

VALIDUS HOLDINGS LTD  
Form 10-Q  
May 08, 2015

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

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Form 10-Q

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

For the quarterly period ended March 31, 2015

Commission file number 001-33606

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

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BERMUDA (State or other jurisdiction of incorporation or organization)	98-0501001 (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  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Validus Holdings, Ltd.

Consolidated Balance Sheets

As at March 31, 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
<b>Assets</b>		
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
<b>Liabilities</b>		
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

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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,	March 31,
	2015	2014
	(unaudited)	(unaudited)
<b>Revenues</b>		
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
<b>Expenses</b>		
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
<b>Other comprehensive (loss) income</b>		
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	)	