VALIDUS HOLDINGS LTD
Form 10-Q
May 06, 2016

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

Form 10-Q

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

For the quarterly period ended March 31, 2016

Commission file number 001-33606

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Basis of preparation and consolidation

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Recent accounting pronouncements

(a) Adoption of New Accounting Standards

Compensation - Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the FASB issued Accounting Standard Update No. 2014-12, “Compensation - Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” (ASU 2014-12). The amendments in this Update apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target (for example, an initial public offering or a profitability target) could be achieved and still be eligible to vest in the award if and when the performance target is achieved. The amendments in this Update became effective for the Company on January 1, 2016. Adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

Consolidation (Topic 810) - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity

In August 2014, the FASB issued Accounting Standard Update 2014-13, “Consolidation (Topic 810) - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity” (ASU 2014-13). The fair value of the financial assets of a collateralized financing entity, as determined under GAAP, may differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. The amendments in this Update provide an alternative to Topic 820 for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity to eliminate that difference. The amendments in this Update became effective for the Company on January 1, 2016. Adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

Presentation of Financial Statements - Going Concern - Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern

In August 2014, the FASB issued Accounting Standard Update 2014-15, “Presentation of Financial Statements - Going Concern - Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (ASU 2014-15). The amendments in this Update require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments in this Update became effective for the Company on January 1, 2016. Adoption of this guidance did not have a material impact on the Company’s Consolidated Financial Statements.

Financial Services - Insurance (Topic 944) - Disclosures about Short-Duration Contracts

In May 2015, the FASB issued Accounting Standard Update 2015-09, “Financial Services - Insurance (Topic 944) - Disclosures about Short-Duration Contracts” (ASU 2015-09). The amendments in this Update enhance annual disclosures relating to reserves for losses and loss expenses by requiring the following: (1) net incurred and paid claims development information by accident year; (2) a reconciliation of incurred and paid claims development information to the aggregate carrying amount of the reserve for losses and loss expenses; (3) for each accident year presented, total IBNR plus expected development on case reserves included in the reserve for losses and loss expenses, accompanied by a description of reserving methodologies and any changes thereto; (4) for each accident year presented, quantitative information about claim frequency (unless impracticable) accompanied by a qualitative description of methodologies used for determining claim frequency information and any changes thereto; and (5) the average annual percentage payout of incurred claims by age for the same number of accident years presented. The amendments in this Update became effective for the Company on January 1, 2016, and as such, the disclosures will first be presented in the Company's Annual Report on Form 10-K for the year ending December 31, 2016.

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

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

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

(b) Recently Issued Accounting Standards Not Yet Adopted

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

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

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

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

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

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

3. Investments
During the fourth quarter of 2015, the Company enhanced disclosures around the allocation of invested assets and the related returns between managed and non-managed investments. Managed investments represent assets governed by the Company's investment policy statement ("IPS"), whereas non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company's IPS. Refer to Note 5, "Variable interest entities," for further details. As such, prior period disclosures have been revised to conform to current period presentation.
The Company classifies its fixed maturity and short-term investments as trading and accounts for its other investments in accordance with U.S. GAAP guidance for "Financial Instruments." As such, all investments are carried at fair value with interest and dividend income and realized and unrealized gains and losses included in net income for the period.
The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments as at March 31, 2016 were as follows:

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

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

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

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

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

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

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

(b) Other investments

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

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

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

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

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

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

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

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

(c) Net investment income

Net investment income was derived from the following sources:

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

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

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

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

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

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

(e) Pledged investments

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

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

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

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

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

4. Fair value measurements

(a) Classification within the fair value hierarchy

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

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

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

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

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

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

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

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

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

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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
Investment funds	—	20,811	—	167,910	188,721
Overseas deposits	—	—	—	54,484	54,484
Mutual funds	—	7,483	—	—	7,483
Total other investments	—	28,294	—	308,562	336,856
Total managed investments	$222,678	$5,134,600	$232,337	$308,562	$5,898,177
Non-managed investments					
Catastrophe bonds	$—	$172,879	$13,500	$—	$186,379
Short-term investments	1,704,266	—	—	—	1,704,266
Total non-managed investments	1,704,266	172,879	13,500	—	1,890,645
Total investments	$1,926,944	$5,307,479	$245,837	$308,562	$7,788,822

