

CORCEPT THERAPEUTICS INC  
Form 10-Q  
May 10, 2007  
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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### FORM 10-Q

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

For the quarterly period ended March 31, 2007

or

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

For the transition period from to

Commission File Number: 000-50679

## CORCEPT THERAPEUTICS INCORPORATED

(Exact Name of Corporation as Specified in Its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**77-0487658**  
(I.R.S. Employer Identification No.)

**149 Commonwealth Drive**  
**Menlo Park, CA 94025**

(Address of principal executive offices, including zip code)

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(650) 327-3270

(Registrant's telephone number, including area code)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one.)

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

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

On May 7, 2007 there were 34,741,766 shares of common stock outstanding at a par value \$.001 per share.

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**Table of Contents****CORCEPT THERAPEUTICS INCORPORATED****(A DEVELOPMENT STAGE COMPANY)****CONDENSED BALANCE SHEETS**

(In thousands)

	<b>March 31, 2007 (Unaudited)</b>	<b>December 31, 2006 (See Note 1)</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,744	\$ 8,906
Short-term investments		550
Prepaid expenses and other current assets	368	343
Total current assets	15,112	9,799
Property and equipment, net of accumulated depreciation	35	38
Other assets	61	65
Total assets	\$ 15,208	\$ 9,902
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 809	\$ 916
Accrued clinical expenses	919	2,224
Accrued compensation	133	138
Obligations under capital lease, short-term	13	13
Other accrued liabilities	321	222
Total current liabilities	2,195	3,513
Obligations under capital lease, long-term	26	29
Total liabilities	2,221	3,542
Commitments		
Stockholders' equity:		
Preferred stock		
Common stock	35	26
Additional paid-in capital	114,209	105,125
Notes receivable from stockholders	(111)	(125)
Deferred compensation	(173)	(228)
Deficit accumulated during the development stage	(100,973)	(98,438)
Total stockholders' equity	12,987	6,360
Total liabilities and stockholders' equity	\$ 15,208	\$ 9,902

See accompanying notes.



Table of Contents**CORCEPT THERAPEUTICS INCORPORATED****(A DEVELOPMENT STAGE COMPANY)****CONDENSED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except per share data)

	<b>Three Months Ended March 31,</b>		<b>Period from inception (May 13, 1998) to March 31, 2007</b>
	<b>2007</b>	<b>2006</b>	
Collaboration revenue	\$ 108	\$ 121	\$ 401
Operating expenses:			
Research and development*	1,601	5,784	79,398
General and administrative*	1,135	1,316	25,408
<b>Total operating expenses</b>	<b>2,736</b>	<b>7,100</b>	<b>104,806</b>
Loss from operations	(2,628)	(6,979)	(104,405)
Interest and other income, net	96	252	3,691
Other expense	(3)	(3)	(259)
<b>Net loss</b>	<b>\$ (2,535)</b>	<b>\$ (6,730)</b>	<b>\$ (100,973)</b>
Basic and diluted net loss per share	\$ (0.10)	\$ (0.30)	
Shares used in computing basic and diluted net loss per share	25,932	22,658	
* Includes non-cash stock-based compensation consisting of the following:			
Research and development	\$ 29	\$ 193	\$ 4,560
General and administrative	221	280	6,025
<b>Total non-cash stock-based compensation</b>	<b>\$ 250</b>	<b>\$ 473</b>	<b>\$ 10,585</b>

See accompanying notes.



**Table of Contents****CORCEPT THERAPEUTICS INCORPORATED****(A DEVELOPMENT STAGE COMPANY)****CONDENSED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	<b>Three Months Ended March 31,</b>		<b>Period from inception (May 13, 1998) to March 31, 2007</b>
	<b>2007</b>	<b>2006</b>	
<b>Operating activities</b>			
Net loss	\$ (2,535)	\$ (6,730)	\$ (100,973)
Adjustments to reconcile net loss to net cash used in operations:			
Depreciation and amortization of property and equipment	3	3	78
Expense related to stock options, net of reversals	250	452	10,230
Expense related to stock issued for services or in conjunction with license agreement		4	75
Expense related to stock issued below fair value		17	522
Interest accrued on convertible promissory note			104
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(25)	(1,125)	(368)
Other assets	4	(3)	(61)
Accounts payable	(107)	682	809
Accrued clinical	(1,305)	1,063	919
Other liabilities	94	(75)	454
<b>Net cash used in operating activities</b>	<b>(3,621)</b>	<b>(5,712)</b>	<b>(88,211)</b>
<b>Investing activities</b>			
Purchases of property and equipment			(54)
Purchases of short-term and long-term investments		(1,299)	(108,346)
Maturities of short-term and long-term investments	550	5,326	108,346
<b>Net cash provided by (used in) investing activities</b>	<b>550</b>	<b>4,027</b>	<b>(54)</b>
<b>Financing activities</b>			
Proceeds from issuance of common stock, net of cash paid for issuance costs	8,898	4	60,935
Proceeds from issuance of convertible preferred stock, net of cash paid for issuance costs			40,378
Proceeds from issuance of convertible notes			1,543
Proceeds from repayment of stockholder notes	14		173



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Principal payments of obligations under capital leases	(3)	(3)	(20)
Net cash provided by financing activities	8,909	1	103,009
Net increase (decrease) in cash and cash equivalents	5,838	(1,684)	14,744
Cash and cash equivalents, at beginning of period	8,906	3,816	
Cash and cash equivalents, at end of period	\$ 14,744	\$ 2,132	\$ 14,744

See accompanying notes.

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**CORCEPT THERAPEUTICS INCORPORATED**

**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

**Description of Business and Basis of Presentation**

Corcept Therapeutics Incorporated (the Company or Corcept ) was incorporated in the state of Delaware on May 13, 1998, and its facilities are located in Menlo Park, California. Corcept is a pharmaceutical company engaged in the development of drugs for the treatment of severe psychiatric and metabolic diseases.

The Company's primary activities since incorporation have been establishing its offices, recruiting personnel, conducting research and development, performing business and financial planning, raising capital, and overseeing clinical trials. Accordingly, the Company is considered to be in the development stage.

The accompanying unaudited balance sheet as of March 31, 2007 and statements of operations for the three-month periods ended March 31, 2007 and 2006 have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007 or any other period. These financial statements and notes should be read in conjunction with the financial statements for the year ended December 31, 2006 included in the Company's Annual Report on Form 10-K. The accompanying balance sheet as of December 31, 2006 has been derived from audited financial statements at that date.

**Management Plans**

In the course of its development activities, the Company has sustained operating losses and expects such losses to continue for at least the next several years. The Company plans to continue to finance its operations through the sale of its equity and debt securities. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company's ability to continue as a going concern is dependent upon successful execution of its financing strategy. In March 2007 the Company reported that Study 06, the last of three Phase 3 trials evaluating CORLUX® for treating the psychotic features of Psychotic Major Depression ( PMD ), like the previous two Phase 3 trials, did not achieve statistical significance with respect to its primary endpoint.

As reflected in the accompanying financial statements as of March 31, 2007, the Company had cash, cash equivalents and investments of \$14.7 million, working capital of \$12.9 million and an accumulated deficit of \$101.0 million. The Company has sufficient funds to maintain its current operations through the completion and reporting of results of the proof-of-concept weight-gain mitigation study, expected during the third quarter of 2007, to prepare for the next Phase 3 trial and to continue development of its new chemical entities.

The Company will need to raise additional funds in order to sustain its operations at anticipated levels beyond early 2008. Although the Company's management recognizes the need to raise funds in the future, there can be no assurance that the Company will be successful in consummating any such transaction, or, if the Company does consummate such a transaction, that the terms and conditions of such financing will not be unfavorable to it. Any failure by the Company to obtain additional funding will have a material adverse effect upon it and will likely result in the Company's inability to continue as a going concern. If the Company is not able to raise additional funds, it will not be able to continue operations beyond the end of the first quarter of 2008.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ

materially from those estimates.

Cost accruals for clinical trials are based upon estimates of work completed under service agreements, milestones achieved, patient enrollment and past experience with similar contracts. The Company's estimates of work completed and associated cost accruals include its assessments of information received from third-party contract research organizations and the overall status of clinical trial activities.

Any changes in estimates are recorded in the period of the change.

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**CORCEPT THERAPEUTICS INCORPORATED**

**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**Revenue Recognition**

Collaboration revenue relates to services rendered in connection with an agreement signed in October 2005 with Eli Lilly and Company ( Lilly ) in which Lilly has agreed to support the Company's proof-of-concept clinical study evaluating the ability of CORLUX, a GR-II antagonist, to mitigate weight gain associated with the use of olanzapine. Under the agreement, Lilly will supply olanzapine and pay for the study. The Company is required to perform development activities as specified in this agreement and is reimbursed based on the costs associated with the conduct of the trial and the preparation and packaging of clinical trial materials. Revenue is recognized as services are rendered in accordance with the agreement. The cost of providing these research services approximates the revenue recognized. If the costs of the study exceed budgeted amounts, Lilly may not pay for the excess. As of March 31, 2007, the costs have not exceeded the budgeted amounts and the Company does not expect that they will.

**Research and Development**

Research and development expenses consist of costs incurred for Company-sponsored research and development activities. These costs include direct expenses (including nonrefundable payments to third parties) and research-related overhead expenses, as well as the cost of funding clinical trials, pre-clinical studies, manufacturing development and the contract development of second-generation compounds, and are expensed as incurred. Costs to acquire technologies and materials that are utilized in research and development and that have no alternative future use are expensed when incurred.

**Income Taxes**

The Company accounts for income taxes under Statement of Financial Accounting Standards ( SFAS ) No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse. A valuation allowance is recorded when it is more likely than not that the deferred tax asset will not be recovered.

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of SFAS No. 109, *Accounting for Income Taxes* (SFAS 109). As a result of the implementation of FIN 48, the Company did not recognize any adjustment to the liability for uncertain tax positions or to its deferred tax assets for unrecognized tax benefits, all of which are currently offset by a full valuation allowance. Therefore, there was no adjustment to the beginning balance of retained earnings on the balance sheet.

No amounts have been recognized as interest or penalties on income tax related matters.

All tax years from inception remain open to examination by the Internal Revenue Service and the California Franchise Tax Board until such time as the net operating losses and research credits are either fully utilized or expire.

**Recently Issued Accounting Standards**

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, or SAB 108. SAB 108 addresses quantifying the financial statement effects of misstatements: specifically, how the effects of prior year uncorrected misstatements must be considered in quantifying misstatements in the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. We have adopted SAB 108 as of January 1, 2007, as required. There was no material effect on our financial statements from the implementation of SAB 108.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financing Liabilities - including an amendment of SFAS Statement No. 115*, or SFAS 159. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and

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liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 159 on its financial statements.

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**CORCEPT THERAPEUTICS INCORPORATED**

**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**2. Capital Stock**

On March 30, 2007, the Company sold 9.0 million shares of common stock at a price of \$1.00 per share in a private placement. The net proceeds were approximately \$8.9 million after deducting issuance costs.

