VALIDUS HOLDINGS LTD
Form 10-Q
May 08, 2015

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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, 2015

Commission file number 001-33606

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

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

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

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

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

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

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

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

As of May 6, 2015 there were 84,581,781 outstanding Common Shares, $0.175 par value per share, of the registrant.

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

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Fixed maturities, at fair value (amortized cost: 2015—$5,458,443; 2014—$5,534,494)	$5,484,479	$5,532,731
Short-term investments, at fair value (amortized cost: 2015—$1,183,410; 2014—$1,051,222)	1,183,342	1,051,074
Other investments, at fair value (cost: 2015—$908,405; 2014—$879,176)	881,995	813,011
Cash and cash equivalents	471,129	577,240
Restricted cash	186,423	173,003
Total investments and cash	8,207,368	8,147,059
Investments in affiliates	263,332	261,483
Premiums receivable	1,114,102	707,647
Deferred acquisition costs	240,835	161,295
Prepaid reinsurance premiums	192,694	81,983
Securities lending collateral	5,337	470
Loss reserves recoverable	375,882	377,466
Paid losses recoverable	27,034	38,078
Income taxes recoverable	10,597	—
Deferred tax asset	30,847	23,821
Receivable for investments sold	24,803	18,318
Intangible assets	125,508	126,924
Goodwill	195,897	195,897
Accrued investment income	23,230	24,865
Other assets	216,984	164,633
Total assets	$11,054,450	$10,329,939
Liabilities		
Reserve for losses and loss expenses	$3,199,362	$3,234,394
Unearned premiums	1,452,179	990,564
Reinsurance balances payable	101,426	127,128
Securities lending payable	5,803	936
Deferred tax liability	13,265	5,541
Payable for investments purchased	123,556	68,574
Accounts payable and accrued expenses	177,944	318,245
Notes payable to operating affiliates	919,684	671,465
Senior notes payable	247,333	247,306
Debentures payable	537,561	539,277
Total liabilities	$6,778,113	$6,203,430

Commitments and contingent liabilities		
Redeemable noncontrolling interest	98,777	79,956
Shareholders’ equity		
Common shares, 571,428,571 authorized, par value $0.175 (Issued: 2015—156,749,783; 2014—155,554,224; Outstanding: 2015—83,634,915; 2014—83,869,845)	$27,431	$27,222
Treasury shares (2015—73,114,868; 2014—71,684,379)	(12,795)	(12,545)
Additional paid-in-capital	1,162,485	1,207,493
Accumulated other comprehensive loss	(12,641)	(8,556)
Retained earnings	2,518,629	2,374,344
Total shareholders’ equity available to Validus	3,683,109	3,587,958
Noncontrolling interest	494,451	458,595
Total shareholders’ equity	$4,177,560	$4,046,553
Total liabilities, noncontrolling interests and shareholders’ equity	$11,054,450	$10,329,939

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

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Validus Holdings, Ltd.
Consolidated Statements of Comprehensive Income
For the Three Months Ended March 31, 2015 and 2014 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended	
	March 31, 2015 (unaudited)	March 31, 2014 (unaudited)
Revenues		
Gross premiums written	$1,119,498	$1,011,991
Reinsurance premiums ceded	(190,840)	(194,908)
Net premiums written	928,658	817,083
Change in unearned premiums	(350,904)	(334,126)
Net premiums earned	577,754	482,957
Net investment income	31,021	23,362
Net realized gains on investments	4,169	3,740
Change in net unrealized gains on investments	72,204	55,693
Income from investment affiliate	2,776	5,348
Other insurance related income and other income	4,832	13,830
Foreign exchange losses	(3,551)	(6,478)
Total revenues	689,205	578,452
Expenses		
Losses and loss expenses	240,929	162,671
Policy acquisition costs	98,636	85,649
General and administrative expenses	85,028	74,445
Share compensation expenses	9,054	7,147
Finance expenses	19,852	15,900
Total expenses	453,499	345,812
Income before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	235,706	232,640
Tax (expense) benefit	(2,565)	40
Income from operating affiliates	2,453	4,927
(Income) attributable to operating affiliate investors	(23,206)	(31,710)
Net income	$212,388	$205,897
Net (income) attributable to noncontrolling interest	(38,977)	(43,509)
Net income available to Validus	$173,411	$162,388
Other comprehensive (loss) income		
Change in foreign currency translation adjustments	(3,019)	462
Change in minimum pension liability, net of tax	(265)	—
Change in fair value of cash flow hedge	(801)	—
Other comprehensive (loss) income	$(4,085)	$462
Comprehensive income available to Validus	$169,326	$162,850

Earnings per share		
Weighted average number of common shares and common share equivalents outstanding		
Basic	83,251,243	93,451,999
Diluted	87,583,129	97,799,519
Basic earnings per share available to common shareholders	$2.07	$1.72
Earnings per diluted share available to common shareholders	$1.98	$1.66
Cash dividends declared per share	$0.32	$0.30

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, 2015 and 2014 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	March 31, 2015 (unaudited)	March 31, 2014 (unaudited)
Common shares		
Balance - Beginning of period	$27,222	$27,036
Common shares issued, net	209	19
Balance - End of period	$27,431	$27,055
Treasury shares		
Balance - Beginning of period	$(12,545)	$(10,228)
Repurchase of common shares	(250)	(939)
Balance - End of period	$(12,795)	$(11,167)
Additional paid-in capital		
Balance - Beginning of period	$1,207,493	$1,677,894
Common shares issued, net	3,796	2,011
Repurchase of common shares	(57,858)	(196,400)
Share compensation expenses	9,054	7,147
Balance - End of period	$1,162,485	$1,490,652
Accumulated other comprehensive loss		
Balance - Beginning of period	$(8,556)	$(617)
Other comprehensive (loss) income	(4,085)	462
Balance - End of period	$(12,641)	$(155)
Retained earnings		
Balance - Beginning of period	$2,374,344	$2,010,009
Dividends	(29,126)	(29,718)
Net income	212,388	205,897
Net (income) attributable to noncontrolling interest	(38,977)	(43,509)
Balance - End of period	$2,518,629	$2,142,679
Total shareholders' equity available to Validus	$3,683,109	$3,649,064
Noncontrolling interest	$494,451	$540,934
Total shareholders' equity	$4,177,560	$4,189,998

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, 2015 and 2014 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	March 31, 2015 (unaudited)	March 31, 2014 (unaudited)
Cash flows provided by (used in) operating activities		
Net income	$212,388	$205,897
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Share compensation expenses	9,054	7,147
Gain on deconsolidation of subsidiary	—	(1,372)
Amortization of discount on senior notes	27	27
Income from investment affiliate	(2,776)	(5,348)
Net realized gains on investments	(4,169)	(3,740)
Change in net unrealized gains on investments	(72,204)	(55,693)
Amortization of intangible assets	1,416	1,040
Income from operating affiliates	(2,453)	(4,927)
Foreign exchange losses (gains) included in net income	8,788	(4,347)
Amortization of premium on fixed maturities	6,747	4,117
Change in:		
Premiums receivable	(409,847)	(393,543)
Deferred acquisition costs	(79,540)	(68,098)
Prepaid reinsurance premiums	(110,711)	(115,112)
Loss reserves recoverable	(205)	21,832
Paid losses recoverable	10,976	43,054
Income taxes recoverable	(10,759)	—
Deferred tax asset	(7,132)	—
Accrued investment income	1,558	2,366
Other assets	(53,575)	13,558
Reserve for losses and loss expenses	(22,700)	(105,842)
Unearned premiums	461,615	449,238
Reinsurance balances payable	(24,646)	57,765
Deferred tax liability	7,585	3,551
Accounts payable and accrued expenses	(147,978)	(95,997)
Net cash used in operating activities	(228,541)	(44,427)
Cash flows provided by (used in) investing activities		
Proceeds on sales of investments	1,190,559	984,356
Proceeds on maturities of investments	93,732	124,716
Purchases of fixed maturities	(1,163,707)	(782,290)
Purchases of short-term investments, net	(133,104)	(107,437)
(Purchases) sales of other investments, net	(29,291)	7,059
Increase in securities lending collateral	(4,867)	(1,485)
Investment in operating affiliates	(1,070)	—

Redemption from operating affiliates	24,150	43,366
Investment in investment affiliates	(19,700)	—
(Increase) decrease in restricted cash	(13,420)	91,274
Net cash (used in) provided by investing activities	(56,718)	359,559
Cash flows provided by (used in) financing activities		
Proceeds on issuance of notes payable to operating affiliates	621,864	154,028
Repayments on notes payable to operating affiliates	(365,883)	(184,628)
Issuance of common shares, net	4,005	2,030
Purchases of common shares under share repurchase program	(58,108)	(197,339)
Dividends paid	(28,217)	(29,330)
Increase in securities lending payable	4,867	1,485
Third party investment in redeemable noncontrolling interest	15,700	—
Third party redemption of redeemable noncontrolling interest	—	(10,496)
Net cash provided by (used in) financing activities	194,228	(264,250)
Effect of foreign currency rate changes on cash and cash equivalents	(15,080)	4,890
Net (decrease) increase in cash	(106,111)	55,772
Cash and cash equivalents - beginning of period	$577,240	$734,148
Cash and cash equivalents - end of period	$471,129	$789,920
Taxes paid during the period	$7,187	$152
Interest paid during the period	$19,188	$19,174

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

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

1. Basis of preparation and consolidation

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

In the opinion of management, these Consolidated Financial Statements reflect all adjustments (including normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position and results of operations as at the end of and for the periods presented. The Consolidated Statement of Cash Flows for the three months ended March 31, 2014 includes a revision to increase net cash provided by investing activities by $94,768. There are no changes to the sub-totals of net cash used in operating activities, financing activities or the effect of foreign currency rate changes on cash and cash equivalents. This revision resulted in an increase in net cash of $94,768 for the three months ended March 31, 2014.

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

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

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

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

2. Recent accounting pronouncements

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standard Update No. 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09). The guidance in this Update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Earlier adoption is not permitted. The Company is currently evaluating the impact of this guidance on the Company's Consolidated Financial Statements.

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

In February 2015, the FASB issued Accounting Standard Update 2015-02, “Consolidation (Topic 810) Amendments to the Consolidation Analysis” (ASU 2015-02). The amendments in this update modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities. The amendment also eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The amendment also provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact of this guidance; however, it could have a material impact on the Company’s Consolidated Financial Statements.
In April 2015, the FASB issued Accounting Standard Update 2015-03, “Interest - Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs” (ASU 2015-03). The amendments in this Update simplify the presentation of debt issuance costs and require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The amendments in this Update are effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption of the amendments in this Update is permitted for financial statements that have not been previously issued. The Company is currently evaluating the impact of this guidance; however, it will not have a material impact on the Company's Consolidated Financial Statements.

