discussion on the debt and financing arrangements of the Company.
(b) Refer to Part I, Item 1, Note 11to the Consolidated Financial Statements, “Share capital," for further details and discussion on the Company's preferred shares.
(c) Total capitalization equals total shareholders' equity plus redeemable noncontrolling interest and total debt
(d) Total capitalization available to Validus equals total capitalization (as per (c)) less redeemable noncontrolling interest and noncontrolling interest

Shareholders' Equity
Shareholders' equity available to Validus common shareholders at September 30, 2016 was $3.7 billion, compared to $3.6 billion at December 31, 2015. Including $150.0 million of preferred shares, shareholders' equity available to Validus at September 30, 2016 was $3.9 billion, compared to $3.6 billion at December 31, 2015.
The timing and amount of any future cash dividends, however, will be at the discretion of the Board and will depend upon results of operations and cash flows, the Company's financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that the Board deems relevant.
The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. On February 3, 2015, the Board of Directors of the Company approved an increase in the Company's common share repurchase authorization to $750.0 million.
The Company has repurchased 80,272,622 common shares for an aggregate purchase price of $2.7 billion from the inception of the share repurchase program to November 1, 2016. The Company had $332.6 million remaining under its authorized share repurchase program as of November 1, 2016.

The Company expects the purchases under its share repurchase program to be made from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety



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of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

Debt and Financing Arrangements

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

Ratings

The following table summarizes the financial strength ratings of the Company and its principal reinsurance and insurance subsidiaries from internationally recognized rating agencies as of November 3, 2016:

| | A.M. Best | S&P | Moody's | Fitch |
|---|---|---|---|---|
| Validus Holdings, Ltd. | | | | |
| Issuer credit rating | bbb | BBB+ | Baa1 | A- |
| Senior debt | bbb | BBB+ | Baa1 | BBB+ |
| Subordinated debt | bbb- | — | Baa2 | BBB |
| Preferred stock | bb+ | BBB- | Baa3 | BBB |
| Outlook on ratings | Positive | Stable | Stable | Stable |
| | | | | |
| Validus Reinsurance, Ltd. | | | | |
| Financial strength rating | A | A | A2 | A |
| Outlook on ratings | Stable | Stable | Stable | Stable |
| | | | | |
| Lloyd's of London | | | | |
| Financial strength rating applicable to all Lloyd's syndicates | A | A+ | — | AA- |
| Outlook on ratings | Stable | Stable | — | Stable |
| | | | | |
| Validus Reinsurance (Switzerland), Ltd. | | | | |
| Financial strength rating | A | A | — | — |
| Outlook on ratings | Stable | Stable | — | — |
| | | | | |
| Western World Insurance Company | | | | |
| Financial strength rating | A | — | — | — |
| Outlook on ratings | Stable | — | — | — |

Recent Accounting Pronouncements

For information relating to relevant recent accounting pronouncements, refer to Part I, Item 1, Note 2 to the Consolidated Financial Statements, "Recent accounting pronouncements," for further details.

Critical Accounting Policies and Estimates

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

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

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- investment valuation of financial assets.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (“PSLRA”) provides a “safe harbor” for forward-looking statements. Any prospectus, prospectus supplement, the Company’s Annual Report to shareholders, any proxy statement, any other Form 10-K, Form 10-Q or Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements that reflect the Company’s current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to the Company in general, and to the insurance and reinsurance sectors in particular. Statements that include the words “expect”, “intend”, “plan”, “believe”, “project”, “anticipate”, “will”, “may”, and similar statements of a future or forward-look nature identify forward-looking statements for purposes of the PSLRA or otherwise. All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements and, therefore, you should not place undue reliance on any such statement.

The Company believes that these factors include, but are not limited to, the following:

- unpredictability and severity of catastrophic events;
- our ability to obtain and maintain ratings, which may affect our ability to raise additional equity or debt financings, as well as other factors described herein;
- adequacy of the Company’s risk management and loss limitation methods;
- cyclicality of demand and pricing in the insurance and reinsurance markets;
- the Company’s ability to implement its business strategy during “soft” as well as “hard” markets;
- adequacy of the Company’s loss reserves;
- continued availability of capital and financing;
- the Company’s ability to identify, hire and retain, on a timely and unimpeded basis and on anticipated economic and other terms, experienced and capable senior management, as well as underwriters, claims professionals and support staff;
- acceptance of our business strategy, security and financial condition by rating agencies and regulators, as well as by brokers and (re)insureds;
- competition, including increased competition, on the basis of pricing, capacity, coverage terms or other factors;
- potential loss of business from one or more major insurance or reinsurance brokers;
- the Company’s ability to implement, successfully and on a timely basis, complex infrastructure, distribution capabilities, systems, procedures and internal controls, and to develop accurate actuarial data to support the business and regulatory and reporting requirements;
- general economic and market conditions (including inflation, volatility in the credit and capital markets, interest rates and foreign currency exchange rates) and conditions specific to the insurance and reinsurance markets in which we operate;
- the integration of businesses we may acquire or new business ventures, including overseas offices, we may start and the risk associated with implementing our business strategies and initiatives with respect to these new businesses;
- accuracy of those estimates and judgments used in the preparation of our financial statements, including those related to revenue recognition, insurance and other reserves, reinsurance recoverables, investment valuations, intangible assets, bad debts, taxes, contingencies, litigation and any determination to use the deposit method of accounting, which, for a relatively new insurance and reinsurance company like our company, are even more difficult to make than those made in a mature company because of limited historical information;
- the effect on the Company’s investment portfolio of changing financial market conditions including inflation, interest rates, liquidity and other factors;

- acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;
- availability and cost of reinsurance and retrocession coverage;
- the failure of reinsurers, retrocessionaires, producers or others to meet their obligations to us;
- the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;
- changes in domestic or foreign laws or regulations, or their interpretations;
- changes in accounting principles or the application of such principles by regulators;
- statutory or regulatory or rating agency developments, including as to tax policy and reinsurance and other regulatory matters such as the adoption of proposed legislation that would affect Bermuda-headquartered companies and/or Bermuda-based insurers or reinsurers; and
- the other factors set forth under Part I Item 1A "Risk Factors" and under Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other sections of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as well as the risk and other factors set forth in the Company's other filings with the SEC, as well as management's response to any of the aforementioned factors.

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

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

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk, see Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The Company's exposure to market risks has not changed materially since December 31, 2015.

## ITEM 4. CONTROLS AND PROCEDURES

### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

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

### Changes in Internal Control Over Financial Reporting

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

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## PART II — OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

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

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

### ITEM 1A. RISK FACTORS

The Company's results of operations and financial condition are subject to numerous risks and uncertainties described in “Risk Factors” included in Item 1A in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The risk factors identified therein have not materially changed.

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

The Company, from time to time, repurchases its shares in the open market, or in privately negotiated transactions, under its share repurchase program. 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. Share repurchases may also include repurchases by the Company of shares from employees in order to facilitate the payment of withholding taxes on restricted shares that have vested. The Company repurchases these shares at their fair market value, as determined by reference to the closing price of its common shares on the day the restricted shares vested. The Company's share repurchase program may be modified, extended or terminated by its Board of Directors at any time.

For the three months ended September 30, 2016, the number of shares repurchased by the Company was 1,349,690 which resulted in a dilutive impact on book value per diluted common share of $0.07 for the quarter.

The Company has, from the inception of its share repurchase program to November 1, 2016, repurchased 80,272,622 common shares for an aggregate purchase price of $2.7 billion. As of November 1, 2016, the Company had $332.6 million remaining under its authorized share repurchase program.

| Effect of share repurchases (Dollars in thousands, except per share amounts) | As at June 30, 2016 (cumulative) | Third Quarter Share Repurchase Activity July | August | September | Three Months Ended September 30, 2016 |
|---|---|---|---|---|---|
| Aggregate purchase price [a] | $ 2,620,814 | $ 18,438 | $ 20,599 | $ 27,895 | $ 66,932 |
| Shares repurchased | 78,841,758 | 382,648 | 411,738 | 555,304 | 1,349,690 |
| Average price [a] | $ 33.24 | $ 48.18 | $ 50.03 | $ 50.23 | $ 49.59 |
| Maximum number of shares that may yet be purchased under the program [b] | | 8,000,612 | 7,194,185 | 6,753,681 | |

| Effect of share repurchases (Dollars in thousands, except per share amounts) | As at September 30, 2016 (cumulative) | Share Repurchase Activity Post Quarter End October | November | As at November 1, 2016 | Cumulative to Date |
|---|---|---|---|---|---|
| Aggregate purchase price [a] | $ 2,687,746 | $ 4,029 | $ — | $ 4,029 | $ 2,691,775 |
| Shares repurchased | 80,191,448 | 81,174 | — | 81,174 | 80,272,622 |
| Average price [a] | $ 33.52 | $ 49.63 | $ — | $ 49.63 | $ 33.53 |

(a) Share transactions are on a trade date basis through November 1, 2016 and are inclusive of commissions. Average share price is rounded to two decimal places.

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

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

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

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

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

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

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

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ITEM 6. EXHIBITS

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

*Filed herewith

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## SIGNATURES

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

| | | |
|---|---|---|
| | | VALIDUS HOLDINGS, LTD. |
| | | (Registrant) |
| | | |
| Date: | November 3, 2016 | /s/ Edward J. Noonan |
| | | Edward J. Noonan |
| | | Chief Executive Officer |
| | | |
| Date: | November 3, 2016 | /s/ Jeffrey D. Sangster |
| | | Jeffrey D. Sangster |
| | | Executive Vice President and Chief Financial Officer |