**3. Stock Option Plans**

*Stock Option Plans*

Under the 2004 Equity Incentive Plan (the "2004 Plan") options, stock purchase and stock appreciation rights and restricted stock awards can be issued to employees, officers, directors and consultants of the Company. The 2004 Plan provides that the exercise price for incentive stock options will be no less than 100% of the fair value of the Company's common stock, as of the date of grant. Generally, options granted under the 2004 Plan have a ten year contractual life and vest over either a four or five year period with 20 or 25% of the underlying shares of common stock vesting on the first anniversary of the date of grant and the remainder vesting in subsequent equal monthly installments through the remaining vesting period of the grant. The vesting period is approximately equivalent to the requisite service period. Upon exercise, new shares are issued. Prior to our initial public offering in 2004, options were granted to employees, directors and non-employees under the 2000 Stock Option Plan (the "2000 Plan"). Although options are no longer granted under the 2000 Plan, there are still options outstanding under that plan.

On March 1, 2007, the board of directors approved an increase in the shares available for grant under the 2004 Equity Incentive Plan by 514,635 shares, which represents 2% of the common shares outstanding at December 31, 2006.

There were no stock options exercised during the quarter ended March 31, 2007.

*Stock-based compensation for employee options*

The Company adopted Statement of Financial Accounting Standard 123 (Revised 2004), *Share-Based Payment* (SFAS 123R) as of January 1, 2006 under the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123R for all share-based payments granted or modified after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123R that remain unvested on the effective date. Prior to the adoption of SFAS 123R, the Company accounted for stock-based compensation for options granted to employees and directors using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and had adopted the disclosure-only alternative of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS 148). Because the Company had used the minimum value method for SFAS 123 pro forma disclosure requirements for options granted prior to the initial public offering of its common stock (IPO) in 2004, it continues to account for the portion of these pre-IPO grants that were non-vested as of January 1, 2006 under the provisions of APB 25 and related Interpretations, with pro forma disclosures under SFAS 123.

*Pro-forma net loss information required under SFAS123 for options accounted for under the intrinsic value method*

The following table presents the pro forma net loss information required under SFAS 123, as amended by SFAS 148. In the pro forma calculation, amortization related to options to employees aiv>

)

(200,106

)

Net premiums written

1,456,162

990,751

Change in unearned premiums

(837,220

)

(415,375

)

Net premiums earned

618,942

575,376

Net investment income

52,072

40,214

Net realized gains (losses) on investments

2,200

(1,164

)

Change in net unrealized (losses) gains on investments

(57,381

)

13,348

Income from investment affiliates

13,068

5,188

Other insurance related income and other income

25,540

1,330

Foreign exchange gains

525

1,569

Total revenues

654,966

635,861

Expenses

Losses and loss expenses  
321,545

269,585

Policy acquisition costs  
116,456

111,628

General and administrative expenses  
114,726

87,924

Share compensation expenses  
9,729

9,491

Finance expenses  
14,263

13,943

Transaction expenses  
7,756

—

Total expenses  
584,475

492,571

Income before taxes and (income) attributable to AlphaCat investors  
70,491

143,290

Tax benefit  
6,833

3,549

(Income) attributable to AlphaCat investors  
(10,862  
)

(7,503  
)

Net income



66,462

139,336

Net (income) attributable to noncontrolling interests

(64,712

)

(42,572

)

Net income available to Validus

1,750

96,764

Dividends on preferred shares

(5,828

)

(2,203

)

Net (loss) income (attributable) available to Validus common shareholders

\$

(4,078

)

\$

94,561

Comprehensive income:

Net income

\$

66,462

\$

139,336

Other comprehensive income (loss), net of tax:

Change in foreign currency translation adjustments

1,837

597

Change in minimum pension liability

(38

)

68

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Change in fair value of cash flow hedges  
28,763

98

Other comprehensive income, net of tax  
30,562

763

Comprehensive (income) attributable to noncontrolling interests  
(64,712  
)

(42,572  
)

Comprehensive income available to Validus  
\$  
32,312

\$  
97,527

(Loss) earnings per common share

Basic (loss) earnings per share (attributable) available to Validus common shareholders  
\$

(0.05  
)

\$  
1.19

(Loss) earnings per diluted share (attributable) available to Validus common shareholders

\$  
(0.05  
)

\$  
1.17

Cash dividends declared per common share

\$  
0.38

\$  
0.38

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Weighted average number of common shares and common share equivalents outstanding:

Basic  
79,325,688

79,133,671

Diluted  
79,325,688

80,739,142

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

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Validus Holdings, Ltd.

Consolidated Statements of Shareholders' Equity

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

(Expressed in thousands of U.S. dollars)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
Preferred shares		
Balance, beginning and end of period	\$400,000	\$150,000
Common shares		
Balance, beginning of period	\$28,349	\$28,224
Common shares issued, net	2	1
Balance, end of period	\$28,351	\$28,225
Treasury shares		
Balance, beginning and end of period	\$(14,468 )	\$(14,376 )
Additional paid-in capital		
Balance, beginning of period	\$814,641	\$821,023
Common shares (redeemed) issued, net	(14 )	(168 )
Share compensation expenses	9,729	9,491
Balance, end of period	\$824,356	\$830,346
Accumulated other comprehensive income (loss)		
Balance, beginning of period	\$(22,192 )	\$(23,216 )
Other comprehensive income	30,562	763
Amounts reclassified from accumulated other comprehensive income (loss)	1,035	—
Balance, end of period	\$9,405	\$(22,453 )
Retained earnings		
Balance, beginning of period	\$2,688,742	\$2,876,636
Net income	66,462	139,336
Net (income) attributable to noncontrolling interests	(64,712 )	(42,572 )
Dividends on common shares	(31,076 )	(31,063 )
Dividends on preferred shares	(5,828 )	(2,203 )
Balance, end of period	\$2,653,588	\$2,940,134
Total shareholders' equity available to Validus	\$3,901,232	\$3,911,876
Noncontrolling interests	334,357	330,597
Total shareholders' equity	\$4,235,589	\$4,242,473

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

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Validus Holdings, Ltd.

Consolidated Statements of Cash Flows

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

(Expressed in thousands of U.S. dollars)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	
Cash flows provided by (used in) operating activities		
Net income	\$66,462	\$139,336
Adjustments to reconcile net income to cash provided by operating activities:		
Share compensation expenses	9,729	9,491
Amortization of discount on Senior Notes	27	27
(Income) from investment and operating affiliates	(13,068 )	(5,188 )
Net realized and change in net unrealized losses (gains) on investments	55,181	(12,184 )
Amortization of intangible assets	2,243	1,416
Foreign exchange (gains) included in net income	(9,885 )	(4,938 )
Amortization of premium on fixed maturity investments	3,899	3,536
Change in operational balance sheet items:		
Premiums receivable	(924,817 )	(488,653 )
Deferred acquisition costs	(96,009 )	(82,953 )
Prepaid reinsurance premiums	(257,962 )	(121,050 )
Loss reserves recoverable	255,701	(20,743 )
Paid losses recoverable	(13,069 )	(2,619 )
Reserve for losses and loss expenses	(207,632 )	53,436
Unearned premiums	1,095,182	536,425
Reinsurance balances payable	66,720	63,070
Other operational balance sheet items, net	13,240	(50,610 )
Net cash provided by operating activities	45,942	17,799
Cash flows provided by (used in) investing activities		
Proceeds on sales of fixed maturity investments	785,662	743,631
Proceeds on maturities of fixed maturity investments	166,651	123,269
Purchases of fixed maturity investments	(963,990 )	(676,349 )
Purchases (sales) of short-term investments, net	(257,214 )	11,030
Purchases of other investments, net	(1,137 )	(34,295 )
Increase in securities lending collateral	(1,493 )	(607 )
(Investments in) distributions from investment affiliates, net	(266 )	10,922
Net cash (used in) provided by investing activities	(271,787 )	177,601
Cash flows provided by (used in) financing activities		
Net proceeds on issuance of notes payable to AlphaCat investors	155,966	73,048
Redemption of common shares, net	(12 )	(167 )
Dividends paid on preferred shares	(5,828 )	(2,203 )
Dividends paid on common shares	(31,032 )	(30,092 )
Increase in securities lending payable	1,493	607
Third party investments in redeemable noncontrolling interests	385,300	103,699
Third party redemptions of redeemable noncontrolling interests	(173,986 )	(68,296 )
Third party investments in noncontrolling interests	281,300	154,980

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Third party distributions of noncontrolling interests	—	(62,770 )
Third party subscriptions deployed on funds and sidecars, net	(578,666 )	(144,452 )
Net cash provided by financing activities	34,535	24,354
Effect of foreign currency rate changes on cash and cash equivalents and restricted cash	16,107	5,798
Net (decrease) increase in cash and cash equivalents and restricted cash	(175,203 )	225,552
Cash and cash equivalents and restricted cash—beginning of period	1,149,653	490,932
Cash and cash equivalents and restricted cash—end of period	\$974,450	\$716,484

Supplemental disclosure of cash flow information:

Taxes paid during the year	\$460	\$16
Interest paid during the year	\$19,068	\$19,073

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

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Validus Holdings, Ltd.

Notes to the Consolidated Financial Statements (unaudited)

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

1. Basis of preparation and consolidation

These unaudited Consolidated Financial Statements (the “Consolidated Financial Statements”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report on Form 10-Q should be read in conjunction with the financial statements and related notes included in Validus Holdings, Ltd.’s (the “Company”) Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the U.S. Securities and Exchange Commission (the “SEC”).

During the fourth quarter of 2017, the Company changed its reportable segments to “Reinsurance,” “Insurance,” and “Asset Management.” The change in reportable segments and primary lines of business had no impact on the Company’s historical consolidated financial positions, results of operations or cash flows as previously reported. Where applicable, all prior periods presented have been reclassified to conform to this new presentation.

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

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

The preparation of these Consolidated 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 the amounts included in the Consolidated Financial Statements reflect management’s best estimates and assumptions, actual results could differ from those estimates. The Company’s principal estimates include:

- the reserve for losses and loss expenses;
- the premium written on a line slip or proportional basis;
- the valuation of goodwill and intangible assets;
- the loss reserves recoverable, including the provision for uncollectible amounts; and
- the valuation of invested assets and other financial instruments.

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

2. Recent accounting pronouncements

Accounting Standards Adopted in 2018

In May 2014, the FASB issued Accounting Standards Updated (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606).” The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March and April 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic

606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” and ASU 2016-10, “Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing.” The amendments in these ASUs clarify the implementation guidance within ASU 2014-09 on principal versus agent considerations and

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Validus Holdings, Ltd.