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

3. Investments
(a) Fixed maturity, short-term and other investments
The Company's investments in fixed maturities, short-term investments and other investments are classified as trading and carried at fair value, with related changes in net unrealized gains or losses included in earnings.
The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments at March 31, 2015 were as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and government agency	$ 768,112	$ 3,867	$ (278)	$ 771,701
Non-U.S. government and government agency	244,372	1,771	(2,610)	243,533
U.S. states, municipalities and political subdivisions	347,348	3,749	(254)	350,843
Agency residential mortgage-backed securities	522,951	11,725	(442)	534,234
Non-agency residential mortgage-backed securities	32,393	360	(645)	32,108
U.S. corporate	1,436,724	10,929	(1,507)	1,446,146
Non-U.S. corporate	509,705	4,827	(3,951)	510,581
Bank loans	464,761	1,417	(4,838)	461,340
Catastrophe bonds	129,711	556	(3,050)	127,217
Asset-backed securities	702,298	2,755	(788)	704,265
Commercial mortgage-backed securities	300,068	2,828	(385)	302,511
Total fixed maturities	5,458,443	44,784	(18,748)	5,484,479
Total short-term investments (a)	1,183,410	11	(79)	1,183,342
Other investments				
Fund of hedge funds	1,915	76	(921)	1,070
Preferred stock	2,945	60	—	3,005
Hedge funds (b)	595,753	95,124	(129,559)	561,318
Private equity investments	48,140	5,831	(1,119)	52,852
Investment funds	253,453	561	—	254,014
Mutual funds	6,199	3,537	—	9,736
Total other investments	908,405	105,189	(131,599)	881,995
Total investments including assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$ 7,550,258	$ 149,984	$ (150,426)	$ 7,549,816
Assets managed on behalf of operating affiliates (a)	(751,473)	—	—	(751,473)
Catastrophe bonds	(129,711)	(556)	3,050	(127,217)
Noncontrolling interest (b)	(525,330)	(79,346)	116,603	(488,073)
Total investments, excluding assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$ 6,143,744	$ 70,082	$ (30,773)	$ 6,183,053

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

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

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

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

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

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

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

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

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

	March 31, 2015		December 31, 2014	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
AAA	$2,473,674	45.1 %	$2,494,239	45.1 %
AA	660,150	12.0 %	848,226	15.4 %
A	1,087,156	19.8 %	1,086,091	19.6 %
BBB	570,464	10.4 %	505,208	9.1 %
Total investment-grade fixed maturities	4,791,444	87.3 %	4,933,764	89.2 %
BB	307,561	5.6 %	362,972	6.6 %
B	247,983	4.5 %	145,240	2.6 %
CCC	4,365	0.1 %	12,733	0.2 %
CC	3,286	0.1 %	3,926	0.1 %
C	—	— %	1,344	— %
D/NR	129,840	2.4 %	72,752	1.3 %
Total non-investment grade fixed maturities	693,035	12.7 %	598,967	10.8 %
Total fixed maturities	$5,484,479	100.0 %	$5,532,731	100.0 %

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

	March 31, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$291,651	$292,276	$312,843	$313,248
Due after one year through five years	2,921,246	2,928,600	3,163,225	3,159,200
Due after five years through ten years	571,599	572,771	497,175	491,870
Due after ten years	116,237	117,716	112,858	111,655
	3,900,733	3,911,363	4,086,101	4,075,973
Asset-backed and mortgage-backed securities	1,557,710	1,573,116	1,448,393	1,456,758
Total fixed maturities	$5,458,443	$5,484,479	$5,534,494	$5,532,731

(b) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Fixed maturities and short-term investments	$29,239	$23,297
Other investments	3,188	—
Restricted cash and cash and cash equivalents	435	1,957
Securities lending income	3	2
Total gross investment income	32,865	25,256
Investment expenses	(1,844)	(1,894)
Total net investment income	$31,021	$23,362

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

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

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

	Three Months Ended	
	March 31, 2015	March 31, 2014
Fixed maturities, short-term and other investments		
Gross realized gains	$6,309	$5,296
Gross realized (losses)	(2,140)	(1,556)
Net realized gains on investments	4,169	3,740
Change in net unrealized gains on investments (a)	72,204	55,693
Total net realized and change in net unrealized gains on investments including assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	76,373	59,433
Assets managed on behalf of operating affiliates	—	—
Catastrophe bonds	2,336	797
Noncontrolling interest (a)	(35,079)	(42,002)
Total net realized and change in net unrealized gains on investments excluding assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$43,630	$18,228

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

(d) Pledged investments

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

	March 31, 2015		
Description	Commitment	Issued and Outstanding	Investments and cash pledged as collateral
$400,000 syndicated unsecured letter of credit facility	$400,000	$—	$—
$525,000 syndicated secured letter of credit facility	525,000	268,907	400,774
$30,000 secured bi-lateral letter of credit facility	30,000	14,747	27,019
Talbot FAL facility	25,000	25,000	31,221
PaCRe senior secured letter of credit facility	10,000	39	—
AlphaCat Re secured letter of credit facility	30,000	30,000	30,097
IPC bi-lateral facility	25,000	12,543	100,549
$230,000 Flagstone bi-lateral facility	230,000	209,070	373,664
Total	$1,275,000	$560,306	$963,324

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

In addition, $3,267,654 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, 2015 (December 31, 2014: $3,150,295). Of those, $3,208,722 were held in trust (December 31, 2014: $3,122,074). Pledged assets are generally for the benefit of the Company's cedants and policyholders, to support AlphaCat's fully collateralized reinsurance transactions and to facilitate the accreditation of Talbot as an alien insurer/reinsurer by certain regulators.

4. Fair value measurements

(a) Classification within the fair value hierarchy

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

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

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

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

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
U.S. government and government agency	$—	$771,701	$—	$771,701
Non-U.S. government and government agency	—	243,533	—	243,533
U.S. states, municipalities and political subdivisions	—	350,843	—	350,843
Agency residential mortgage-backed securities	—	534,234	—	534,234
Non-agency residential mortgage-backed securities	—	32,108	—	32,108
U.S. corporate	—	1,446,146	—	1,446,146
Non-U.S. corporate	—	510,581	—	510,581
Bank loans	—	381,621	79,719	461,340
Catastrophe bonds	—	124,217	3,000	127,217
Asset-backed securities	—	704,265	—	704,265
Commercial mortgage-backed securities	—	302,511	—	302,511
Total fixed maturities	—	5,401,760	82,719	5,484,479
Total short-term investments (a)	1,084,139	92,389	6,814	1,183,342
Other investments				
Fund of hedge funds	—	—	1,070	1,070
Preferred stock	—	3,005	—	3,005
Hedge funds (b)	—	—	561,318	561,318
Private equity investments	—	—	52,852	52,852
Investment funds	—	91,131	162,883	254,014
Mutual funds	—	9,736	—	9,736
Total other investments	—	103,872	778,123	881,995
Total investments including assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$1,084,139	$5,598,021	$867,656	$7,549,816
Assets managed on behalf of operating affiliates (a)	(751,473)	—	—	(751,473)
Catastrophe bonds	—	(124,217)	(3,000)	(127,217)
Noncontrolling interest (b)	—	—	(488,073)	(488,073)
Total investments, excluding assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interest	$332,666	$5,473,804	$376,583	$6,183,053

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

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

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

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

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

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

At March 31, 2015, Level 3 investments excluding the noncontrolling interests totaled $376,583 (December 31, 2014: $259,147), representing 6.1% (December 31, 2014: 4.2%) of total investments, excluding assets managed on behalf of operating affiliates, catastrophe bonds and noncontrolling interests, measured at fair value on a recurring basis.

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(b) Level 1 assets measured at fair value
Short term investments
Short term investments categorized as Level 1 consist primarily of highly liquid securities, all with maturities less than one year from the date of purchase. The fair value of the Company's portfolio of short term investments are generally determined using amortized cost which approximates fair value. The Company has determined that certain of its short-term investments, held in highly liquid money market-type funds, should be included in Level 1 as their fair values are based on quoted market prices in active markets.
(c) Level 2 assets measured at fair value
Fixed maturity investments
Fixed maturity investments included in Level 2 include U.S. government and government agency, non-U.S. government and government agency, U.S. states, municipalities and political subdivisions, agency residential mortgage-backed securities, non-agency residential mortgage-backed securities, U.S. corporate, non-U.S. corporate, bank loans, catastrophe bonds, asset-backed securities and commercial mortgage-backed securities.
In general, valuation of the Company's fixed maturity investment portfolios is provided by pricing services, such as index providers and pricing vendors, as well as broker quotations. The pricing vendors provide valuations for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices. Prices are generally verified using third party data. Securities which are priced by an index provider are generally included in the index.
In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets.
The Company considers these Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.
U.S. government and government agency
U.S. government and government agency securities consist primarily of debt securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Fixed maturity investments included in U.S. government and government agency securities are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data.
Non-U.S. government and government agency
Non-U.S. government and government agency securities consist of debt securities issued by non-U.S. governments and their agencies along with supranational organizations (also known as sovereign debt securities). Securities held in these sectors are primarily priced by pricing services who employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit

research for international markets.

