VALIDUS HOLDINGS LTD Form 10-Q May 02, 2018

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, 2018

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 (I.R.S. Employer incorporation or organization) 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Smaller reporting company o
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 April 30, 2018, there were 79,329,028 outstanding Common Shares, \$0.175 par value per share, of the registrant.

Table of Contents

INDEX

	Page
PART I. FINANCIAL INFORMATION	
<u>Item 1. Financial Statements</u>	<u>2</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>49</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>80</u>
<u>Item 4. Controls and Procedures</u>	<u>80</u>
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	<u>80</u>
Item 1A. Risk Factors	<u>80</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>81</u>
Item 3. Defaults Upon Senior Securities	<u>81</u>
<u>Item 4. Mine Safety Disclosure</u>	<u>81</u>
<u>Item 5. Other Information</u>	<u>81</u>
<u>Item 6. Exhibits</u>	<u>82</u>
<u>SIGNATURES</u>	<u>83</u>
2	

Table of Contents

PART I. FINANCIAL INFORMATION

Note 13 - Debt and financing arrangements

Note 15 - Commitments and contingencies

Note 16 - Related party transactions
Note 17 - Earnings per common share

Note 18 - Segment information

Note 14 - Accumulated other comprehensive loss

ITEM 1. FINANCIAL STATEMENTS	
Table of Contents	Page
Consolidated Balance Sheets as at March 31, 2018 (unaudited) and December 31, 2017	<u>3</u>
Consolidated Statements of (Loss) Income and Comprehensive Income for the Three Months Ended March 31,	1
2018 and 2017 (unaudited)	<u>4</u>
Consolidated Statements of Shareholders' Equity for the Three Months Ended March 31, 2018 and 2017	5
(unaudited)	<u>5</u>
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 and 2017 (unaudited)	<u>6</u>
Notes to the Consolidated Financial Statements (Unaudited)	6 7 7 7 9
Note 1 - Basis of preparation and consolidation	<u>7</u>
Note 2 - Recent accounting pronouncements	<u>7</u>
Note 3 - Business combinations	<u>9</u>
Note 4 - Investments	<u>10</u>
Note 5 - Fair value measurements	<u>16</u>
Note 6 - Variable interest entities	<u>23</u>
Note 7 - Noncontrolling interests	<u>25</u>
Note 8 - Derivative instruments	<u> 26</u>
Note 9 - Reserve for losses and loss expenses	<u>28</u>
Note 10 - Reinsurance	<u> 29</u>
Note 11 - Share capital	31
Note 12 - Stock plans	38

2

35 38

<u>38</u>

<u>39</u>

<u>40</u>

<u>41</u>

Table of Contents

Total liabilities

Shareholders' equity

Commitments and contingent liabilities Redeemable noncontrolling interests

2018—79,329,028; 2017—79,319,550)

Preferred shares (Issued and Outstanding: 2018—16,000; 2017—16,000)

Common shares (Issued: 2018—162,003,969; 2017—161,994,491; Outstanding:

Validus Holdings, Ltd. Consolidated Balance Sheets As at March 31, 2018 (unaudited) and December 31, 2017 (Expressed in thousands of U.S. dollars, except share and per share information) December 31, March 31, 2018 2017 (unaudited) Assets Fixed maturity investments trading, at fair value (amortized cost: 2018—\$5,874,140; \$5,803,022 \$5,858,348 2017—\$5,876,261) Short-term investments trading, at fair value (amortized cost: 2018—\$3,638,995; 3,638,940 3,381,757 2017—\$3,381,714) Other investments, at fair value (cost: 2018—\$331,950; 2017—\$330,416) 357,246 355,218 Investments in investment affiliates, equity method (cost: 2018—\$75,302; 2017—\$61,944)13,471 100,137 Cash and cash equivalents 754,990 672,173 Restricted cash 302,277 394,663 Total investments and cash 10,887,129 10,845,113 Premiums receivable 1,865,460 939,487 Deferred acquisition costs 309,825 213,816 Prepaid reinsurance premiums 390,900 132,938 Securities lending collateral 4,210 2,717 Loss reserves recoverable 979,944 1,233,997 Paid losses recoverable 59,892 46,873 Income taxes recoverable 7,705 9,044 Deferred tax asset 56,739 52,467 Receivable for investments sold 31,512 12,182 Intangible assets 169,168 171,411 Goodwill 229,573 229,573 Accrued investment income 29,621 29,096 Other assets 578,964 508,165 Total assets \$15,600,642 \$14,426,879 Liabilities Reserve for losses and loss expenses \$4,632,629 \$4,831,390 Unearned premiums 2,242,368 1,147,186 Reinsurance balances payable 398,861 331,645 Securities lending payable 4.210 2,717 Deferred tax liability 3,633 4,600 Payable for investments purchased 85,946 74,496 Accounts payable and accrued expenses 520,916 1,225,875 Notes payable to AlphaCat investors 1,108,364 1,268,194 Senior notes payable 245,614 245,564 Debentures payable 539,572 539,158

9,510,995

1,004,094

400,000

28,349

9,941,943

1,423,110

400,000

28,351

Treasury shares (2018—82,674,941; 2017—82,674,941)	(14,468) (14,468)
Additional paid-in capital	824,356	814,641	
Accumulated other comprehensive income (loss)	9,405	(22,192)
Retained earnings	2,653,588	2,688,742	
Total shareholders' equity available to Validus	3,901,232	3,895,072	
Noncontrolling interests	334,357	16,718	
Total shareholders' equity	4,235,589	3,911,790	
Total liabilities, noncontrolling interests and shareholders' equity	\$15,600,642	\$14,426,87	9

The accompanying notes are an integral part of these unaudited consolidated financial statements.

3

Table of Contents

Validus Holdings, Ltd.

Consolidated Statements of (Loss) Income and Comprehensive Income

For the Three Months Ended March 31, 2018 and 2017 (unaudited)

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

Three Months Ended

March 31,

2018 2017

(unaudited)

Revenues

Gross premiums written \$1,832,456 \$1,190,857

Reinsurance premiums ceded (376,294