Notes to the Consolidated Financial Statements (unaudited)

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

the aspects of identifying performance obligations, respectively, while retaining the related principals in those areas. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients." The amendments in this ASU do not change the core principal of the guidance in Topic 606. Rather, the amendments provide clarifying guidance in a few narrow areas and add practical expedients to reduce the potential for diversity in practice as well as the cost and complexity of applying the guidance. In December 2016, the FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606 - Revenue from Contracts with Customers." The amendments in this ASU affect narrow aspects of the guidance issued in ASU 2014-09. The amendments in these ASUs became effective for the Company on January 1, 2018.

This guidance impacts the timing of performance fee recognition by AlphaCat Managers Ltd. ("AlphaCat Managers"). Previously, the performance fees were recognized by AlphaCat Managers monthly, on a seasonal basis, in line with the underlying insurance contract portfolio of the AlphaCat sidecars and higher risk ILS funds it manages. However, upon adoption of this guidance, performance fees are now only recognized when it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur. While performance fees are variable and dependent on the results of these entities, the adoption of this guidance did not have a material impact on the results of the Company.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10) - Recognition and measurement of financial assets and financial liabilities." The amendments in this ASU address certain aspects of recognition, measurement and disclosure of financial instruments. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." This ASU is directed at reducing diversity in practice and addresses eight specific issues in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740) - Intra- Entity Transfers of Assets Other Than Inventory," This ASU aims to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Prior to the effective date of this ASU, U.S. GAAP prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The ASU requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This ASU does not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issues ASU 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business." The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issues ASU 2017-09, "Compensation - Stock Compensation (Topic 718)." This ASU is directed at reducing diversity in practice when applying the accounting guidance to a change in the terms or conditions of a share-based payment award. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.



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3. Business combinations

American International Group, Inc. (“AIG”)

On January 21, 2018, the Company entered into a definitive agreement and plan of merger (the “Merger Agreement”) with AIG. The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, the Company will merge with an existing AIG subsidiary in accordance with the Bermuda Companies Act (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of AIG (the “Surviving Company”). Pursuant to the Merger Agreement, at the effective time of the Merger, holders of the Company’s common shares will be entitled to receive consideration of \$68.00 in cash per common share. Each of the Company’s issued and outstanding Series A and Series B Preferred Shares will remain issued and outstanding as a “Series A Preferred Share” and “Series B Preferred Share,” respectively, of the Surviving Company.

The Merger is expected to close in mid-2018, subject to regulatory approvals and other customary closing conditions. The Merger Agreement permits the Company to pay out regular quarterly cash dividends not to exceed \$0.38 per common share, with its quarterly dividend for the second fiscal quarter for 2018 to be paid prior to the closing of the Merger even if such closing occurs prior to the regular record or payment date of such dividend.

Crop Risk Services (“CRS”)

On May 1, 2017, Western World, a wholly-owned subsidiary of the Company acquired all of the outstanding capital stock of CRS for an aggregate purchase price of \$185,576 in cash. CRS is a primary crop insurance managing general agent (“MGA”) based in Decatur, Illinois with 1,170 agents across 36 states. CRS does not have insurance licenses of its own, but acts solely as an MGA in that it can produce business for any properly licensed entity on a commission basis. Concurrent with closing of the transaction, Stratford, a wholly-owned subsidiary of Western World, was granted the required licenses to write crop insurance in the United States and executed several agreements to transfer the related agriculture book of business to Stratford.

The CRS acquisition was undertaken to expand the Company’s presence in U.S. primary specialty lines.

For segmental reporting purposes, the results of CRS’ operations, including the related agricultural book of business have been included within the Insurance segment in the Consolidated Financial Statements from the date of acquisition.

For further information regarding the acquisition of CRS please refer to Note 5, “Business combinations,” included within the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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## 4. Investments

Managed investments represent assets governed by the Company's investment policy statement ("IPS") whereas, non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company's IPS. Refer to Note 6, "Variable interest entities," for further details.

The amortized cost (or cost) and fair value of the Company's investments as at March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018		December 31, 2017	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
Managed investments				
U.S. government and government agency	\$598,080	\$589,161	\$733,510	\$727,397
Non-U.S. government and government agency	318,542	318,345	310,845	312,239
U.S. states, municipalities and political subdivisions	186,551	184,964	201,347	201,303
Agency residential mortgage-backed securities	992,087	968,258	984,387	978,049
Non-agency residential mortgage-backed securities	43,522	43,487	40,264	40,373
U.S. corporate	1,553,311	1,534,805	1,531,498	1,533,395
Non-U.S. corporate	417,264	415,156	420,522	422,249
Bank loans	475,154	468,815	450,320	442,951
Asset-backed securities	744,051	741,712	657,234	658,303
Commercial mortgage-backed securities	325,058	318,392	315,002	312,395
Total fixed maturities	5,653,620	5,583,095	5,644,929	5,628,654
Short-term investments	188,306	188,251	229,968	230,011
Other investments				
Hedge funds	6,954	15,758	6,954	15,774
Private equity investments	64,424	79,774	63,684	78,407
Fixed income investment funds	199,802	200,944	203,167	204,426
Overseas deposits	60,770	60,770	56,611	56,611
Total other investments	331,950	357,246	330,416	355,218
Investments in investment affiliates <sup>(a)</sup>	75,302	113,471	61,944	100,137
Total managed investments	\$6,249,178	\$6,242,063	\$6,267,257	\$6,314,020
Non-managed investments				
Catastrophe bonds	\$220,520	\$219,927	\$231,332	\$229,694
Short-term investments	3,450,689	3,450,689	3,151,746	3,151,746
Total non-managed investments	3,671,209	3,670,616	3,383,078	3,381,440
Total investments	\$9,920,387	\$9,912,679	\$9,650,335	\$9,695,460

<sup>(a)</sup> The Company's investments in investment affiliates have been treated as equity method investments with the corresponding gains and losses recorded in income as "Income from investment affiliates."

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## (a) Fixed maturity investments

The following table sets forth certain information regarding Standard & Poor's credit quality ratings (or an equivalent rating with another recognized rating agency) of the Company's fixed maturity investments as at March 31, 2018 and December 31, 2017:

	March 31, 2018		December 31, 2017	
	Fair Value	% of Total	Fair Value	% of Total
Managed fixed maturities				
AAA	\$2,648,321	45.7 %	\$2,715,074	46.4 %
AA	419,695	7.2 %	442,397	7.6 %
A	1,159,233	20.0 %	1,137,795	19.4 %
BBB	830,866	14.3 %	828,392	14.1 %
Total investment grade managed fixed maturities	5,058,115	87.2 %	5,123,658	87.5 %
BB	170,818	2.9 %	168,967	2.9 %
B	240,099	4.1 %	237,131	4.0 %
CCC	21,783	0.4 %	18,217	0.3 %
NR	92,280	1.6 %	80,681	1.4 %
Total non-investment grade managed fixed maturities	524,980	9.0 %	504,996	8.6 %
Total managed fixed maturities	\$5,583,095	96.2 %	\$5,628,654	96.1 %
Non-managed catastrophe bonds				
BB	21,607	0.4 %	22,110	0.3 %
B	2,379	— %	3,265	0.1 %
NR	195,941	3.4 %	204,319	3.5 %
Total non-investment grade non-managed catastrophe bonds	219,927	3.8 %	229,694	3.9 %
Total non-managed catastrophe bonds	219,927	3.8 %	229,694	3.9 %
Total fixed maturities	\$5,803,022	100.0 %	\$5,858,348	100.0 %

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Validus Holdings, Ltd.

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The amortized cost and fair values for the Company's fixed maturity investments held at March 31, 2018 and December 31, 2017 are shown below by contractual maturity. Actual maturity may differ from contractual maturity due to prepayment rights associated with certain investments.

	March 31, 2018		December 31, 2017	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
Managed fixed maturities				
Due in one year or less	\$346,118	\$344,749	\$343,360	\$343,541
Due after one year through five years	2,453,565	2,424,185	2,527,018	2,513,620
Due after five years through ten years	560,679	554,188	577,347	577,109
Due after ten years	188,540	188,124	200,317	205,264
	3,548,902	3,511,246	3,648,042	3,639,534
Asset-backed and mortgage-backed securities	2,104,718	2,071,849	1,996,887	1,989,120
Total managed fixed maturities	\$5,653,620	\$5,583,095	\$5,644,929	\$5,628,654
Non-managed catastrophe bonds				
Due in one year or less	\$67,370	\$67,926	\$88,797	\$88,367
Due after one year through five years	147,400	146,238	140,035	138,844
Due after five years through ten years	5,750	5,763	2,500	2,483
Total non-managed catastrophe bonds	220,520	219,927	231,332	229,694
Total fixed maturities	\$5,874,140	\$5,803,022	\$5,876,261	\$5,858,348

## (b) Other investments

The following tables set forth certain information regarding the Company's other investment portfolio as at March 31, 2018 and December 31, 2017:

	March 31, 2018				Redemption frequency	Redemption notice period (a)
	Fair Value	Investments with redemption restrictions	Investments without redemption (a)	Redemption frequency		
Hedge funds	\$15,758	\$15,758	\$ —	—		
Private equity investments	79,774	79,774	—	—		
Fixed income investment funds	200,944	200,944	—	—		
Overseas deposits	60,770	60,770	—	—		
Total other investments	\$357,246	\$357,246	\$ —	—		
	December 31, 2017				Redemption frequency	Redemption notice period (a)
	Fair Value	Investments with redemption restrictions	Investments without redemption (a)	Redemption frequency		
Hedge funds	15,774	15,774	—	—		
Private equity investments	78,407	78,407	—	—		
Fixed income investment funds	204,426	200,532	3,894	Daily		Daily to 2 days
Overseas deposits	56,611	56,611	—	—		
Total other investments	\$355,218	\$351,324	\$3,894	—		

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

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Validus Holdings, Ltd.

Notes to the Consolidated Financial Statements (unaudited)

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Other investments include investments in various funds and pooled investment schemes. These alternative investments employ various investment strategies primarily involving, but not limited to, investments in collateralized obligations, fixed income securities, private equities, distressed debt and equity securities. Certain debt-like investments totaling \$193,053 (December 31, 2017: \$186,734) are either rated or consist of underlying securities or instruments which carry credit ratings issued by nationally recognized statistical rating organizations. Other equity-like investments totaling \$164,193 (December 31, 2017: \$168,484) are unrated given the nature of their underlying assets, such as private equity investments, and as such do not carry credit ratings.

Certain securities included in other investments are subject to redemption restrictions. Distributions from these funds will be received as the underlying investments of the funds are liquidated. Currently, it is not known to the Company when these underlying assets will be sold by their investment managers; however, it is estimated that the majority of the underlying assets of the investments will liquidate over five to ten-year periods from inception of the funds. Furthermore, the underlying investments held in the overseas deposit funds are liquid and will generally trade freely in an open market. However, the Company's ability to withdraw from the overseas deposit funds is restricted by annual and quarterly funding and release processes for Lloyd's market participants.