U.S. states, municipalities and political subdivisions

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

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Agency residential mortgage-backed securities

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

Non-agency residential mortgage-backed securities

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

U.S. corporate

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

Non-U.S. corporate

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

Bank loans

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

Catastrophe bonds

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

Asset-backed securities

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

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Commercial mortgage-backed securities
Commercial mortgage backed securities are investment-grade debt primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector.
Short term investments
Short term investments consist primarily of highly liquid securities, all with maturities of less than one year from the date of purchase. The fair value of the Company's portfolio of short term investments is generally determined using amortized cost which approximates fair value. The Company has determined that, other than highly liquid money market-type funds, the majority of the remaining securities are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their amortized cost approximates fair value. To the extent that these valuations are based on significant unobservable inputs, the relevant short term investments will be classified as a Level 3 asset.
Preferred stock
The Company's preferred stock portfolio contains preferred term securities typically sold by non-public financial services companies, through a collateralized debt obligation product and are classified as Level 2 assets. The fair value of these investments is determined based on quoted market prices in active markets.
Investment funds
Investment funds classified as Level 2 assets includes one pooled investment which is invested in fixed income securities with high credit ratings. The investment fund is only open to Lloyd’s Trust Fund participants. The fair value of units in the investment fund is based on the net asset value of the fund as reported by Lloyd’s Treasury & Investment Management.
Also included within investment funds is the Company's share of a portfolio of Lloyd's overseas deposits, which is also classified as a Level 2 asset. The underlying deposits are managed centrally by Lloyd's and invested according to local regulatory requirements. The composition of the portfolio varies and the deposits are made across the market. The fair value of the deposits is based on the portfolio level reporting that is provided by Lloyd's.
Mutual funds
Mutual funds consist of two investment funds which are invested in various quoted investments. The fair value of units in the mutual funds is based on the net asset value of the fund as reported by the fund manager.
(d) Level 3 assets measured at fair value
Level 3 includes financial instruments that are valued using market approach and income approach valuation techniques. These models incorporate both observable and unobservable inputs. The Company's hedge funds, a fund of hedge funds, private equity investments, certain bank loans, an investment fund and certain catastrophe bonds are the only financial instruments in this category as at March 31, 2015. For each respective hedge fund investment, the Company obtains and reviews the valuation methodology used by the fund administrators and investment managers to ensure that the hedge fund investments are following fair value principles consistent with U.S. GAAP in determining the net asset value (“NAV”).
Within the hedge fund industry, there is a general lack of transparency necessary to facilitate a detailed independent assessment of the values placed on the securities underlying the NAV provided by the fund manager or fund administrator. To address this, on a quarterly basis, we perform a number of monitoring procedures designed to assist us in the assessment of the quality of the information provided by managers and administrators. These procedures

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

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Bank loans

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

Fund of hedge funds

The fund of hedge funds includes a side pocket. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is unknown. The fund's administrator provides a monthly reported NAV with a one month delay in its valuation which was used as a basis for fair value measurement in the Company's March 31, 2015 Consolidated Balance Sheet. The fund manager has provided an estimate of the fund NAV at March 31, 2015 based on the estimated performance provided from the underlying funds. To determine the reasonableness of the estimated NAV, the Company compares the one month delayed fund administrator's NAV to the fund manager's estimated NAV that incorporates relevant valuation sources on a timely basis. Material variances are recorded in the current reporting period while immaterial variances are recorded in the following reporting period. As this valuation technique incorporates both observable and significant unobservable inputs, the fund of hedge funds is classified as a Level 3 asset.

Hedge funds

The hedge funds were valued at $561,318 at March 31, 2015 (December 31, 2014: $496,960). The hedge funds consist of investments in five Paulson & Co. managed funds (the "Paulson hedge funds") and one hedge fund assumed in the acquisition of Flagstone Reinsurance Holdings, S.A. (the "Flagstone Acquisition") (the "Flagstone hedge fund").

The Paulson hedge funds' administrator provides monthly reported NAVs with a one month delay in its valuation which was used as a partial basis for fair value measurement in the Company's March 31, 2015 Consolidated Balance Sheet. The fund manager provides an estimate of the NAV as at March 31, 2015 based on estimated performance. The Company adjusts fair value to the fund manager's estimated NAV that incorporates relevant valuation sources on a timely basis. To determine the reasonableness of the estimated NAV, the Company assesses the variance between the fund manager's estimated NAV and the fund administrator's NAV. Material variances are recorded in the current reporting period while immaterial variances are recorded in the following reporting period. Historically, the Company's valuation estimates have not materially differed from the subsequent NAVs.

The Flagstone hedge fund's administrator provides quarterly NAVs with a three-month delay in valuation which was used as a basis for fair value measurement in the Company's March 31, 2015 Consolidated Balance Sheet.

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

Private equity investments

The private equity funds provide quarterly or semi-annual partnership capital statements with a three or six month delay which are used as a basis for valuation in the Company's March 31, 2015 Consolidated Balance Sheet. These private equity investments vary in investment strategies and are not actively traded in any open markets. As this valuation technique can incorporate significant unobservable inputs, the private equity investments are classified as Level 3 assets.

Investment funds

Investment funds classified as Level 3 assets consists of one structured securities fund that invests across asset backed securities, residential mortgage backed securities and commercial mortgage backed securities. The fair value of units in the investment fund is based on the NAV of the fund as reported by the independent fund administrator. The fund's administrator provides a monthly reported NAV with a one-month delay in its valuation which was used as a basis for fair value measurement in the Company's March 31, 2015 Consolidated Balance Sheet. As this valuation technique incorporates both observable and significant unobservable inputs, the investment fund investment is classified as a Level 3 asset.

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The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended March 31, 2015 and 2014:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Level 3 investments - Beginning of period	$694,641	$576,871
Purchases	145,789	—
Sales	(7,602)	(3,589)
Settlements	(3,995)	—
Net realized (losses) gains	(11)	10
Change in net unrealized gains	38,834	49,326
Transfers into Level 3	—	6,703
Level 3 investments - End of period	$867,656	$629,321
Catastrophe Bonds	(3,000)	—
Noncontrolling interest (a)	(488,073)	(531,403)
Level 3 investments - End of period excluding catastrophe bonds and noncontrolling interest	$376,583	$97,918

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

There have not been any transfers into or out of Levels 1, 2 and 3 during the three months ended March 31, 2015. During the three months ended March 31, 2014 there was a transfer of investments from Level 2 into Level 3 of the fair value hierarchy. This transfer was due to a reassessment of the extent of unobservable inputs used in establishing the fair value of certain catastrophe bonds.

5. Investments in affiliates

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

	March 31, 2015	December 31, 2014
Investment affiliates	$85,982	$63,506
Operating affiliates	177,350	197,977
Investments in affiliates	$263,332	$261,483

(a) Investment affiliate

Aquiline Financial Services Fund II L.P.

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

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

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

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Aquiline Financial Services Fund III L.P.

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

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

The following table presents a reconciliation of the beginning and ending investment in the Company's investment affiliates balance for the three months ended March 31, 2015 and 2014:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Investment affiliates, beginning of period	$63,506	$34,500
Capital contributions	19,700	—
Income from investment affiliate	2,776	5,348
Investment affiliates, end of period	$85,982	$39,848

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

	Investment in investment affiliate			
	Investment at cost	Voting ownership %	Equity Ownership	Carrying Value
Aquiline Financial Services Fund II L.P.	$56,563	— %	8.1 %	$71,844
Aquiline Financial Services Fund III L.P.	$14,138	— %	13.7 %	$14,138
Total	$70,701			$85,982

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

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

(b) Operating affiliates

AlphaCat Re 2011 Ltd.

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

AlphaCat Re 2011 is now considered "off-risk" as the risk periods for all reinsurance contracts written have expired. As a result, partial returns of investment have been made to the investors of AlphaCat Re 2011.The Company's portion of the returns made during the three months ended March 31, 2015 and 2014 are included in the tables below.

AlphaCat Re 2012 Ltd.

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

AlphaCat Re 2012 is now considered "off-risk" as the risk periods for all reinsurance contracts written have expired. As a result, partial returns of investment have been made to the investors of AlphaCat Re 2012.The Company's portion of the returns made during the three months ended March 31, 2015 and 2014 are included in the tables below.

AlphaCat 2013, Ltd.

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

AlphaCat 2013 is now considered "off-risk" as the risk periods for all risk-linked instruments have expired. As a result, partial returns of investment have been made to the investors of AlphaCat 2013. The Company's portion of the returns made during the three months ended March 31, 2015 and 2014 are included in the tables below.

AlphaCat 2014, Ltd.

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

The risk periods for a majority of the AlphaCat 2014 risk-linked instruments have expired. As a result, partial returns of investment have been made to the investors of AlphaCat 2014. The Company's portion of the returns made during the three months ended March 31, 2015 are included in the table below.

AlphaCat 2015, Ltd.

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

AlphaCat ILS funds

The AlphaCat ILS funds invest in instruments with returns linked to property catastrophe reinsurance, retrocession and insurance linked securities ("ILS") contracts. AlphaCat ILS funds primarily deploy their capital through the AlphaCat Master Fund Ltd. (the "AlphaCat Master Fund") and AlphaCat Re. All of the funds are variable interest entities, with one being consolidated by the Company as the primary beneficiary and the remaining funds being accounted for as equity method investments because the Company holds an equity interest of less than 50% and has significant influence. One of these funds had been consolidated by the Company as the primary beneficiary from its formation through to December 31, 2013. However, on January 1, 2014 the fund received $35,000 in additional third party subscriptions, resulting in a reduction of the Company’s equity interest below 50%. Since the Company retained significant influence, this fund was deconsolidated and accounted for as an equity method investment from January 1, 2014. The fair value of the retained interest, based on the fair value of the underlying instruments in AlphaCat Master Fund and AlphaCat Re, amounted to $113,455 as at January 1, 2014. The deconsolidation resulted in a gain of $1,372 which is included in the Consolidated Statements of Comprehensive Income as other insurance related income for the year ended December 31, 2014. The Company's maximum exposure to any of the funds is the amount of capital invested at any given time.

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AlphaCat Master Fund Ltd. and AlphaCat Reinsurance Ltd.

The Company utilizes AlphaCat Master Fund and AlphaCat Re for the purpose of investing in capital market products and writing collateralized reinsurance, respectively, on behalf of certain entities within the AlphaCat operating segment. AlphaCat Master Fund and AlphaCat Re are market facing entities which enter into transactions on behalf of AlphaCat 2013, AlphaCat 2014, AlphaCat 2015 and the AlphaCat ILS funds. The Company owns all of the voting equity interest in AlphaCat Master Fund and AlphaCat Re and, as a result, their financial statements are included in the Consolidated Financial Statements of the Company.

BetaCat ILS funds

The BetaCat ILS funds invest exclusively in catastrophe bonds (principal-at-risk variable rate notes and other event-linked securities, being referred to collectively as “Cat Bonds”) focused on property and casualty risk issued under Rule 144A of the Securities Act of 1933, following a passive buy-and-hold investment strategy. One of the funds is a variable interest entity and is consolidated by the Company as the primary beneficiary. The remaining fund is consolidated by the Company as it owns all of the voting equity interest. The Company's maximum exposure to either of the funds is the amount of capital invested at any given time. As at March 31, 2015, no third party subscriptions had been received.