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

(b) Valuation techniques

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

Fixed maturity investments

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

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

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

U.S. government and government agency

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

Non-U.S. government and government agency

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

U.S. states, municipalities and political subdivisions

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

Agency residential mortgage-backed securities

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

Non-agency residential mortgage-backed securities

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

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U.S. corporate

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

Non-U.S. corporate

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

Bank loans

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

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

Catastrophe bonds

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

Asset-backed securities

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

Commercial mortgage-backed securities

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

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

Short term investments

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

Fund of hedge funds

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

Hedge funds

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

Private equity investments

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

Investment funds

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

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

Overseas deposits

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

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Mutual funds

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

(c) Level 3 Investments

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

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

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

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

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5. Variable interest entities

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

(a) Consolidated VIEs

AlphaCat sidecars

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

AlphaCat ILS funds

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

AlphaCat Re and AlphaCat Master Fund

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

Notes Payable to AlphaCat Investors

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

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

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

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

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

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

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

BetaCat ILS funds

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

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

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

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

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

(b) Non-Consolidated VIEs

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

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6. Investments in affiliates

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

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

(a) Investment affiliate

Aquiline Financial Services Fund II L.P.

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

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

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

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

Aquiline Financial Services Fund III L.P.

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

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

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

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

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

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

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

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

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

(b) Operating affiliate

PaCRe, Ltd.

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

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

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

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

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

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

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

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7. Noncontrolling interest

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

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

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

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

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

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8. Derivative instruments

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

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

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

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

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

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

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

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

(a) Classification within the fair value hierarchy

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

(b) Derivative instruments designated as a fair value hedge

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

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

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

(c) Derivative instruments designated as a cash flow hedge

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

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

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

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

(d) Balance sheet offsetting

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

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

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

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9. Reserve for losses and loss expenses

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

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

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

Incurred losses and loss expenses comprise:

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

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

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

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

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

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

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

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

10. Reinsurance

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

Credit risk

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

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

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

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

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

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

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11. Share capital

(a) Authorized and issued

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

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

The Company has repurchased 77,387,916 common shares for an aggregate purchase price of $2,552,098 from the inception of its share repurchase program to March 31, 2016. The Company had $472,303 remaining under its authorized share repurchase program as of March 31, 2016.

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

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

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

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

(b) Dividends

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

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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 1,933,932 shares remain available for issuance at March 31, 2016. The LTIP is administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. Grant prices are established at the fair market value of the Company's common shares at the date of grant.

i. Options

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

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

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

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

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

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

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

ii. Restricted share awards

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

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

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

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

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

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

iii. Restricted share units

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

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

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

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

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

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

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

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iv. Performance share awards

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

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

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

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

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

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

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

(b) Total share compensation expenses

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

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

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

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

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

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

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

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(b) Senior notes and junior subordinated deferrable debentures

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

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

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

Senior Notes

The Senior Notes due 2040 (the “2010 Senior Notes”) were part of a registered public offering. The 2010 Senior Notes mature on January 26, 2040. The Company may redeem the notes, in whole at any time, or in part from time to time, at the Company's option on not less than 30 nor more than 60 days’ notice, at a make-whole redemption price as described in “Description of the Notes - Optional Redemption” in the 2010 Senior Notes prospectus supplement. In addition, the Company may redeem the notes, in whole, but not in part, at any time upon the occurrence of certain tax events as described in “Description of the Notes - Redemption for Tax Purposes” in the prospectus supplement.
Debt issuance costs are amortized to income over the life of the 2010 Senior Notes and are presented on a net basis within the senior notes payable balance in the Company's Consolidated Balance Sheets. There were no redemptions made during the three months ended March 31, 2016 and 2015.
The 2010 Senior Notes are unsecured and unsubordinated obligations of the Company and rank equally in right of payment with all of the Company’s existing and future unsecured and unsubordinated indebtedness. The 2010 Senior Notes will be effectively junior to all of the Company’s future secured debt, to the extent of the value of the collateral securing such debt, and will rank senior to all our existing and future subordinated debt. The 2010 Senior Notes are structurally subordinated to all obligations of the Company’s subsidiaries.
Future payments of principal of $250,000 on the 2010 Senior Notes are all expected to be after 2021.

Junior subordinated deferrable debentures

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

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

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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 months ended March 31, 2016 and 2015.

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

(c) Credit facilities

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

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

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

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

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

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ii. $25,000 IPC bi-lateral facility

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

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

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

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

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

v. $236,000 Flagstone bi-lateral facility

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

(d) Finance expenses

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

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

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

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

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14. Accumulated other comprehensive loss

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

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

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

15. Commitments and contingencies

(a) Funds at Lloyd's

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

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

(b) Lloyd's Central Fund

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

(c) Investment affiliate commitments

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

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

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

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

(d) AlphaCat commitments

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

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

(e) Fixed maturity commitments

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

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

(f) Other investment commitments

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

16. Related party transactions

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

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