The Company's maximum exposure to any of these alternative investments is limited to the invested amounts and any remaining capital commitments. Refer to Note 15, "Commitments and contingencies," for further details. As at March 31, 2018, the Company does not have any plans to sell any of the other investments listed above.

## (c) Investments in investment affiliates

Included in the Company's managed investment portfolio as at March 31, 2018 are investments in Aquiline Financial Services Fund II L.P. ("Aquiline II"), Aquiline Financial Services Fund III L.P. ("Aquiline III"), Aquiline Technology Growth Fund L.P. ("Aquiline Tech") and Aquiline Armour Co-Invest L.P. ("Aquiline Armour") (collectively the "Aquiline partnerships").

For further information regarding the Company's Aquiline partnerships refer to Note 7(c), "Investments in investment affiliates," included within the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The following table presents a reconciliation of the Company's beginning and ending investments in investment affiliates for three months ended March 31, 2018 and 2017:

	Three Months Ended	
	March 31,	
	2018	2017
Investment affiliates, beginning of year	\$ 100,137	\$ 100,431
Net capital contributions (distributions)	266	(10,922 )
Income from investment affiliates	13,068	5,188
Investment affiliates, end of year	\$ 113,471	\$ 94,697

As at March 31, 2018, the Company's total unfunded investment commitment to the Aquiline partnerships was \$107,386 (December 31, 2017: \$125,996).



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The following table presents the Company's investments in the Aquiline partnerships as at March 31, 2018 and December 31, 2017:

	March 31, 2018			
	Investment at cost	Voting ownership %	Equity ownership %	Carrying value
Aquiline II	\$33,008	—%	8.1 %	\$49,208
Aquiline III	24,737	—%	9.0 %	47,114
Aquiline Tech	3,858	—%	10.6 %	3,450
Aquiline Armour	13,699	—%	15.2 %	13,699
Total investments in investment affiliates	\$75,302			\$113,471

	December 31, 2017			
	Investment at cost	Voting ownership %	Equity ownership %	Carrying value
Aquiline II	\$33,349	—%	8.1 %	\$51,914
Aquiline III	24,737	—%	9.0 %	44,733
Aquiline Tech	3,858	—%	10.6 %	3,490
Total investments in investment affiliates	\$61,944			\$100,137

(d) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended March 31,	
	2018	2017
Managed investments		
Fixed maturities and short-term investments	\$37,769	\$31,671
Other investments	4,223	6,870
Cash and cash equivalents and restricted cash	1,139	610
Securities lending income	3	13
Total gross investment income	43,134	39,164
Investment expenses	(3,343 )	(2,972 )
Total managed net investment income	\$39,791	\$36,192
Non managed investments		
Fixed maturities and short-term investments	\$4,148	\$3,060
Cash and cash equivalents and restricted cash	8,133	962
Total non-managed net investment income	12,281	4,022
Total net investment income	\$52,072	\$40,214

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

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

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

	Three Months Ended March 31,	
	2018	2017
Managed investments		
Gross realized gains	\$6,830	\$2,690
Gross realized (losses)	(5,688 )	(5,582 )
Net realized gains (losses) on investments	1,142	(2,892 )
Change in net unrealized (losses) gains on investments	(56,777 )	14,349
Total net realized and change in net unrealized (losses) gains on managed investments	\$(55,635)	\$11,457
Non-managed investments		
Gross realized gains	\$1,235	\$1,728
Gross realized (losses)	(177 )	—
Net realized gains on investments	1,058	1,728
Change in net unrealized (losses) on investments	(604 )	(1,001 )
Total net realized and change in net unrealized gains on non-managed investments	454	727
Total net realized and change in net unrealized (losses) gains on total investments	\$(55,181)	\$12,184

(f) Pledged investments and cash

As at March 31, 2018, the Company had \$6,120,705 (December 31, 2017: \$5,853,744) of cash and cash equivalents, restricted cash, short-term investments and fixed maturity investments that were pledged during the normal course of business. Of those, \$6,092,111 were held in trust (December 31, 2017: \$5,789,081). Pledged assets are generally for the benefit of the Company's cedants and policyholders, to support AlphaCat's fully collateralized reinsurance transactions, as collateral for derivative instruments and to facilitate the accreditation of Validus Reinsurance, Ltd. ("Validus Re"), Validus Reinsurance (Switzerland) Ltd. ("Validus Re Swiss") and Lloyd's Syndicate 1183 (the "Talbot Syndicate") as alien (re)insurers by certain regulators.

In addition, the Company has pledged cash and investments as collateral under the Company's credit facilities in the amount of \$540,239 (December 31, 2017: \$576,864). For further details on the credit facilities, refer to Note 13 "Debt and financing arrangements."

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Validus Holdings, Ltd.

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5. 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 unobservable inputs that 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 the valuation technique (for example, from market to cash flow approach) or to use multiple valuation techniques to estimate the fair value of a financial instrument. These circumstances could cause an instrument to be reclassified between levels within the fair value hierarchy.

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At March 31, 2018, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient (a)	Total
Managed investments					
U.S. government and government agency	\$—	\$589,161	\$—	\$—	\$589,161
Non-U.S. government and government agency	—	318,345	—	—	318,345
U.S. states, municipalities and political subdivisions	—	184,964	—	—	184,964
Agency residential mortgage-backed securities	—	968,258	—	—	968,258
Non-agency residential mortgage-backed securities	—	43,487	—	—	43,487
U.S. corporate	—	1,534,805	—	—	1,534,805
Non-U.S. corporate	—	415,156	—	—	415,156
Bank loans	—	241,312	227,503	—	468,815
Asset-backed securities	—	639,896	101,816	—	741,712
Commercial mortgage-backed securities	—	318,392	—	—	318,392
Total fixed maturities	—	5,253,776	329,319	—	5,583,095
Short-term investments	175,526	12,725	—	—	188,251
Other investments					
Hedge funds	—	—	—	15,758	15,758
Private equity investments	—	—	—	79,774	79,774
Fixed income investment funds	—	9,458	17,933	173,553	200,944
Overseas deposits	—	—	—	60,770	60,770
Total other investments	—	9,458	17,933	329,855	357,246
Investments in investment affiliates (b)	—	—	—	—	113,471
Total managed investments	\$175,526	\$5,275,959	\$347,252	\$329,855	\$6,242,063
Non-managed investments					
Catastrophe bonds	\$—	\$154,230	\$65,697	\$—	\$219,927
Short-term investments	3,450,689	—	—	—	3,450,689
Total non-managed investments	3,450,689	154,230	65,697	—	3,670,616
Total investments	\$3,626,215	\$5,430,189	\$412,949	\$329,855	\$9,912,679

In accordance with ASC Topic 820 "Fair Value Measurements," investments measured at fair value using the net (a) asset value ("NAV") per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(b) In accordance with ASC Topic 825 "Financial Instruments," the Company's investments in investment affiliates have not been classified in the fair value hierarchy.

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At December 31, 2017, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Fair value based on NAV practical expedient (a)	Total
Managed investments					
U.S. government and government agency	\$—	\$727,397	\$—	\$—	\$727,397
Non-U.S. government and government agency	—	312,239	—	—	312,239
U.S. states, municipalities and political subdivisions	—	201,303	—	—	201,303
Agency residential mortgage-backed securities	—	978,049	—	—	978,049
Non-agency residential mortgage-backed securities	—	40,373	—	—	40,373
U.S. corporate	—	1,533,395	—	—	1,533,395
Non-U.S. corporate	—	422,249	—	—	422,249
Bank loans	—	232,886	210,065	—	442,951
Asset-backed securities	—	554,490	103,813	—	658,303
Commercial mortgage-backed securities	—	312,395	—	—	312,395
Total fixed maturities	—	5,314,776	313,878	—	5,628,654
Short-term investments	198,054	31,957	—	—	230,011
Other investments					
Hedge funds	—	—	—	15,774	15,774
Private equity investments	—	—	—	78,407	78,407
Fixed income investment funds	—	13,351	17,404	173,671	204,426
Overseas deposits	—	—	—	56,611	56,611
Total other investments	—	13,351	17,404	324,463	355,218
Investments in investment affiliates (b)	—	—	—	—	100,137
Total managed investments	\$198,054	\$5,360,084	\$331,282	\$324,463	\$6,314,020
Non-managed investments					
Catastrophe bonds	\$—	\$152,233	\$77,461	\$—	\$229,694
Short-term investments	3,151,746	—	—	—	3,151,746
Total non-managed investments	3,151,746	152,233	77,461	—	3,381,440
Total investments	\$3,349,800	\$5,512,317	\$408,743	\$324,463	\$9,695,460

In accordance with ASC Topic 820 "Fair Value Measurements," investments measured at fair value using the net (a) asset value ("NAV") per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(b) In accordance with ASC Topic 825 "Financial Instruments," the Company's investments in investment affiliates have not been classified in the fair value hierarchy.

At March 31, 2018, managed Level 3 investments totaled \$347,252 (December 31, 2017: \$331,282), representing 5.6% (December 31, 2017: 5.2%) of total managed investments.

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(b) Valuation techniques

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

Fixed maturity investments

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

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 valuations to be Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. government and government agency

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

Non-U.S. government and government agency

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

U.S. states, municipalities and political subdivisions

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

Agency residential mortgage-backed securities

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

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

U.S. corporate

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

Non-U.S. corporate

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

Bank loans

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

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

Asset-backed securities

Asset backed securities include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligations originated by a variety of financial institutions. Securities held in these sectors are primarily priced by



pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair values of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity

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and current transactions are not orderly. Broker-dealer quotes for which significant observable inputs are unable to be corroborated with market observable information are classified as Level 3.

Commercial mortgage-backed securities

Commercial mortgage backed securities are investment-grade debt primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds which may be adjusted for the underlying collateral or current price data, the U.S. treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

Catastrophe bonds

Catastrophe bonds are priced based on broker or underwriter bid indications. Level 2 catastrophe bonds are those traded over-the-counter; catastrophe bonds available only via private issuances are classified as Level 3.

Short-term investments

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

Other investments

Hedge funds

The hedge fund's administrator provides quarterly NAVs with a three month delay in valuation. The fair value of this investment is measured using the NAV practical expedient and therefore has not been categorized within the fair value hierarchy.

Private equity investments

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

Fixed income investment funds

The Company's investment funds classified as Level 2 consist of a pooled investment fund. The pooled investment is invested in fixed income securities with high credit ratings and is available only to Lloyd's Trust Fund participants. The fair value of units in the investment fund is based on the NAV of the fund, which is traded on a daily basis. Included in investment funds is a residual equity tranche of a structured credit fund valued using a dynamic yield that calculates an income accrual based on an underlying valuation model with a typical cash flow waterfall structure. Significant unobservable inputs used to price this fund include default rates and prepayment rates; therefore, the fair value of the investment fund is classified as Level 3.

The fair value of the Company's remaining investment funds is based on the NAV of the fund as reported by the independent fund administrator. The fund's administrators provide a monthly reported NAV with a one or three month delay in their valuation. The fair value of these investments is measured using the NAV practical expedient and therefore it has not been categorized within the fair value hierarchy.