The following tables present a reconciliation of the beginning and ending investment in operating affiliates for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015						
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	Total
As at December 31, 2014	$4,606	$735	$1,068	$28,085	$25,600	$137,883	$197,977
Purchase of shares	—	—	—	—	—	1,070	1,070
Return of investment	—	—	—	(24,150)	—	—	(24,150)
Income from operating affiliates	(10)	(25)	(14)	(100)	1,316	1,286	2,453
As at March 31, 2015	$4,596	$710	$1,054	$3,835	$26,916	$140,239	$177,350

	Three Months Ended March 31, 2014					
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat 2014	AlphaCat ILS funds	Total
As at December 31, 2013	$9,809	$1,313	$51,744	$21,982	$21,895	$106,743
Return of investment	(5,825)	—	(37,541)	—	—	(43,366)
Fair value of retained interest on deconsolidation of AlphaCat ILS fund	—	—	—	—	113,455	113,455
Income from operating affiliates	193	(36)	1,475	1,611	1,684	4,927
As at March 31, 2014	$4,177	$1,277	$15,678	$23,593	$137,034	$181,759

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

	Investment in operating affiliates			
	Cost	Voting ownership %	Equity ownership %	Carrying value
AlphaCat Re 2011	$4,596	43.7 %	22.3 %	$4,596
AlphaCat Re 2012	710	49.0 %	37.9 %	710
AlphaCat 2013	1,054	40.9 %	19.7 %	1,054
AlphaCat 2014	3,835	42.3 %	19.6 %	3,835
AlphaCat 2015	25,600	40.0 %	20.0 %	26,916
AlphaCat ILS funds	134,161	n/a	(a)	140,239
Total	$169,956			$177,350

(a) Equity ownership in the funds was 7.6%, 25.2% and 9.1%, respectively as at March 31, 2015.

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

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

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

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

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

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The following tables present a reconciliation of the beginning and ending notes payable to operating affiliates for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015				
	AlphaCat 2013	AlphaCat 2014	AlphaCat 2015	AlphaCat ILS funds	Total
As at December 31, 2014	$—	$157,384	$—	$514,081	$671,465
Issuance of notes payable to operating affiliates	—	—	137,540	484,324	621,864
Redemption of notes payable to operating affiliates	—	(148,893)	—	(216,990)	(365,883)
Foreign exchange gain	—	(310)	(246)	(7,206)	(7,762)
As at March 31, 2015	$—	$8,181	$137,294	$774,209	$919,684

	Three Months Ended March 31, 2014			
	AlphaCat 2013	AlphaCat 2014	AlphaCat ILS funds	Total
As at December 31, 2013	$223,809	$—	$215,463	$439,272
Notes payable to operating affiliates recognized on deconsolidation of AlphaCat ILS fund	—	—	178,837	178,837
Issuance of notes payable to operating affiliates	—	149,707	184,737	334,444
Redemption of notes payable to operating affiliates	(175,349)	—	(215,766)	(391,115)
Foreign exchange (gain) loss	(297)	109	123	(65)
As at March 31, 2014	$48,163	$149,816	$363,394	$561,373

The portion of notes payable to operating affiliates that were due to the Company, as an investor in the affiliates, and third party investors as at March 31, 2015 amounted to $152,891 and $766,793, respectively (December 31, 2014: $148,264 and $523,201).

The following table presents the (income) attributable to operating affiliate investors for the three months ended March 31, 2015 and 2014:

	Three Months Ended	
	March 31, 2015	March 31, 2014
AlphaCat 2013	$1	$(10,476)
AlphaCat 2014	(156)	(10,789)
AlphaCat 2015	(8,773)	—
AlphaCat ILS funds	(14,278)	(10,445)
(Income) attributable to operating affiliate investors	$(23,206)	$(31,710)

The portion of income attributable to operating affiliate investors that was due to the Company, as an investor in the affiliates, and third party investors for the three months ended March 31, 2015 amounted to $3,444 and $19,762, respectively (2014: $6,472 and $25,238).

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6. Noncontrolling interest

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

The portion of earnings from the one consolidated AlphaCat ILS fund attributable to third party investors is recorded in the Consolidated Statements of Comprehensive Income as net (income) loss attributable to noncontrolling interest. The AlphaCat ILS funds have rights that enable shareholders, subject to certain limitations, to redeem their shares. The third party equity is therefore recorded in the Company's Consolidated Balance Sheets as redeemable noncontrolling interest. When and if a redemption notice is received, the fair value of the redemption is reclassified to a liability.

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, 2015 and 2014:

	Three Months Ended March 31, 2015		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at December 31, 2014	$79,956	$458,595	$538,551
Issuance of shares	15,700	—	15,700
Income attributable to noncontrolling interest	3,121	35,856	38,977
As at March 31, 2015	$98,777	$494,451	$593,228

	Three Months Ended March 31, 2014		
	Redeemable noncontrolling interest	Noncontrolling interest	Total
As at December 31, 2013	$86,512	$497,657	$584,169
Income attributable to noncontrolling interest	232	43,277	43,509
Adjustment to noncontrolling interest as a result of deconsolidation	(78,354)	—	(78,354)
As at March 31, 2014	$8,390	$540,934	$549,324

7. Derivative instruments

The Company enters into derivative instruments for risk management purposes, specifically to hedge unmatched foreign currency exposures and interest rate exposures. As at March 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. As at March 31, 2015, the Company held two interest rate swaps to fix the payment of interest on the Company's 2006 and 2007 Junior Subordinated Deferrable Debentures, as well as three interest rate swaps and one cross-currency interest rate swap to fix the payment of interest and mitigate the foreign exchange rate impact on Flagstone's 2006 and 2007 Junior Subordinated Deferrable Debentures.

As at March 31, 2015, the Company held one foreign currency forward contract to mitigate the risk of fluctuations in the U.S. dollar against the Euro that was not designated as a hedging instrument.

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

	As at March 31, 2015			As at December 31, 2014		
Derivatives not designated as hedging instruments:	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Foreign currency forward contracts	$22,039	$—	$225	$26,755	$1,685	$—

(a) Asset and liability derivatives are classified within other assets and accounts payable and accrued expenses respectively on the Consolidated Balance Sheets. The net impact on earnings during the three months ended March 31, 2015, recognized in income within other income, relating to the foreign currency forward contract that was not designated as a hedging instrument was $1 (2014: $nil).

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

	As at March 31, 2015			As at December 31, 2014		
Derivatives designated as hedging instruments:	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Net Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Foreign currency forward contracts	$202,779	$584	$9,384	$189,026	$401	$3,136
Interest rate swap contracts	$552,263	$21	$1,915	$552,263	$25	$1,169

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

(a) Classification within the fair value hierarchy

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

(b) Derivative instruments designated as a fair value hedge

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

The following table provides the total impact on earnings, recognized in income within foreign exchange gains (losses), relating to the derivative instruments formally designated as fair value hedges along with the impact of the related hedged items for the three months ended March 31, 2015 and 2014:

	Three Months Ended	
Foreign currency forward contracts	March 31, 2015	March 31, 2014
Amount of (loss) gain recognized in income on derivative	$(10,113)	$3,303

Amount of gain (loss) on hedged item recognized in income attributable to risk being hedged	$10,113	$(3,303)
Amount of gain (loss) recognized in income on derivative (ineffective portion)	$—	$—

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(c) Derivative instruments designated as a cash flow hedge

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

The following table provides the total impact on other comprehensive income (loss) and earnings relating to the derivative instruments formally designated as cash flow hedges along with the impact of the related hedged items for the three months ended March 31, 2015 and 2014:

	Three Months Ended	
Interest rate swap contracts	March 31, 2015	March 31, 2014
Amount of effective portion recognized in other comprehensive income	$4,040	$3,208
Amount of effective portion subsequently reclassified to earnings	$(3,239)	$(3,208)
Amount of ineffective portion excluded from effectiveness testing	$(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, 2015 or December 31, 2014.

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

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

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8. Reserve for losses and loss expenses

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

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid losses and loss expenses for the three months ended March 31, 2015 and 2014:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Reserve for losses and loss expenses, beginning of period	$3,234,394	$3,030,399
Losses and loss expenses recoverable	(377,466)	(370,154)
Net reserves for losses and loss expenses, beginning of period	2,856,928	2,660,245
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:		
Current year	324,488	202,086
Prior years	(83,559)	(39,415)
Total incurred losses and loss expenses	240,929	162,671
Less net losses and loss expenses paid in respect of losses occurring in:		
Current year	(13,100)	(7,967)
Prior years	(236,003)	(250,115)
Total net paid losses	(249,103)	(258,082)
Foreign exchange (gain) loss	(25,274)	11,818
Net reserve for losses and loss expenses, end of period	2,823,480	2,576,652
Losses and loss expenses recoverable	375,882	348,407
Reserve for losses and loss expenses, end of period	$3,199,362	$2,925,059

Incurred losses and loss expenses comprise:

	Three Months Ended	
	March 31, 2015	March 31, 2014
Gross losses and loss expenses	$264,796	$181,975
Reinsurance recoverable	(23,867)	(19,304)
Net incurred losses and loss expenses	$240,929	$162,671

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9. Reinsurance
The Company enters into reinsurance and retrocession agreements in order to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits and increase its aggregate capacity. The cession of insurance and reinsurance does not legally discharge the Company from its primary liability for the full amount of the policies, and the Company is required to pay the loss and bear collection risk if the reinsurer fails to meet its obligations under the reinsurance or retrocession agreement. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.
Credit risk
The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At March 31, 2015, 98.4% (December 31, 2014: 98.0%) of reinsurance recoverables (which includes loss reserves recoverable and recoverables on paid losses and $241,983 of total IBNR recoverable (December 31, 2014: $231,129)) were fully collateralized or from reinsurers rated A- or better.
Reinsurance recoverables by reinsurer as at March 31, 2015 and December 31, 2014 are as follows:

	March 31, 2015			December 31, 2014		
	Reinsurance Recoverable	% of Total		Reinsurance Recoverable	% of Total	
Top 10 reinsurers	$317,056	78.7	%	$312,205	75.1	%
Other reinsurers’ balances > $1 million	79,034	19.6	%	94,247	22.7	%
Other reinsurers’ balances < $1 million	6,826	1.7	%	9,092	2.2	%
Total	$402,916	100.0	%	$415,544	100.0	%

	March 31, 2015			
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Swiss Re	AA-	$79,535	19.7	%
Lloyd's Syndicates	A+	61,406	15.2	%
Everest Re	A+	46,105	11.4	%
Hannover Re	AA-	41,330	10.3	%
Fully Collateralized	NR	29,979	7.4	%
Munich Re	AA-	21,632	5.4	%
Transatlantic Re	A+	11,605	2.9	%
XL Re	A+	9,897	2.5	%
Merrimack Mutual Fire Insurance	A+	8,076	2.0	%
Hamilton Re	A-	7,491	1.9	%
Total		$317,056	78.7	%

NR: Not rated

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

NR: Not rated

At March 31, 2015 and December 31, 2014, the provision for uncollectible reinsurance relating to reinsurance recoverables was $4,834 and $4,755, respectively. To estimate the provision for uncollectible reinsurance, the reinsurance recoverable is first allocated to applicable reinsurers. This determination is based on a process rather than an estimate, although an element of judgment is applied, especially in relation to ceded IBNR. The Company then uses default factors to determine the portion of a reinsurer’s balance deemed to be uncollectible. Default factors require considerable judgment and are determined in part using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions.