None of these investments are probable of being sold at amounts different than their NAVs.

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## Overseas deposits

The Company's share of a portfolio of Lloyd's overseas deposits is 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 values of the deposits are based on the portfolio level reporting that is provided by Lloyd's. The fair values of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

## (c) Level 3 investments

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018				
	Bank Loans	Catastrophe Bonds	Fixed Income Investment Funds	Asset Backed Securities	Total
Level 3 investments, beginning of period	\$210,065	\$ 77,461	\$ 17,404	\$ 103,813	\$ 408,743
Purchases	30,785	18,825	529	—	50,139
Sales	—	—	—	(70 )	(70 )
Settlements	(13,842 )	(31,484 )	—	—	(45,326 )
Realized gains	—	1,235	—	—	1,235
Change in net unrealized gains (losses)	495	(340 )	—	(1,927 )	(1,772 )
Level 3 investments, end of period	\$227,503	\$ 65,697	\$ 17,933	\$ 101,816	\$ 412,949
	Three Months Ended March 31, 2017				
	Bank Loans	Catastrophe Bonds	Fixed Income Investment Funds	Asset Backed Securities	Total
Level 3 investments, beginning of period	\$246,496	\$ 48,375	\$ 12,168	\$ 23,931	\$ 330,970
Purchases	23,176	61,091	—	—	84,267
Settlements	(33,110 )	(38,780 )	392	—	(71,498 )
Realized gains	—	3,134	—	—	3,134
Change in net unrealized gains (losses)	132	(1,144 )	—	(49 )	(1,061 )
Level 3 investments, end of period	\$236,694	\$ 72,676	\$ 12,560	\$ 23,882	\$ 345,812

There were no transfers into or out of Level 3 during the three months ended March 31, 2018 or 2017.

## (d) Financial instruments not carried at fair value

ASC Topic 825 "Financial Instruments" is also applicable to disclosures of financial instruments not carried at fair value, except for certain financial instruments, including insurance contracts and investments in affiliates. The carrying values of accrued investment income, other assets, net payable for investments purchased and accounts payable and accrued expenses approximated their fair values at March 31, 2018, due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 2.

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6. Variable interest entities

The Company consolidates all VIEs in which it is considered to be the primary beneficiary. The Company's VIEs are primarily entities in the AlphaCat segment.

(a) Consolidated VIEs

AlphaCat sidecars

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

AlphaCat ILS funds

The AlphaCat ILS funds received third party subscriptions beginning on December 17, 2012. The Company and third party investors invest in the AlphaCat ILS funds for the purpose of investing in instruments with returns linked to property catastrophe reinsurance, retrocession and ILS contracts. The AlphaCat ILS funds have varying risk profiles and are categorized by the maximum permitted portfolio expected loss of the fund. The permitted portfolio expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit. Lower risk ILS funds are defined as having a maximum permitted portfolio expected loss of less than 7%, whereas higher risk ILS funds have a maximum permitted portfolio expected loss of 7% or greater. The AlphaCat ILS funds primarily deploy their capital through transactions entered into by AlphaCat Re and AlphaCat Master Fund Ltd. ("AlphaCat Master Fund"). All of the AlphaCat ILS funds are VIEs and were consolidated by the Company through May 31, 2017. However, on June 1, 2017, the Company redeemed its investment in one of the lower risk AlphaCat ILS funds. As a result, the Company was no longer deemed to be the primary beneficiary and therefore this fund was deconsolidated effective June 1, 2017.

The Company's maximum exposure to any of the funds is the amount of capital invested at any given time and any remaining capital commitments.

AlphaCat Re and AlphaCat Master Fund

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

Notes Payable to AlphaCat Investors

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

Any notes issued by the Master Funds to the consolidated Feeder Funds are eliminated on consolidation and only variable funding notes issued by AlphaCat Re directly to third party investors and non-consolidated Feeder Funds

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

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One of the AlphaCat ILS funds (the “Fund”) issued both common shares and structured notes to the Company and third party investors in order to capitalize the fund. The Fund deploys its capital through AlphaCat Re; therefore, the structured notes do not have a stated maturity date since repayment is dependent on the settlement and income or loss of the variable funding notes with AlphaCat Re. The structured notes rank senior to the common shares of the Fund and earn an interest rate of 6.5% (2017: 7%) per annum, payable on a cumulative basis in arrears.

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

The following tables present reconciliations of the beginning and ending notes payable to AlphaCat investors during the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018		
	Variable Funding Notes	Structured Notes	Total
Notes payable to AlphaCat investors, beginning of period	\$936,164	\$ 172,200	\$ 1,108,364
Issuance of notes payable to AlphaCat investors	506,540	179,972	686,512
Redemption of notes payable to AlphaCat investors	(530,546 )	—	(530,546 )
Foreign exchange losses	3,864	—	3,864
Notes payable to AlphaCat investors, end of period	\$916,022	\$ 352,172	\$ 1,268,194

	Three Months Ended March 31, 2017		
	Variable Funding Notes	Structured Notes	Total
Notes payable to AlphaCat investors, beginning of period	\$278,202	\$—	\$ 278,202
Issuance of notes payable to AlphaCat investors	274,010	103,320	377,330
Redemption of notes payable to AlphaCat investors	(208,956 )	—	(208,956 )
Notes payable to AlphaCat investors, end of period	\$343,256	\$ 103,320	\$ 446,576

The income attributable to AlphaCat investors for the three months ended March 31, 2018 was \$10,862 (2017: \$7,503). As at March 31, 2018, amounts due to AlphaCat investors totaling \$43,442 (December 31, 2017: \$18,054) were included in accounts payable and accrued expenses.

**BetaCat ILS funds**

The BetaCat ILS funds follow a passive buy-and-hold investment strategy, investing exclusively in catastrophe bonds (principal-at-risk variable rate notes and other event-linked securities, referred to collectively as “Cat Bonds”) focused on property and casualty risks and issued under Rule 144A of the Securities Act of 1933, as amended. Two of the three BetaCat ILS funds are VIEs, one of which is consolidated by the Company. The remaining fund is a VOE and is consolidated by the Company as it owns all of the fund’s voting equity interests. The Company’s maximum exposure to any of the funds is the amount of capital invested at any given time.

The following table presents the total assets and total liabilities of the Company’s consolidated VIEs, excluding intercompany eliminations, as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
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	Total Assets	Total Liabilities	Total Assets	Total Liabilities
AlphaCat sidecars	\$25,952	\$ 3,071	\$25,975	\$ 3,267
AlphaCat ILS funds - Lower Risk	1,046,458	1,156	1,107,503	259,630
AlphaCat ILS funds - Higher Risk	1,431,945	676,225	1,310,079	12,341
AlphaCat Re and AlphaCat Master Fund	3,878,359	3,878,189	3,398,083	3,397,912
BetaCat ILS funds	104,857	2,207	77,221	261

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Assets of consolidated VIEs can only be used to settle obligations and liabilities of the consolidated VIEs and do not have recourse to the general credit of the Company. Investments held by these entities are presented separately in Note 4, "Investments," as non-managed investments.

**(b) Non-Consolidated VIEs**

The Company invests in private equity and other investment vehicles as part of the Company's investment portfolio. The activities of these VIEs are generally limited to holding investments and the Company's involvement in these entities is passive in nature. The Company's maximum exposure to the VIEs is the amount of capital invested at any given time, and the Company does not have the power to direct the activities which most significantly impact the VIEs economic performance. The Company is therefore not the primary beneficiary of these VIEs. Refer to Note 4, "Investments," for further details.

**7. Noncontrolling interests**

Investors in certain of the AlphaCat and BetaCat ILS funds have rights that enable them, subject to certain limitations, to redeem their shares. Such investments held by third parties are therefore recorded in the Company's Consolidated Balance Sheets as redeemable noncontrolling interests, a mezzanine item between liabilities and shareholders' equity. If and when a redemption notice is received, the fair value of the redemption is reclassified to accounts payable and accrued expenses.

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

The following tables present a reconciliation of the beginning and ending balances of redeemable noncontrolling interests and noncontrolling interests for the three months ended March 31, 2018 and 2017:

	Redeemable Noncontrolling Interests		Noncontrolling Interests		Total	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2018	2017	2018	2017	2018	2017
Balance, beginning of period	\$1,004,094	\$1,528,001	\$16,718	\$165,977	\$1,020,812	\$1,693,978
Issuance of shares	385,300	103,699	281,300	154,980	666,600	258,679
Income attributable to noncontrolling interests	28,373	25,930	36,339	16,642	64,712	42,572
Redemption of shares / Distributions	5,343	—	—	(7,002)	5,343	(7,002)
Balance, end of period	\$1,423,110	\$1,657,630	\$334,357	\$330,597	\$1,757,467	\$1,988,227

As at March 31, 2018, redemptions payable of \$nil (December 31, 2017: \$180,104) relating to redeemable noncontrolling interests were included within accounts payable and accrued expenses in the Company's Consolidated Balance Sheets.



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## 8. Derivative instruments

The Company enters into various derivative instruments in the form of foreign currency forward exchange contracts, interest rate swap contracts and weather derivative instruments. These derivative instruments are used to manage exposures to currency and interest rate risks, to enhance the efficiency of the Company's investment portfolio and to provide protection against cedants' financial exposure to variability in weather patterns. All of the Company's outstanding derivative financial instruments are recognized in the Consolidated Balance Sheets at their fair values. The effect on earnings from recognizing the fair values of these derivative financial instruments depends on each instrument's intended use, hedge designation, and effectiveness in offsetting the exposure it is intended to hedge.

## (a) Derivatives not designated as hedging instruments

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Company's Consolidated Balance Sheets as at March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
	Asset		Liability	Asset		Liability
	Notional Exposure	Derivative at Fair Value (a)	Derivative at Fair Value (a)	Notional Exposure	Derivative at Fair Value (a)	Derivative at Fair Value (a)
Derivatives not designated as hedging instruments						
Foreign currency forward contracts	\$239,398	\$ 1,945	\$ 433	\$283,765	\$ 1,147	\$ 906
Interest rate swap contracts	\$200,000	\$ 7,357	\$ —	\$200,000	\$ 1,589	\$ —
Weather derivative contracts	\$4,825	\$ 26,958	\$ —	\$4,825	\$ 853	\$ —

(a) Asset and liability derivative positions are classified within other assets and accounts payable and accrued expenses, respectively, within the Company's Consolidated Balance Sheets.

The foreign currency forward contracts and interest rate swap contracts are valued on the basis of standard industry valuation models. The inputs to these models are based on observable market inputs, and as such the fair values of these contracts are classified as Level 2. The weather derivative contracts are valued on the basis of modeled and other information provided by Validus' counterparties. Validus reviews this information, which represents Level 3 inputs, as it is ultimately management's responsibility to ensure that the fair values reflected in the Company's financial statements are appropriate.

The following table summarizes information on the classification and net impact on earnings recognized in the Company's Consolidated Statements of Income and Comprehensive Income relating to derivatives that were not designated as hedging instruments during the three months ended March 31, 2018 and 2017:

Derivatives not designated as hedging instruments	Classification of gains recognized in earnings	Three Months Ended March 31,	
		2018	2017
Foreign currency forward contracts	Foreign exchange (losses) gains	\$(5,201)	\$453
Foreign currency forward contracts	Other insurance related income and other income	\$—	\$(105)
Interest rate swap contracts	Net realized gains on investments	\$5,944	\$—
Weather derivative contracts	Other insurance related income and other income	\$26,773	\$—

## (b) Derivatives designated as hedging instruments

Derivative instruments designated as cash flow hedges

During 2012 and 2013, the Company entered into several swap agreements with third parties in order to convert the floating interest rates associated with its Junior Subordinated Deferrable Debentures into fixed rates. See Note 13, "Debt and financing arrangements," for further details. The Company also designates certain foreign exchange contracts as cash flow hedges of anticipated foreign currency-denominated sales or purchases.



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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 as at March 31, 2018 and December 31, 2017:

	March 31, 2018			December 31, 2017		
	Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Notional Exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Derivatives designated as hedging instruments						
Interest rate swap contracts	\$552,263	\$ 23,256	\$ 4,931	\$552,263	\$ 9,806	\$ 18,840
Foreign currency forward contracts	\$80,373	\$ 4,503	\$ —	\$96,293	\$ 1,891	\$ —

(a) Asset and liability derivative positions are classified within other assets and accounts payable and accrued expenses, respectively, within the Company's Consolidated Balance Sheets.

The interest rate swap contracts and foreign currency forward contracts are valued on the basis of Level 2 inputs.

The following tables provide the total impact on other comprehensive income and earnings relating to the derivative instruments formally designated as cash flow hedges for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Interest rate swap contracts		
Amount recognized in other comprehensive income	\$25,843	\$ 98
Amount reclassified to finance expenses	\$1,343	\$ —

	Three Months Ended March 31,	
	2018	2017
Foreign currency forward contracts		
Amount recognized in other comprehensive income	\$2,920	\$ —
Amount reclassified to general and administrative expenses	\$(308 )	\$ —

(c) Balance sheet offsetting

There was no balance sheet offsetting activity as at March 31, 2018 or December 31, 2017.

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

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

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## 9. Reserve for losses and loss expenses

The following table summarizes the Company's reserve for losses and loss expenses as at March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
Case reserves	\$1,770,278	\$ 1,753,844
IBNR	2,862,351	3,077,546
Reserve for losses and loss expenses	\$4,632,629	\$ 4,831,390

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, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Reserve for losses and loss expenses, beginning of period	\$4,831,390	\$2,995,195
Loss reserves recoverable	(1,233,997 )	(430,421 )
Net reserves for losses and loss expenses, beginning of period	3,597,393	2,564,774
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:		
Current year	329,115	330,816
Prior years	(7,570 )	(61,231 )
Total incurred losses and loss expenses	321,545	269,585
Foreign exchange loss	15,627	12,317
Less net losses and loss expenses paid in respect of losses occurring in:		
Current year	(19,735 )	(7,698 )
Prior years	(262,145 )	(238,089 )
Total net paid losses	(281,880 )	(245,787 )
Net reserve for losses and loss expenses, end of period	3,652,685	2,600,889
Loss reserves recoverable	979,944	451,856
Reserve for losses and loss expenses, end of period	\$4,632,629	\$3,052,745

Incurred losses and loss expenses comprise:

	Three Months Ended March 31,	
	2018	2017
Gross losses and loss expenses	\$248,781	\$336,442
Reinsurance recoveries	72,764	(66,857 )
Net incurred losses and loss expenses	\$321,545	\$269,585

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The net (favorable) adverse development on prior accident years by segment and line of business for the three months ended March 31, 2018 and 2017 was as follows:

	Three Months Ended March 31, 2018			
	Property	Specialty Short-tail	Specialty - Other	Total
Reinsurance Segment	\$(4,822 )	\$(13,451 )	\$435	\$(17,838 )
Insurance Segment	4,068	(12,201 )	(7,415 )	(15,548 )
Asset Management Segment	25,200	616	—	25,816
Net adverse (favorable) development	\$24,446	\$(25,036)	\$(6,980)	\$(7,570 )

	Three Months Ended March 31, 2017			
	Property	Specialty Short-tail	Specialty - Other	Total
Reinsurance Segment	\$(4,062 )	\$(26,748)	\$(314 )	\$(31,124)
Insurance Segment	(8,666 )	(11,763 )	(6,260 )	(26,689 )
Asset Management Segment	(4,395 )	977	—	(3,418 )
Net favorable development	\$(17,123)	\$(37,534)	\$(6,574)	\$(61,231)

The net favorable development on prior accident years for the three months ended March 31, 2018 and 2017 was primarily driven by favorable development on attritional losses.

## 10. Reinsurance

The Company's reinsurance balances recoverable at March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Loss reserves recoverable on unpaid:		
Case reserves	\$235,814	\$275,450
IBNR	744,130	958,547
Total loss reserves recoverable	979,944	1,233,997
Paid losses recoverable	59,892	46,873
Total reinsurance recoverable	\$1,039,836	\$1,280,870

## (a) Credit risk

The cession of reinsurance does not legally discharge the Company from its primary liability for the full amount of the (re)insurance policies it writes, and the Company is required to pay the loss and bear collection risk regarding reinsurers' obligations under reinsurance and retrocession agreements. Validus records provisions for uncollectible reinsurance recoverable when collection becomes unlikely due to the reinsurer's inability to pay.

To the extent the creditworthiness of the Company's reinsurers were to deteriorate due to adverse events affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the Company's provision. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying loss reserves.

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, is A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. As at March 31, 2018, \$1,029,021 or 99.0% (December 31, 2017: \$1,270,503 or 99.2%) of the Company's reinsurance balances recoverable were either fully collateralized or recoverable from reinsurers rated A- or better.



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Information regarding the Company's concentration of credit risk arising from its exposure to individual reinsurers as at March 31, 2018 and December 31, 2017 is as follows:

	March 31, 2018			December 31, 2017		
	Reinsurance Recoverable	% of Total		Reinsurance Recoverable	% of Total	
Top 10 reinsurers	\$878,685	84.5	%	\$1,055,445	82.5	%
Other reinsurers' balances > \$1 million	153,572	14.8	%	218,226	17.0	%
Other reinsurers' balances < \$1 million	7,579	0.7	%	7,199	0.5	%
Total	\$1,039,836	100.0	%	\$1,280,870	100.0	%

		March 31, 2018		
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Fully collateralized reinsurers	NR	\$ 407,361	39.2	%
Everest Re	A+	128,360	12.3	%
Lloyd's Syndicates	A+	69,885	6.7	%
Swiss Re	AA-	56,892	5.5	%
Munich Re	AA-	50,097	4.8	%
Hannover Re	AA-	49,501	4.8	%
Transatlantic Re	A+	38,446	3.7	%
Qatar Insurance Company	A	30,981	3.0	%
Markel	A	25,893	2.5	%
XL Catlin	A+	21,269	2.0	%
Total		\$ 878,685	84.5	%

NR: Not rated

		December 31, 2017		
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total	
Fully collateralized reinsurers	NR	\$ 459,339	35.9	%
Everest Re	A+	128,206	10.0	%
Munich Re	AA-	94,180	7.4	%
Lloyd's Syndicates	A+	74,277	5.8	%
Federal Crop Insurance Corporation	(a)	68,745	5.4	%
Swiss Re	AA-	65,218	5.1	%
Hannover Re	AA-	53,523	4.2	%
Qatar Insurance Company	A	50,160	3.9	%
Transatlantic Re	A+	33,729	2.6	%
Markel	A	28,068	2.2	%
Total		\$ 1,055,445	82.5	%

NR: Not rated

The Company participates in a crop reinsurance program sponsored by the U.S. federal government. The Company remains obligated for amounts ceded in the event that its reinsurers or retrocessionaires do not meet their obligations, except for amounts ceded to the U.S. federal government in the Insurance segment agriculture line of business.

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At March 31, 2018 and December 31, 2017, the provision for uncollectible reinsurance relating to reinsurance recoverables was \$8,403 and \$8,848, respectively.

11. Share capital

The Company's share capital consists of Preferred Shares and Common Shares, each with a par value of \$0.175 per share. Holders of Preferred Shares have no voting rights with respect to matters that generally require the approval of voting shareholders but are entitled to vote in certain extraordinary instances. Holders of common shares are entitled to one vote for each share held, subject to certain voting limitations.

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

(a) Preferred shares

5.875% Non-Cumulative Preferred Shares, Series A (the "Series A Preferred Shares")

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

The Depositary Shares, representing the Series A Preferred Shares, are traded on the New York Stock Exchange ("NYSE") under the symbol "VRPRA." Holders of the Series A Preferred Shares have no voting rights, except with respect to certain fundamental changes in the terms of the Series A Preferred Shares and in the case of certain dividend non-payments or as otherwise required by Bermuda law or the Company's bye-laws.

5.800% Non-Cumulative Preferred Shares, Series B (the "Series B Preferred Shares")

On June 12, 2017, the Company issued 10,000 shares of its 5.800% Non-Cumulative Preferred Shares, Series B (the "Series B Preferred Shares") (equivalent to 10,000,000 Depositary Shares, each of which represents a 1/1,000th interest in a Series B Preferred Share), \$0.175 par value and \$25,000 liquidation preference per share (equivalent to \$25 per Depositary Share). The Series B Preferred Shares were registered and sold under the Securities Act of 1933, as amended, and were issued at a price to the public of \$25,000 per share (equivalent to \$25 per Depositary Share). After underwriting discounts and expenses, the Company received net proceeds of \$241,686 which were used for general corporate purposes.

The Depositary Shares, representing the Series B Preferred Shares, are traded on the New York Stock Exchange ("NYSE") under the symbol "VRPRB." Holders of the Series B Preferred Shares have no voting rights, except with respect to certain fundamental changes in the terms of the Series B Preferred Shares and in the case of certain dividend non-payments or as otherwise required by Bermuda law or the Company's bye-laws.

The Company had 6,000 Series A Preferred Shares and 10,000 Series B Preferred Shares issued and outstanding as at March 31, 2018 and December 31, 2017.

For further information regarding the Company's preferred shares refer to Note 16(a), "Share capital," included within the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(b) Common shares

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

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. The Company has repurchased 81,035,969 common shares for an aggregate purchase price of \$2,730,975 from the inception of its share repurchase program to March 31, 2018. The Company had \$293,426 remaining under its authorized share repurchase program as of March 31, 2018.