10. Share capital

(a) Authorized and issued

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

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

The Company has repurchased 71,475,993 common shares for an aggregate purchase price of $2,289,409 from the inception of its share repurchase program to March 31, 2015. The Company had $734,992 remaining under its authorized share repurchase program as of March 31, 2015.

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

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

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

	Common Shares
Common shares issued, December 31, 2013	154,488,497
Restricted share awards vested, net of shares withheld	18,219
Options exercised	90,019
Direct issuance of common stock	359
Common shares issued, March 31, 2014	154,597,094
Treasury shares, March 31, 2014	(63,810,857)
Common shares outstanding, March 31, 2014	90,786,237

(b) Warrants

During the three months ended March 31, 2015, 798,575 warrants were exercised, which resulted in the issuance of 473,817 common shares. During the three months ended March 31, 2014, no warrants were exercised. Holders of the outstanding warrants are entitled to exercise the warrants in whole or in part at any time until the expiration date. The total outstanding warrants at March 31, 2015 were 4,375,538 (December 31, 2014: 5,174,114). No further warrants are anticipated to be issued.

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(c) Dividends

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

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11. Stock plans

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

The Company's Amended and Restated 2005 Long Term Incentive Plan ("LTIP") provides for grants to employees of options, stock appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, dividend equivalents or other share-based awards. In addition, the Company may issue restricted share awards or restricted share units in connection with awards issued under its annual Short Term Incentive Plan ("STIP"). The total number of shares reserved for issuance under the LTIP and STIP are 13,126,896 shares of which 905,848 shares remain available for issuance at March 31, 2015. The LTIP and STIP are administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. Grant prices are established at the fair market value of the Company's common shares at the date of grant.

i. Options

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

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

The Company has not granted any stock options since September 4, 2009.

There were no share compensation expenses in respect of options recognized for the three months ended March 31, 2015 and 2014.

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

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Activity with respect to options for the three months ended March 31, 2014 was as follows:

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2013	1,572,713	$6.66	$18.88
Options exercised	(90,019)	4.25	25.46
Options outstanding, March 31, 2014	1,482,694	$6.81	$18.48

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

ii. Restricted share awards

Restricted shares granted under the LTIP and STIP vest either pro rata or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. Share compensation expenses of $8,479 were recorded for the three months ended March 31, 2015 (2014: $7,001). 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, 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

Activity with respect to unvested restricted share awards for the three months ended March 31, 2014 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2013	2,684,745	$33.74
Restricted share awards granted	17,533	36.81
Restricted share awards vested	(27,353)	29.31
Restricted share awards forfeited	(23,094)	34.57
Restricted share awards outstanding, March 31, 2014	2,651,831	$33.80

At March 31, 2015, there were $66,382 (December 31, 2014: $74,670) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 2.6 years (December 31, 2014: 2.7 years).

iii. Restricted share units

Restricted share units under the LTIP and STIP vest either ratably or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. Share compensation expenses of $262 were recorded for the three months ended March 31, 2015 (2014: $166). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

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Activity with respect to unvested restricted share units for the 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

Activity with respect to unvested restricted share units for the three months ended March 31, 2014 was as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2013	66,518	$33.74
Restricted share units issued in lieu of cash dividends	495	33.74
Restricted share units outstanding, March 31, 2014	67,013	$33.74

At March 31, 2015, there were $2,493 (December 31, 2014: $2,774) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 2.9 years (December 31, 2014: 3.1 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.

Share compensation expenses of $313 were recorded for the three months ended March 31, 2015 (2014: $(20)). The negative expense is due to a reversal of expenses on unvested performance share awards based on a review of current and projected performance criteria.

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

Activity with respect to unvested performance share awards for the three months ended March 31, 2014 was as follows:

	Performance Share Awards	Weighted Average Grant Date Fair Value
Performance share awards outstanding, December 31, 2013	101,820	$33.56
Performance share awards conversion adjustment	(15,344)	$31.38
Performance share awards outstanding, March 31, 2014	86,476	$33.95

At March 31, 2015, there were $1,937 (December 31, 2014: $2,232) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 1.9 years (December 31, 2014: 2.1 years).

(b) Total share compensation expenses

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

	Three Months Ended	
	March 31, 2015	March 31, 2014
Restricted share awards	$8,479	$7,001
Restricted share units	262	166
Performance share awards	313	(20)
Total	$9,054	$7,147

12. Debt and financing arrangements

(a) Financing structure

The financing structure at March 31, 2015 was:

	Commitment	Drawn

		Issued and outstanding (a)	
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	134,011	134,011	134,011
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total debentures payable	597,761	537,561	537,561
2010 Senior Notes due 2040	250,000	250,000	247,333
Total debentures and senior notes payable	847,761	787,561	784,894
$400,000 syndicated unsecured letter of credit facility	400,000	—	—
$525,000 syndicated secured letter of credit facility	525,000	268,907	—
$30,000 secured bi-lateral letter of credit facility	30,000	14,747	—
Talbot FAL facility	25,000	25,000	—
PaCRe senior secured letter of credit facility	10,000	39	—
AlphaCat Re secured letter of credit facility	30,000	30,000	—
IPC bi-lateral facility	25,000	12,543	—
$230,000 Flagstone bi-lateral facility	230,000	209,070	—
Total credit and other facilities	1,275,000	560,306	—
Total debt and financing arrangements	$2,122,761	$1,347,867	$784,894

The financing structure at December 31, 2014 was:

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

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

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(b) Senior notes and junior subordinated deferrable debentures

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

Description	Issuance date	Commitment	Maturity date	Fixed/Spread			Interest payments due
2006 Junior Subordinated Deferrable Debentures	June 15, 2006	$150,000	June 15, 2036	9.069	%	(a)	Quarterly
Flagstone 2006 Junior Subordinated Deferrable Debentures	August 23, 2006	$134,011	September 15, 2036	3.540	%	(b)	Quarterly
2007 Junior Subordinated Deferrable Debentures	June 21, 2007	$200,000	June 15, 2037	8.480	%	(a)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	June 8, 2007	$88,750	July 30, 2037	3.000	%	(b)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 20, 2007	$25,000	September 15, 2037	3.100	%	(b)	Quarterly
2010 Senior Notes due 2040	January 26, 2010	$250,000	January 26, 2040	8.875	%	(a)	Semi-annually in arrears

(a) Fixed interest rate.

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

The following table summarizes the key terms of the Company's senior notes and junior subordinated deferrable debentures as at March 31, 2015:

Description	Issuance date	Commitment	Maturity date	Fixed/Spread			Interest payments due
2006 Junior Subordinated Deferrable Debentures	June 15, 2006	$150,000	June 15, 2036	5.831	%	(b)	Quarterly
Flagstone 2006 Junior Subordinated Deferrable Debentures	August 23, 2006	$134,011	September 15, 2036	6.463	%	(b)	Quarterly
2007 Junior Subordinated Deferrable Debentures	June 21, 2007	$200,000	June 15, 2037	5.180	%	(b)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	June 8, 2007	$88,750	July 30, 2037	5.900	%	(b)	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 20, 2007	$25,000	September 15, 2037	5.983	%	(b)	Quarterly
	January 26, 2010	$250,000	January 26, 2040	8.875	%	(a)	

2010 Senior Notes due 2040	Semi-annually in arrears

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

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Senior Notes

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

Debt issuance costs were deferred as an asset and are amortized over the life of the 2010 Senior Notes. There were no redemptions made during the three months ended March 31, 2015 and 2014.

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

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

Junior subordinated deferrable debentures

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

Debt issuance costs for the 2006 and 2007 Junior Subordinated Deferrable Debentures were deferred as an asset and were amortized to income over the five year optional redemption periods. They are redeemable at the Company's option at par. There were no redemptions made during the three months ended March 31, 2015 and 2014.

As part of the acquisition of Flagstone, the Company assumed junior subordinated deferrable debentures due 2036 and 2037 (respectively, the “Flagstone 2006 Junior Subordinated Deferrable Debentures” and “Flagstone 2007 Junior Subordinated Deferrable Debentures”). These debentures are redeemable quarterly at par. There were no redemptions made during the three months ended March 31, 2015 and 2014.

Future payments of principal of $537,561 on the debentures discussed above are all expected to be after 2020.

(c) Credit facilities

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

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

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

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

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As of March 31, 2015, there were $268,907 in outstanding letters of credit under the Four Year Secured Facility (December 31, 2014: $276,455) and $nil (December 31, 2014: $nil) outstanding under the Four Year Unsecured Facility.

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

ii. $25,000 Talbot FAL facility

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

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

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

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

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

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

As of March 31, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Talbot FAL facility.

iii. $25,000 IPC bi-lateral facility

The Company assumed an existing evergreen letter of credit facility through the acquisition of IPC Holdings, Ltd. (the "IPC bi-lateral facility"). As of March 31, 2015, there were $12,543 outstanding letters of credit issued under the IPC bi-lateral facility (December 31, 2014: $15,897). As of March 31, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the IPC bi-lateral facility.

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

The Company is party to an evergreen secured bi-lateral letter of credit facility with Citibank Europe plc (the “Secured bi-lateral letter of credit facility”). As of March 31, 2015, $14,747 (December 31, 2014: $15,649) of letters of credit were outstanding under the Secured bi-lateral letter of credit facility. The Secured bi-lateral letter of credit facility has no fixed termination date and as of March 31, 2015, and throughout the reporting periods presented, the Company is in compliance with all terms and covenants thereof. During the period ended March 31, 2015 the size of the facility was decreased to $30,000 from $200,000.

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

On May 11, 2012, PaCRe and its subsidiary, PaCRe Investments, Ltd. entered into a secured evergreen credit and letter of credit facility with JPMorgan Chase Bank, N.A. This facility provides for revolving borrowings by PaCRe and for letters of credit issued by PaCRe to be used to support its reinsurance obligations in aggregate amount of $10,000. As of March 31, 2015, $39 (December 31, 2014: $294) of letters of credit were outstanding under this facility. As of March 31, 2015, and throughout the reporting periods presented, PaCRe was in compliance with all covenants and restrictions thereof.

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

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

vii. $230,000 Flagstone bi-lateral facility

As part of the Flagstone Acquisition, the Company assumed an evergreen Letters of Credit Master Agreement between Citibank Europe Plc and Flagstone Reassurance Suisse, S.A. (the “Flagstone Bi-Lateral Facility”). At March 31, 2015, the Flagstone Bi-Lateral Facility had $209,070 (December 31, 2014: $198,389) letters of credit issued and outstanding. As of March 31, 2015, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Flagstone Bi-Lateral Facility. During the period ended March 31, 2015 the size of the facility was decreased to $230,000 from $375,000.

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(d) Finance expenses

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

	Three Months Ended	
	March 31, 2015	March 31, 2014
2006 Junior Subordinated Deferrable Debentures	$2,187	$2,187
2007 Junior Subordinated Deferrable Debentures	1,809	1,809
Flagstone 2006 Junior Subordinated Deferrable Debentures	2,218	2,223
Flagstone 2007 Junior Subordinated Deferrable Debentures	1,758	1,750
2010 Senior Notes due 2040	5,597	5,597
Credit facilities	1,707	1,559
Bank charges	98	113
AlphaCat ILS funds fees (a)	4,428	677
Talbot FAL Facility	50	(15)
Total finance expenses	$19,852	$15,900

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

13. Accumulated other comprehensive loss

The changes in accumulated other comprehensive loss, by component for the three months ended March 31, 2015 and 2014 is as follows:

Three Months Ended March 31, 2015	Foreign currency items	Decrease in minimum pension liability	Losses on cash flow hedge	Total
Balance beginning of period, net of tax	$(8,118)	$(210)	$(228)	$(8,556)
Net current period other comprehensive income, net of tax	(3,019)	(265)	(801)	(4,085)
Balance end of period, net of tax	$(11,137)	$(475)	$(1,029)	$(12,641)

Three Months Ended March 31, 2014	Foreign currency items	Total
Balance beginning of period, net of tax	$(617)	$(617)
Net current period other comprehensive income, net of tax	462	462
Balance end of period, net of tax	$(155)	$(155)

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14. Commitments and contingencies

(a) Concentrations of credit risk

The Company attempts to limit its credit exposure by purchasing high quality fixed income investments to maintain a minimum weighted-average portfolio credit rating of A+. In addition, the portfolio limits the amount of “risk assets,” such as non-investment grade debt and equity securities, to a maximum of 35% of shareholders’ equity. The Company also limits its exposure to any single issuer to 3.5% of its investment portfolio or less, excluding government and agency securities, depending on the credit rating of the issuer. With the exception of the Company's bank loan portfolio, which represents 6.1% of the Company's total investments as at March 31, 2015, and certain capital securities issued by investment grade corporations, the minimum credit rating of any security purchased is Baa3/BBB-. In total, investments in below investment grade securities are limited to no more than 10% of the Company's investment portfolio. As at March 31, 2015, 9.2% of the Company's total investment portfolio was below investment grade. The Company did not have an aggregate exposure to any single issuer of more than 0.9% of its investment portfolio, other than with respect to government and agency securities as at March 31, 2015.

(b) Funds at Lloyd's

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

Talbot operates in Lloyd’s through a corporate member, Talbot 2002 Underwriting Capital Ltd (“T02”), which is the sole participant in Syndicate 1183. Lloyd’s sets T02’s required capital annually based on Syndicate 1183’s business plan, rating environment and reserving environment together with input arising from Lloyd’s discussions with, inter alia, regulatory and rating agencies. Such capital, called Funds at Lloyd’s (“FAL”), comprises: cash, investments and undrawn letters of credit provided by various banks.

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

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

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

(c) Lloyd's Central Fund

Whenever a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2015 estimated premium income at Lloyd's of £625,000, at the March 31, 2015 exchange rate of £1 equals $1.4861 and assuming the maximum 3% assessment, the Company would be assessed approximately $27,864.

(d) Investment in affiliate commitments

As discussed in Note 5 "Investments in affiliates," on December 20, 2011 the Company entered into an Assignment and Assumption Agreement with Aquiline Capital Partners LLC, pursuant to which it assumed total capital commitments of $50,000. This interest is governed by the terms of an Amended and Restated Exempted Limited

Partnership Agreement dated as of January 9, 2013. The Company’s remaining commitment at March 31, 2015 was $2,865 (December 31, 2014: $7,500).

On October 2, 2014, the Company assumed an additional investment in Aquiline Capital Partners II GP (Offshore) Ltd. as part of the Western World acquisition representing a total capital commitment of $10,000. This interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of January 9, 2013. The Company's remaining capital commitment at March 31, 2015 was $572 (December 31, 2014: $1,499).

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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 Limited Partnership Interests are governed by the terms of the Aquiline III Limited Partnership Agreement dated November 7, 2014. The Company’s remaining commitment at March 31, 2015 was $85,862 (December 31, 2014: $100,000).

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

On December 29, 2014, the Company entered into an agreement with an AlphaCat ILS fund pursuant to which it assumed total capital commitments of $20,000. The Company’s remaining commitment at March 31, 2015 was $6,930 (December 31, 2014: $8,000).

(e) Fixed maturity commitment

As at March 31, 2015, the Company had an outstanding commitment to participate in certain revolver loan facilities through participation agreements with an established loan originator. The undrawn amount under the revolver facility participations as at March 31, 2015 was $16,343 (December 31, 2014: $7,539).

(f) Other investment commitments

At March 31, 2015, the Company had capital commitments in other investments of $153,000 (December 31, 2014: $153,000). The Company's remaining commitment to these investments at March 31, 2015 was $81,157 (December 31, 2014: $83,712).

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

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

15. Related party transactions

The transactions listed below are classified as related party transactions as each counter party has either a direct or indirect shareholding in the Company.

Aquiline Capital Partners, LLC and its related companies ("Aquiline"), which hold warrants to purchase 2,756,088 shares, and have two employees on the Company's Board of Directors who do not receive compensation from the Company, are shareholders of Group Ark Insurance Holdings Ltd. ("Group Ark"). Christopher E. Watson, a director of the Company, serves as a director of Group Ark. Pursuant to reinsurance agreements with a subsidiary of Group Ark, the Company recognized gross premiums written during the three months ended March 31, 2015 of $1,870 (2014: $1,373) with $1,433 included in premiums receivable at March 31, 2015 (December 31, 2014: $335). The Company also recognized reinsurance premiums ceded during the three months ended March 31, 2015 of $29 (2014: $5) and had reinsurance balances payable of $4 at March 31, 2015 (December 31, 2014: $4). The Company recorded $1,067 of loss reserves recoverable at March 31, 2015 (December 31, 2014: $1,063). Earned premium adjustments of $783 were recorded during the three months ended March 31, 2015 (2014: $1,441).

On November 24, 2009, the Company entered into an Investment Management Agreement with Conning, Inc. ("Conning") to manage a portion of the Company's investment portfolio. Aquiline acquired Conning on June 16, 2009. Jeffrey W. Greenberg, a director of the Company, serves as a director of Conning Holdings Corp., the parent company of Conning. Investment management fees earned by Conning for the three months ended March 31, 2015 were $285 (2014: $56), with $313 included in accounts payable and accrued expenses at March 31, 2015 (December 31, 2014: $515).

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On December 20, 2011, the Company entered into an Assignment and Assumption Agreement (the "Agreement") with Aquiline Capital Partners LLC, a Delaware limited liability company (the "Assignor") and Aquiline Capital Partners II GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "General Partner") pursuant to which the Company has assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. (the "Aquiline II Partnership") representing a total capital commitment of $50,000 (the "Aquiline II Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). On October 2, 2014, the Company assumed an additional investment in the Aquiline II Partnership as part of the Western World acquisition representing a total capital commitment of $10,000. Messrs. Greenberg and Watson, directors of the Company, serve as managing principal and senior principal, respectively, of Aquiline Capital Partners LLC. For the three months ended March 31, 2015, the Company incurred $448 (2014: $nil) in partnership fees and made capital contributions of $5,562 (2014: $nil), with $nil included in accounts payable and accrued expenses at March 31, 2015 (December 31, 2014: $nil).
On November 7, 2014, the Company, entered into a Subscription Agreement (the "Subscription Agreement") with Aquiline Capital Partners III GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "Aquiline III General Partner") pursuant to which the Company is committing and agreeing to purchase limited partnership or other comparable limited liability equity interests (the "Limited Partnership Interests") in Aquiline Financial Services Fund III L.P., a Cayman Islands exempted limited partnership (the "Aquiline III Partnership"), and/or one or more Alternative Investment Vehicles and Intermediate Entities (together with the Aquiline III Partnership, the "Fund" or the "Entities") with a capital commitment (the "Aquiline III Commitment") in an amount equal to $100,000, as a limited partner in the Aquiline Financial Services III Partnership. For the three months ended March 31, 2015, the Company incurred $nil (2014: $nil) partnership fees and made capital contributions of $14,138 (2014: $nil), with $nil included in accounts payable and accrued expenses at March 31, 2015 (December 31, 2014: $nil).
Certain shareholders of the Company and their affiliates, as well as employers of entities associated with directors or officers have purchased insurance and/or reinsurance from the Company in the ordinary course of business. The Company believes these transactions were settled for arm's length consideration.

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16. Earnings per share
The following table sets forth the computation of basic and earnings per diluted share for the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Basic earnings per share		
Net income	$212,388	$205,897
Income attributable to noncontrolling interest	(38,977)	(43,509)
Net income available to Validus	173,411	162,388
Less: Dividends and distributions declared on outstanding warrants	(1,405)	(1,552)
Income available to common shareholders	$172,006	$160,836
Weighted average number of common shares outstanding	83,251,243	93,451,999
Basic earnings per share available to common shareholders	$2.07	$1.72
Earnings per diluted share		
Net income	$212,388	$205,897
Income attributable to noncontrolling interest	(38,977)	(43,509)
Net income available to Validus	173,411	162,388
Less: Dividends and distributions declared on outstanding warrants	—	—
Income available to common shareholders	$173,411	$162,388
Weighted average number of common shares outstanding	83,251,243	93,451,999
Share equivalents:		
Warrants	2,745,066	2,716,010
Stock options	473,424	750,369
Unvested restricted shares	1,113,396	881,141
Weighted average number of diluted common shares outstanding	87,583,129	97,799,519
Earnings per diluted share available to common shareholders	$1.98	$1.66

Share equivalents that would result in the issuance of 645 common shares (2014: 12,498) were outstanding for the three months ended March 31, 2015, but were not included in the computation of earnings per diluted share because the effect would be antidilutive.