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

The following table is a summary of the common shares issued and outstanding during the three months ended March 31, 2018 and 2017:

	Three Months Ended March	
	2018	2017
Common shares issued, beginning of period	161,994,491	161,279,976
Restricted share awards vested, net of shares withheld	7,423	3,440
Restricted share units vested, net of shares withheld	2,055	1,995
Common shares issued, end of period	162,003,969	161,285,411
Treasury shares, end of period	(82,674,941 )	(82,147,821 )
Common shares outstanding, end of period	79,329,028	79,137,590

(c) Dividends

During February 2018, the Company announced a quarterly cash dividend of \$0.38 per common share (2017: \$0.38), payable on March 29, 2018 to shareholders of record on March 15, 2018. The Company also announced a quarterly cash dividend of \$0.3671875 (2017: \$0.3671875) and \$0.3625000 per depository share on the outstanding Series A and Series B Preferred Shares, respectively. The Series A and Series B Preferred Share dividends are payable on March 15, 2018 to shareholders of record on March 1, 2018.

## 12. Stock plans

(a) Long Term Incentive Plan

The Company's Amended and Restated 2005 Long Term Incentive Plan ("LTIP") provides for grants to employees of options, stock appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, dividend equivalents or other share-based awards. The total number of shares reserved for issuance under the LTIP are 2,753,292, of which 706,006 shares are remaining. The LTIP is administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. The grant date fair value of each award is established at the fair market value of the Company's common shares at the date of grant.

(i) Options

The Company has not granted any stock option awards since September 4, 2009. These stock option awards were fully amortized as at December 31, 2012, and the final options outstanding were exercised during the year ended December 31, 2017.

While outstanding, the Company's options could be exercised for voting common shares upon vesting and had a term of ten years. The fair value of the option awards at the date of grant was determined using the Black-Scholes option-pricing model. Expected volatility was based on the 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.

Activity with respect to options for the three months ended March 31, 2017 was as follows:

Options		Weighted	Weighted
		Average	Average
		Grant Date	Grant Date
		Fair Value	Exercise Price
Options outstanding, beginning and end of period	26,136	\$ 6.78	\$ 23.48



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## (ii) Restricted share awards

Restricted shares granted under the LTIP vest either pro rata or 100% 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 \$8,113 were recorded in connection with restricted share awards for the three months ended March 31, 2018 (2017: \$9,044). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested restricted share awards for the three months ended March 31, 2018 and 2017 was as follows:

	Three Months Ended March 31,			
	2018		2017	
	Restricted Share Awards	Weighted Average Grant Date Fair Value	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, beginning of period	2,080,397	\$ 43.66	2,469,982	\$ 40.89
Restricted share awards granted	1,552	67.64	2,082	57.66
Restricted share awards vested	(8,092 )	44.49	(4,571 )	37.93
Restricted share awards forfeited	(6,138 )	47.46	(513 )	48.69
Restricted share awards outstanding, end of period	2,067,719	\$ 43.66	2,466,980	\$ 40.91

At March 31, 2018, there were \$40,926 (December 31, 2017: \$48,907) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 2.2 years (December 31, 2017: 2.3 years).

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## (iii) Restricted share units

Restricted share units under the LTIP vest either ratably or 100% 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 \$332 were recorded in connection with restricted share units for the three months ended March 31, 2018 (2017: \$315). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested restricted share units for the three months ended March 31, 2018 and 2017 was as follows:

	Three Months Ended March 31,		2017	
	2018	Weighted Restricted Average Share Unit Grant Date Fair Value	2017	Weighted Restricted Average Share Unit Grant Date Fair Value
Restricted share units outstanding, beginning of period	109,394	\$ 42.20	112,808	\$ 40.95
Restricted share units vested	(2,178 )	38.24	(2,115 )	38.24
Restricted share units issued in lieu of cash dividends	886	42.20	717	40.95
Restricted share units forfeited	(1 )	38.24	—	—
Restricted share units outstanding, end of period	108,101	\$ 42.28	111,410	\$ 41.01

At March 31, 2018, there were \$1,592 (December 31, 2017: \$1,909) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 2.3 years (December 31, 2017: 2.4 years).

## (iv) Performance share awards

Performance share awards vest three years after the grant date, with the grant date fair value of each share awarded recognized evenly over this period. The number of performance shares initially granted is adjusted via “conversion adjustments” to reflect the compounded growth in the Dividend-Adjusted Book Value per Diluted Share over the three years. The cumulative compensation expense recognized and unrecognized as at any reporting period date represents the adjusted estimate of performance shares that will ultimately be awarded, valued at their original grant date fair values.

Share compensation expenses of \$1,284 were recorded for the three months ended March 31, 2018 (2017: \$132). The share compensation expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested performance share awards for the three months ended March 31, 2018 and 2017 was as follows:

	Three Months Ended March 31,		2017	
	2018	Weighted Performance Average Share Award Grant Date Fair Value	2017	Weighted Performance Average Share Award Grant Date Fair Value
Performance share awards outstanding, beginning of period	314,068	\$ 49.37	285,820	\$ 44.53
Performance share awards conversion adjustment	—	—	(26,322 )	36.82
Performance share awards outstanding, end of period	314,068	\$ 49.37	259,498	\$ 45.26

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At March 31, 2018, there were \$6,597 (December 31, 2017: \$7,813) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 1.8 years (December 31, 2017: 1.9 years).

(b) Total share compensation expenses

The breakdown of share compensation expenses by award type is as follows:

	Three Months Ended March 31, 2018 2017	
Restricted share awards	\$8,113	\$9,044
Restricted share units	332	315
Performance share awards	1,284	132
Total	\$9,729	\$9,491

## 13. Debt and financing arrangements

The Company's financing structure is composed of debentures and senior notes payable along with credit and other facilities. For further information regarding the Company's financing structure refer to Note 19, "Debt and financing arrangements," included within the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(a) Senior Notes and Junior Subordinated Deferrable Debentures

The Company's outstanding debentures and senior notes payable as at March 31, 2018 and December 31, 2017 were as follows:

	March 31, 2018	December 31, 2017
Deferrable debentures		
2006 Junior Subordinated	\$ 150,000	\$ 150,000
2007 Junior Subordinated	139,800	139,800
Flagstone 2006 Junior Subordinated	136,022	135,608
Flagstone 2007 Junior Subordinated	113,750	113,750
Total debentures payable	539,572	539,158
2010 Senior Notes due 2040	250,000	250,000
Less: Unamortized debt issuance costs	(4,386 )	(4,436 )
Total senior notes payable	245,614	245,564
Total debentures and senior notes payable	\$ 785,186	\$ 784,722

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The following table summarizes the key terms of the Company's Senior Notes and Junior Subordinated deferrable debentures:

Description	Issuance date	Issued	Maturity date	Interest Rate as at		Interest payments due
				Issuance Date	March 31, 2018	
2006 Junior Subordinated Deferrable Debentures	June 15, 2006	\$ 150,000	June 15, 2036	9.069% <sup>(a)</sup>	5.831% <sup>(e)</sup>	Quarterly
Flagstone 2006 Junior Subordinated Deferrable Debentures	August 23, 2006	\$ 136,022	September 15, 2036	3.540% <sup>(b)</sup>	6.463% <sup>(e)</sup>	Quarterly
2007 Junior Subordinated Deferrable Debentures	June 21, 2007	\$ 200,000	June 15, 2037	8.480% <sup>(c)</sup>	5.180% <sup>(e)</sup>	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	June 8, 2007	\$ 100,000	July 30, 2037	3.000% <sup>(b)</sup>	5.900% <sup>(e)</sup>	Quarterly
Flagstone 2007 Junior Subordinated Deferrable Debentures	September 20, 2007	\$ 25,000	September 15, 2037	3.100% <sup>(b)</sup>	5.983% <sup>(e)</sup>	Quarterly
2010 Senior Notes due 2040	January 26, 2010	\$ 250,000	January 26, 2040	8.875% <sup>(d)</sup>	8.875% <sup>(d)</sup>	Semi-annually in arrears

(a) Fixed interest rate for 5 years, floating interest rate of three-month LIBOR plus 3.550% thereafter, reset quarterly.

(b) Floating interest rate of three-month LIBOR plus amount stated, reset quarterly.

(c) Fixed interest rate for 5 years, floating interest rate of three-month LIBOR plus 2.950% thereafter, reset quarterly.

(d) Fixed interest rate.

(e) Fixed interest rate as a result of interest rate swap contracts entered into by the Company.

Future payments of principal of \$250,000 on the 2010 Senior Notes and \$539,572 on the debentures are all expected to be made after 2023.

(b) Credit and other facilities

The Company's outstanding credit facilities as at March 31, 2018 and December 31, 2017 were as follows:

March 31, 2018

Credit facility	Commitment <sup>(a)</sup>	Outstanding	Drawn <sup>(b)</sup>	Cash and investments pledged as collateral
\$85,000 syndicated unsecured letter of credit facility	\$ 85,000	\$ —	\$ —	\$ —
\$300,000 syndicated secured letter of credit facility	300,000	98,419	—	123,468
\$100,000 secured bi-lateral letter of credit facility	100,000	4,407	—	22,364
\$25,000 IPC bi-lateral facility	25,000	7,705	—	—
\$236,000 Flagstone bi-lateral facility	236,000	109,796	—	156,058
\$65,000 unsecured revolving credit facility	65,000	—	—	—
\$100,000 unsecured revolving credit facility	100,000	—	—	—
FHLB secured facility	433,165	206,000	206,000	238,349
Total credit facilities	\$ 1,344,165	\$ 426,327	\$ 206,000	\$ 540,239

(a) Indicates utilization of commitment amount.

(b) Represents drawn borrowings included in accounts payable and accrued expenses.





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Credit facility	December 31, 2017			Cash and investments pledged as collateral
	Commitment <sup>(a)</sup>	Outstanding <sup>(a)</sup>	Drawn <sup>(b)</sup>	
\$85,000 syndicated unsecured letter of credit facility	\$ 85,000	\$ —	\$ —	\$ —
\$300,000 syndicated secured letter of credit facility	300,000	92,979	—	118,188
\$24,000 secured bi-lateral letter of credit facility	24,000	5,765	—	22,340
\$25,000 IPC bi-lateral facility	25,000	7,754	—	—
\$236,000 Flagstone bi-lateral facility	236,000	115,682	—	184,569
\$65,000 unsecured revolving credit facility	65,000	—	—	—
\$100,000 unsecured revolving credit facility	100,000	—	—	—
FHLB secured facility	484,096	206,000	206,000	251,767
Total credit facilities	\$1,319,096	\$ 428,180	\$ 206,000	\$ 576,864

(a) Indicates utilization of commitment amount.

(b) Represents drawn borrowings included in accounts payable and accrued expenses.

On January 24, 2018, the Company increased the size of the secured bi-lateral letter of credit facility with Citibank Europe plc (the “Secured bi-lateral LOC facility”) from \$24,000 to \$100,000. All covenants and restrictions under the Secured bi-lateral LOC facility remain unchanged. As of March 31, 2018, \$4,407 (December 31, 2017: \$5,765) of letters of credit were outstanding under the Secured bi-lateral LOC facility.