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17. Segment information

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

Validus Re Segment

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

AlphaCat Segment

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

Talbot Segment

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

Western World Segment

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

Corporate and eliminations

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

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

Three Months Ended March 31, 2015	Validus Re Segment	AlphaCat Segment	Talbot Segment	Western World Segment	Corporate & Eliminations	Total
Underwriting income						
Gross premiums written	$711,212	$102,564	$270,077	$56,947	$(21,302)	$1,119,498
Reinsurance premiums ceded	(113,296)	(4,538)	(91,075)	(3,233)	21,302	(190,840)
Net premiums written	597,916	98,026	179,002	53,714	—	928,658
Change in unearned premiums	(344,828)	(63,831)	43,587	14,168	—	(350,904)
Net premiums earned	253,088	34,195	222,589	67,882	—	577,754
Underwriting deductions						
Losses and loss expenses	113,128	(844)	78,128	50,517	—	240,929
Policy acquisition costs	42,094	3,660	49,104	4,279	(501)	98,636
General and administrative expenses	19,509	4,002	36,494	10,627	14,396	85,028
Share compensation expenses	2,578	149	2,957	477	2,893	9,054
Total underwriting deductions	177,309	6,967	166,683	65,900	16,788	433,647
Underwriting income (loss)	$75,779	$27,228	$55,906	$1,982	$(16,788)	$144,107
Net investment income	18,776	1,585	6,305	5,303	(948)	31,021
Other insurance related income (loss)	315	5,771	54	263	(1,571)	4,832
Finance expenses	(3,871)	(4,516)	(87)	—	(11,378)	(19,852)
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	90,999	30,068	62,178	7,548	(30,685)	160,108
Tax benefit (expense)	1,880	—	(883)	(3,723)	161	(2,565)
Income from operating affiliates	—	2,453	—	—	—	2,453
(Income) attributable to operating affiliate investors	—	(23,206)	—	—	—	(23,206)
Net operating income (loss)	$92,879	$9,315	$61,295	$3,825	$(30,524)	$136,790

Net realized gains (losses) on investments	1,809	(11)	871	1,500	—	4,169
Change in net unrealized gains (losses) on investments	20,578	37,535	7,911	7,138	(958)	72,204
Income from investment affiliate	1,933	—	—	843	—	2,776
Foreign exchange (losses) gains	(5,024)	(95)	(485)	—	2,053	(3,551)
Net income (loss)	$112,175	$46,744	$69,592	$13,306	$(29,429)	$212,388
Net (income) attributable to noncontrolling interest	—	(38,977)	—	—	—	(38,977)
Net income (loss) available (attributable) to Validus	$112,175	$7,767	$69,592	$13,306	$(29,429)	$173,411
Selected ratios (a):						
Net premiums written / Gross premiums written	84.1%	95.6%	66.3%	94.3%		83.0%
Losses and loss expenses	44.7%	(2.5)%	35.1%	74.4%		41.7%
Policy acquisition costs	16.7%	10.7%	22.1%	6.3%		17.1%
General and administrative expenses (b)	8.7%	12.1%	17.7%	16.4%		16.3%
Expense ratio	25.4%	22.8%	39.8%	22.7%		33.4%
Combined ratio	70.1%	20.3%	74.9%	97.1%		75.1%
Total assets	$4,567,449	$1,954,260	$2,933,104	$1,512,848	$86,789	$11,054,450

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

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Three Months Ended March 31, 2014	Validus Re Segment (c)	AlphaCat Segment	Talbot Segment	Corporate & Eliminations (c)	Total
Underwriting income					
Gross premiums written	$666,163	$84,347	$290,695	$(29,214)	$1,011,991
Reinsurance premiums ceded	(129,817)	(3,700)	(90,605)	29,214	(194,908)
Net premiums written	536,346	80,647	200,090	—	817,083
Change in unearned premiums	(297,960)	(49,964)	13,798	—	(334,126)
Net premiums earned	238,386	30,683	213,888	—	482,957
Underwriting deductions					
Losses and loss expenses	68,155	(7,860)	102,376	—	162,671
Policy acquisition costs	39,245	2,980	44,928	(1,504)	85,649
General and administrative expenses	18,195	4,128	35,149	16,973	74,445
Share compensation expenses	2,208	(10)	2,582	2,367	7,147
Total underwriting deductions	127,803	(762)	185,035	17,836	329,912
Underwriting income (loss)	$110,583	$31,445	$28,853	$(17,836)	$153,045
Net investment income	18,765	880	4,686	(969)	23,362
Other insurance related income (loss)	977	9,497	17	(2,454)	8,037
Finance expenses	(3,839)	(683)	(26)	(11,352)	(15,900)
Operating income (loss) before taxes, income from operating affiliates and (income) attributable to operating affiliate investors	126,486	41,139	33,530	(32,611)	168,544
Tax benefit (expense)	578	—	130	(668)	40
Income from operating affiliates	—	4,927	—	—	4,927
(Income) attributable to operating affiliate investors	—	(31,710)	—	—	(31,710)
Net operating income (loss)	$127,064	$14,356	$33,660	$(33,279)	$141,801
Net realized (losses) gains on investments	2,446	1,225	69	—	3,740
Change in net unrealized losses on investments	11,898	45,872	2,577	(4,654)	55,693
Income from investment affiliate	5,348	—	—	—	5,348
Foreign exchange gains (losses)	(6,176)	38	(150)	(190)	(6,478)
Other income	5,793	—	—	—	5,793
Net income (loss)	$146,373	$61,491	$36,156	$(38,123)	$205,897
Net (income) attributable to noncontrolling interest	—	(43,509)	—	—	(43,509)
Net income (loss) available (attributable) to Validus	$146,373	$17,982	$36,156	$(38,123)	$162,388

Selected ratios (a):					
Net premiums written / Gross premiums written	80.5 %	95.6 %	68.8 %		80.7 %
Losses and loss expenses	28.6 %	(25.6)%	47.9 %		33.7 %
Policy acquisition costs	16.5 %	9.7 %	21.0 %		17.7 %
General and administrative expenses (b)	8.5 %	13.4 %	17.6 %		16.9 %
Expense ratio	25.0 %	23.1 %	38.6 %		34.6 %
Combined ratio	53.6 %	(2.5)%	86.5 %		68.3 %
Total assets	$5,730,615	$1,582,014	$2,975,533	$94,788	$10,382,950

(a) Ratios are based on net premiums earned.

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

(c) During the first quarter of 2015, certain intercompany reinsurance transactions were presented on a net basis for segmental reporting purposes. As a result, gross premiums written and reinsurance premiums ceded for the Validus Re segment and Corporate & Eliminations were reduced by $12,823 for the three months ended March 31, 2014 for comparative purposes. There was no impact to total gross premiums written and reinsurance premiums ceded on a consolidated basis.

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

	Three Months Ended March 31, 2015 Gross Premiums Written							
	Validus Re	AlphaCat	Talbot	Western World	Eliminations	Total	%	
United States	$338,819	$13,575	$28,058	$56,947	$(1,494)	$435,905	38.9	%
Worldwide excluding United States (a)	34,994	5,833	34,942	—	(1,029)	74,740	6.7	%
Australia and New Zealand	9,868	—	1,876	—	(155)	11,589	1.0	%
Europe	24,506	1,768	13,214	—	(844)	38,644	3.5	%
Latin America and Caribbean	8,878	—	22,692	—	(3,524)	28,046	2.5	%
Japan	1,384	—	754	—	(13)	2,125	0.2	%
Canada	2,187	194	1,698	—	(78)	4,001	0.4	%
Rest of the world (b)	18,726	—	23,006	—	(2,319)	39,413	3.5	%
Sub-total, non United States	100,543	7,795	98,182	—	(7,962)	198,558	17.8	%
Worldwide including United States (a)	85,056	77,894	21,794	—	(11,854)	172,890	15.4	%
Other location non-specific (c)	186,794	3,300	122,043	—	8	312,145	27.9	%
Total	$711,212	$102,564	$270,077	$56,947	$(21,302)	$1,119,498	100.0	%

	Three Months Ended March 31, 2014 Gross Premiums Written						
	Validus Re (d)	AlphaCat	Talbot	Eliminations (d)	Total	%	
United States	$243,032	$8,698	$26,311	$(2,320)	$275,721	27.3	%
Worldwide excluding United States (a)	58,523	7,678	37,182	(1,027)	102,356	10.0	%
Australia and New Zealand	12,860	1,019	2,880	(326)	16,433	1.6	%
Europe	35,878	1,301	18,791	(1,767)	54,203	5.4	%
Latin America and Caribbean	14,337	—	31,239	(10,669)	34,907	3.4	%
Japan	167	—	538	(61)	644	0.1	%
Canada	2,547	216	3,145	(172)	5,736	0.6	%
Rest of the world (b)	18,795	—	18,404	(2,387)	34,812	3.4	%
Sub-total, non United States	143,107	10,214	112,179	(16,409)	249,091	24.5	%
Worldwide including United States (a)	102,284	65,435	23,653	(11,418)	179,954	17.8	%
Other location non-specific (c)	177,740	—	128,552	933	307,225	30.4	%
Total	$666,163	$84,347	$290,695	$(29,214)	$1,011,991	100.0	%

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

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

(d) During the first quarter of 2015, certain intercompany reinsurance transactions were presented on a net basis for segmental reporting purposes. As a result, gross premiums written for the Validus Re segment and Corporate & Eliminations were reduced by $12,823 for the three months ended March 31, 2014 for comparative purposes. There was no impact to total gross premiums written on a consolidated basis.

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18. Condensed consolidating financial information

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

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

Condensed Consolidating Balance Sheet As at March 31, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Assets					
Fixed maturities, at fair value	$28,817	$—	$ 5,515,862	$(60,200)	$5,484,479
Short-term investments, at fair value	—	—	1,183,342	—	1,183,342
Other investments, at fair value	—	—	950,992	(68,997)	881,995
Cash and cash equivalents	24,148	20	446,961	—	471,129
Restricted cash	—	—	186,423	—	186,423
Total investments and cash	52,965	20	8,283,580	(129,197)	8,207,368
Investment in affiliates	—	—	263,332	—	263,332
Investment in subsidiaries on an equity basis	4,249,633	678,842	—	(4,928,475)	—
Premiums receivable	—	—	1,114,102	—	1,114,102
Deferred acquisition costs	—	—	240,835	—	240,835
Prepaid reinsurance premiums	—	—	192,694	—	192,694
Securities lending collateral	—	—	5,337	—	5,337
Loss reserves recoverable	—	—	375,882	—	375,882
Paid losses recoverable	—	—	27,034	—	27,034
Income taxes recoverable	—	—	10,597	—	10,597
Deferred tax asset	—	—	30,847	—	30,847
Receivable for investments sold	—	—	24,803	—	24,803
Intangible assets	—	—	125,508	—	125,508
Goodwill	—	—	195,897	—	195,897
Accrued investment income	115	—	23,115	—	23,230
Intercompany receivable	—	—	7,592	(7,592)	—
Other assets	2,758	—	214,226	—	216,984
Total assets	$4,305,471	$678,862	$ 11,135,381	$(5,065,264)	$11,054,450
Liabilities					
Reserve for losses and loss expenses	$—	$—	$ 3,199,362	$—	$3,199,362
Unearned premiums	—	—	1,452,179	—	1,452,179
Reinsurance balances payable	—	—	101,426	—	101,426
Securities lending payable	—	—	5,803	—	5,803
Deferred tax liability	—	—	13,265	—	13,265
Payable for investments purchased	—	—	123,556	—	123,556
Accounts payable and accrued expenses	17,495	—	160,449	—	177,944
Intercompany payable	7,534	58	—	(7,592)	—
Notes payable to operating affiliates	—	—	919,684	—	919,684
Senior notes payable	247,333	—	—	—	247,333
Debentures payable	350,000	—	247,761	(60,200)	537,561
Total liabilities	$622,362	$58	$ 6,223,485	$(67,792)	$6,778,113

Redeemable noncontrolling interest	—	—	98,777	—	98,777
Total shareholders' equity available to Validus	3,683,109	678,804	4,318,668	(4,997,472)	3,683,109
Noncontrolling interest	—	—	494,451	—	494,451
Total liabilities, noncontrolling interests and shareholders' equity	$4,305,471	$678,862	$ 11,135,381	$(5,065,264)	$11,054,450

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

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

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

Condensed Consolidating Balance Sheet As at December 31, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Assets					
Fixed maturities, at fair value	$—	$—	$ 5,592,931	$(60,200)	$5,532,731
Short-term investments, at fair value	—	—	1,051,074	—	$1,051,074
Other investments, at fair value	—	—	881,123	(68,112)	$813,011
Cash and cash equivalents	29,798	81	547,361	—	$577,240
Restricted cash	—	—	173,003	—	173,003
Total investments and cash	29,798	81	8,245,492	(128,312)	8,147,059
Investment in affiliates	—	—	261,483	—	261,483
Investment in subsidiaries on an equity basis	4,140,770	656,738	—	(4,797,508)	—
Premiums receivable	—	—	707,647	—	707,647
Deferred acquisition costs	—	—	161,295	—	161,295
Prepaid reinsurance premiums	—	—	81,983	—	81,983
Securities lending collateral	—	—	470	—	470
Loss reserves recoverable	—	—	377,466	—	377,466
Paid losses recoverable	—	—	38,078	—	38,078
Deferred tax asset	—	—	23,821	—	23,821
Receivable for investments sold	—	—	18,318	—	18,318
Intangible assets	—	—	126,924	—	126,924
Goodwill	—	—	195,897	—	195,897
Accrued investment income	—	—	24,865	—	24,865
Intercompany receivable	41,078	—	20	(41,098)	—
Other assets	3,239	—	161,394	—	164,633
Total assets	$4,214,885	$656,819	$ 10,425,153	$(4,966,918)	$10,329,939
Liabilities					
Reserve for losses and loss expenses	$—	$—	$ 3,234,394	$—	$3,234,394
Unearned premiums	—	—	990,564	—	990,564
Reinsurance balances payable	—	—	127,128	—	127,128
Securities lending payable	—	—	936	—	936
Deferred tax liability	—	—	5,541	—	5,541
Payable for investments purchased	—	—	68,574	—	68,574
Accounts payable and accrued expenses	29,621	96	288,528	—	318,245
Intercompany payable	—	20	41,078	(41,098)	—
Notes payable to operating affiliates	—	—	671,465	—	671,465
Senior notes payable	247,306	—	—	—	247,306
Debentures payable	350,000	—	249,477	(60,200)	539,277
Total liabilities	$626,927	$116	$ 5,677,685	$(101,298)	$6,203,430
Redeemable noncontrolling interest	—	—	79,956	—	79,956

Total shareholders' equity available to Validus	3,587,958	656,703	4,208,917	(4,865,620)	3,587,958
Noncontrolling interest	—	—	458,595	—	458,595
Total liabilities, noncontrolling interests and shareholders' equity	$4,214,885	$656,819	$ 10,425,153	$(4,966,918)	$10,329,939

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

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

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

Condensed Consolidating Statement of Comprehensive Income For the Three Months Ended March 31, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	$—	$—	$ 577,754	$—	$ 577,754
Net investment income	57	—	31,969	(1,005)	31,021
Net realized gains on investments	—	—	4,169	—	4,169
Change in net unrealized (losses) gains on investments	(73)	—	73,162	(885)	72,204
Income from investment affiliate	—	—	2,776	—	2,776
Other insurance related income and other income	—	—	19,623	(14,791)	4,832
Foreign exchange gains (losses)	510	—	(4,061)	—	(3,551)
Total revenues	$ 494	$—	$ 705,392	$ (16,681)	$ 689,205
Expenses					
Losses and loss expenses	—	—	240,929	—	240,929
Policy acquisition costs	—	—	98,636	—	98,636
General and administrative expenses	17,543	2	82,276	(14,793)	85,028
Share compensation expenses	1,654	—	7,400	—	9,054
Finance expenses	11,858	—	8,475	(481)	19,852
Total expenses	$ 31,055	$ 2	$ 437,716	$ (15,274)	$ 453,499
(Loss) income before taxes, income from operating affiliates, (income) attributable to operating affiliate investors and equity in net earnings of subsidiaries	(30,561)	(2)	267,676	(1,407)	235,706
Tax expense	—	—	(2,565)	—	(2,565)
Income from operating affiliates	—	—	2,453	—	2,453
(Income) attributable to operating affiliate investors	—	—	(23,206)	—	(23,206)
Equity in net earnings of subsidiaries	203,972	20,195	—	(224,167)	—
Net income (loss)	$ 173,411	$ 20,193	$ 244,358	$ (225,574)	$ 212,388
Net (income) attributable to noncontrolling interest	—	—	(38,977)	—	(38,977)
Net income available to Validus	$ 173,411	$ 20,193	$ 205,381	$ (225,574)	$ 173,411
Other comprehensive (loss)	(4,085)	—	(3,284)	3,284	(4,085)
Comprehensive income available to Validus	$ 169,326	$ 20,193	$ 202,097	$ (222,290)	$ 169,326

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

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

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

Condensed Consolidating Statement of Comprehensive Income For the Three Months Ended March 31, 2014	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Revenues					
Net premiums earned	$—	$—	$ 482,957	$—	$ 482,957
Net investment income	3	—	24,331	(972)	23,362
Net realized gains on investments	—	—	3,740	—	3,740
Change in net unrealized gains on investments	—	—	51,465	4,228	55,693
Income from investment affiliate	—	—	5,348	—	5,348
Other insurance related income and other income	—	—	31,792	(17,962)	13,830
Foreign exchange losses	(168)	—	(6,310)	—	(6,478)
Total revenues	$ (165)	$—	$ 593,323	$ (14,706)	$ 578,452
Expenses					
Losses and loss expenses	—	—	162,671	—	162,671
Policy acquisition costs	—	—	85,649	—	85,649
General and administrative expenses	20,563	21	71,823	(17,962)	74,445
Share compensation expenses	1,308	—	5,839	—	7,147
Finance expenses	11,823	—	4,557	(480)	15,900
Total expenses	$ 33,694	$ 21	$ 330,539	$ (18,442)	$ 345,812
(Loss) income before taxes, income from operating affiliates, (income) attributable to operating affiliate investors and equity in net earnings of subsidiaries	(33,859)	(21)	262,784	3,736	232,640
Tax benefit	—	—	40	—	40
Income from operating affiliates	—	—	4,927	—	4,927
(Income) attributable to operating affiliate investors	—	—	(31,710)	—	(31,710)
Equity in net earnings (losses) of subsidiaries	196,247	(748)	—	(195,499)	—
Net income (loss)	$ 162,388	$ (769)	$ 236,041	$ (191,763)	$ 205,897
Net (income) attributable to noncontrolling interest	—	—	(43,509)	—	(43,509)
Net income (loss) available (attributable) to Validus	$ 162,388	$ (769)	$ 192,532	$ (191,763)	$ 162,388
Other comprehensive income	462	—	462	(462)	462
Comprehensive income (loss) available (attributable) to Validus	$ 162,850	$ (769)	$ 192,994	$ (192,225)	$ 162,850

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

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

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

Condensed Consolidating Statement of Cash Flows For the Three Months Ended March 31, 2015	Validus Holdings, Ltd. (Parent Guarantor)	Validus Holdings (UK) plc (Subsidiary Issuer)	Other Validus Holdings, Ltd. Subsidiaries (Non-guarantor Subsidiaries) (a)	Consolidating Adjustments (b)	Validus Holdings, Ltd. Consolidated
Net cash provided by (used in) operating activities	$5,572	$(61)	$ (234,052)	$—	$(228,541)
Cash flows provided by (used in) investing activities					
Proceeds on sales of investments	—	—	1,190,559	—	1,190,559
Proceeds on maturities of investments	—	—	93,732	—	93,732
Purchases of fixed maturities	(28,902)	—	(1,134,805)	—	(1,163,707)
Purchases of short-term investments, net	—	—	(133,104)	—	(133,104)
Purchases of other investments	—	—	(29,291)	—	(29,291)
Increase in securities lending collateral	—	—	(4,867)	—	(4,867)
Investment in operating affiliates	—	—	(1,070)	—	(1,070)
Redemption from operating affiliates	—	—	24,150	—	24,150
Investment in investment affiliates	—	—	(19,700)	—	(19,700)
Increase in restricted cash	—	—	(13,420)	—	(13,420)
Return of capital from subsidiaries	100,000	—	—	(100,000)	—
Net cash provided by (used in) investing activities	71,098				