As of March 31, 2018 and December 31, 2017, the Company was in compliance with all covenants and restrictions under its credit facilities.

## (c) Finance expenses

Finance expenses consist of interest on the Junior Subordinated Deferrable Debentures and the 2010 Senior Notes, the amortization of debt offering costs, credit facility fees, bank and other charges and AlphaCat financing fees as follows:

	Three Months Ended March 31,	
	2018	2017
2006 Junior Subordinated Deferrable Debentures	\$ 2,186	\$ 2,187
2007 Junior Subordinated Deferrable Debentures	1,810	1,810
Flagstone 2006 Junior Subordinated Deferrable Debentures	2,227	2,221
Flagstone 2007 Junior Subordinated Deferrable Debentures	1,713	1,723
2010 Senior Notes	5,597	5,597
Credit facilities	416	218
Bank and other charges	263	151
AlphaCat fees <sup>(a)</sup>	51	36
Total finance expenses	\$ 14,263	\$ 13,943

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

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## 14. Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income (loss), by component for the three months ended March 31, 2018 and 2017 are as follows:

	Three Months Ended March 31, 2018			
	Foreign currency translation adjustment	Minimum pension liability	Cash flow hedge	Total
Balance, net of tax, beginning of period	\$(18,217)	\$ 2,719	\$(6,694 )	\$(22,192)
Other comprehensive income (loss), net of tax	1,837	(38 )	28,763	30,562
Amounts reclassified from accumulated other comprehensive income	—	—	1,035	1,035
Balance, net of tax, end of period	\$(16,380)	\$ 2,681	\$ 23,104	\$ 9,405

	Three Months Ended March 31, 2017			
	Foreign currency translation adjustment	Minimum pension liability	Cash flow hedge	Total
Balance, net of tax, beginning of period	\$(22,274)	\$(150 )	\$(792 )	\$(23,216)
Other comprehensive income, net of tax	597	68	98	763
Balance, net of tax, end of period	\$(21,677)	\$(82 )	\$(694 )	\$(22,453)

## 15. Commitments and contingencies

## (a) Funds at Lloyd's

The Company operates in Lloyd's through a corporate member, Talbot 2002 Underwriting Capital Ltd ("T02"), which is the sole participant in Lloyd's Syndicate 1183 (the "Talbot Syndicate"). Lloyd's sets T02's Economic Capital Assessment ("ECA") annually based on the Talbot Syndicate's business plan, rating environment and reserving environment together with input arising from Lloyd's discussions with regulatory and rating agencies, and other parties. This ECA is satisfied by syndicate net assets determined on a basis consistent with Solvency II, an EU directive covering capital adequacy, risk management and regulatory reporting for insurers. Any syndicate net liabilities on a Solvency II basis are required to be funded in addition to the ECA. Such additional funds, known as Funds at Lloyd's ("FAL"), comprises cash and investments. The Company provided FAL in the amount of \$661,600 during the fourth quarter of 2017 (2016: \$583,600).

The amounts which are provided as FAL are not available for distribution to the Company for the payment of dividends. T02 may also be required to maintain funds under the control of Lloyd's in excess of its capital requirement and such funds also may not be available for distribution to the Company for the payment of dividends.

## (b) Lloyd's Central Fund

Whenever a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2018 estimated premium income at Lloyd's of £650,000, at March 31, 2018 using an exchange rate of £1 equals \$1.40 and assuming the maximum 3% assessment, the Company would be assessed approximately \$27,300 (December 31, 2017: \$26,325).

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

## (c) Unfunded investment commitments

As at March 31, 2018 and December 31, 2017, the Company had total unfunded investment commitments related to the following:

	Unfunded investment commitments	
	March 31, December 31,	
	2018	2017
Fixed maturity investments <sup>(a)</sup>	\$28,067	\$ 22,082
Other investments <sup>(b)</sup>	87,353	86,697
Investments in investment affiliates <sup>(c)</sup>	107,386	125,996
Total unfunded investment commitments	\$222,806	\$ 234,775

(a) The Company has an outstanding commitment to participate in certain secured loan facilities through participation agreements with an established loan originator.

(b) The Company's total capital commitments related to other investments as at March 31, 2018 was \$268,000 (December 31, 2017: \$268,000).

(c) Refer to Note 4(c), "Investments in Investment Affiliates."

## 16. Related party transactions

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

## (a) Aquiline Capital Partners LLC ("Aquiline Capital")

Wellington

Aquiline Capital are shareholders of Wellington Insurance Company ("Wellington") and Christopher E. Watson serves as a director of Wellington.

Pursuant to reinsurance agreements with a subsidiary of Wellington, the Company recognized gross premiums written during the three months ended March 31, 2018 of \$782 (2017: \$2,974) with \$262 included in premiums receivable at March 31, 2018 (December 31, 2017: \$211). The Company also recognized premium adjustments during the three months ended March 31, 2018 of \$778 (2017: \$861).

## Aquiline II, Aquiline III, Aquiline Tech and Aquiline Armour

Jeffrey W. Greenberg and Christopher E. Watson, directors of the Company, serve as managing principal and senior principal, respectively, of Aquiline Capital. Additional information related to the Company's investments in Aquiline II, III, Tech and Armour is disclosed in Note 4(c), "Investments in Investment Affiliates."

The Company had, as of March 31, 2018 and December 31, 2017, investments in Aquiline II, III, Tech and Armour with a total value of \$113,471 and \$100,137 and outstanding unfunded commitments of \$107,386 and \$125,996, respectively. For the three months ended March 31, 2018, the Company incurred \$132 (2017: \$356) in partnership fees associated with these investments.

## (b) Other

Certain shareholders of the Company and their affiliates, as well as employees of entities associated with directors and officers may have purchased insurance and/or reinsurance from the Company in the ordinary course of business. The Company does not believe these transactions to be material.

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Validus Holdings, Ltd.

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## 17. Earnings per common share

The following table sets forth the computation of basic (loss) earnings per common share and (loss) earnings per diluted common share available to Validus common shareholders for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,	
	2018	2017
Basic (loss) earnings per common share		
Net (loss) income allocated to Validus common shareholders	(4,078 )	94,561
Weighted average number of common shares outstanding	79,325,688	9,133,671
Basic (loss) earnings per share (attributable) available to Validus common shareholders	\$(0.05 )	\$ 1.19
(Loss) earnings per diluted common share		
Net (loss) income (attributable) available to Validus common shareholders	\$(4,078)	\$ 94,561
Weighted average number of common shares outstanding	79,325,688	9,133,671
Share equivalents:		
Stock options	—	15,379
Unvested restricted shares	—	1,590,092
Weighted average number of diluted common shares outstanding	79,325,688	9,739,142
(Loss) earnings per diluted common share (attributable) available to Validus common shareholders	\$(0.05 )	\$ 1.17

Earnings per diluted common share assumes the exercise of all dilutive stock options and restricted stock grants. Due to the net loss incurred during the three months ended March 31, 2018, share equivalents were not included in the computation of loss per diluted share due to their anti-dilutive effect. Share equivalents that would result in the issuance of 1,503 common shares were outstanding for the three months ended March 31, 2017, but were not included in the computation of earnings per diluted share because the effect would be anti-dilutive.

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18. Segment information

The Company conducts its operations worldwide through three reportable segments, which have been determined under ASC Topic 280 “Segment Reporting” to be Reinsurance, Insurance and Asset Management. The Company’s reportable segments are strategic business units that offer different products and services. They are managed and have capital allocated separately because each segment undertakes different strategies.

A description of each of the Company’s reportable segments and its Corporate and Investments function is as follows:

Reinsurance Segment

The Reinsurance segment operates globally and is primarily focused on treaty reinsurance within the following lines and classes of business:

Property: catastrophe excess of loss, per risk excess of loss, proportional and treaty;

Specialty - Short-tail: aerospace and aviation, agriculture, composite, marine, other specialty (including contingency, crisis management and life and accident & health), technical lines, terrorism, trade credit and workers’ compensation; and

Specialty - Other: casualty and financial lines of business.

Insurance Segment

The Insurance segment operates globally and focuses on specialty insurance within both the Lloyd’s and the U.S. commercial insurance markets and is focused on a wide range of insurance products within the following lines and classes of business:

Property: direct property and downstream energy and power;

Specialty - Short-tail: accident & health, agriculture, aviation, contingency, marine, and political lines (including war and political violence); and

Specialty - Other: financial, liability (including general liability, professional liability, products liability and miscellaneous malpractice), marine and energy, political risk and products and airports.

Asset Management Segment

The Asset Management segment leverages the Company’s underwriting and analytical expertise and earns management and performance fees primarily through the management of ILS funds and sidecars.

Corporate and Investments

The Company’s Corporate and Investments function, which includes the activities of the parent company, carries out certain functions for the group, including investment management. Corporate and Investments includes investment income on a managed basis and other non-segment expenses, predominantly general and administrative, stock compensation, finance and transaction expenses. Transaction expenses are primarily composed of legal and financial advisory services incurred in connection with the Company’s Merger with AIG. Corporate and Investments also includes the activities of certain key executives such as the Chief Executive Officer and Chief Financial Officer. For reporting purposes, Corporate and Investments is reflected separately; however, it is not considered a reportable segment under these circumstances. Other reconciling items include, but are not limited to, the elimination of certain inter segment revenues and expenses and other items that are not allocated to the reportable segments.

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Notes to the Consolidated Financial Statements (unaudited)

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The following tables summarize the results of our reportable segments and “Corporate and Investments” function:

Reinsurance Segment Information	Three Months Ended	
	March 31,	
	2018	2017
Underwriting revenues		
Gross premiums written	\$765,573	\$643,141
Reinsurance premiums ceded	(190,194 )	(114,446 )
Net premiums written	575,379	528,695
Change in unearned premiums	(350,627 )	(297,040 )
Net premiums earned	224,752	231,655
Other insurance related income	2	2
Total underwriting revenues	224,754	231,657
Underwriting deductions		
Losses and loss expenses	103,473	80,881
Policy acquisition costs	48,340	43,535
General and administrative expenses	28,915	19,969
Share compensation expenses	2,663	2,623
Total underwriting deductions	183,391	147,008
Underwriting income	\$41,363	\$84,649

## Selected ratios:

Ratio of net to gross premiums written	75.2	%	82.2	%
Losses and loss expense ratio	46.0	%	34.9	%
Policy acquisition cost ratio	21.5	%	18.8	%
General and administrative expense ratio	14.1	%	9.8	%
Expense ratio	35.6	%	28.6	%
Combined ratio	81.6	%	63.5	%

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Validus Holdings, Ltd.

Notes to the Consolidated Financial Statements (unaudited)

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

	Three Months Ended		
	March 31,		
Insurance Segment Information	2018	2017	
Underwriting revenues			
Gross premiums written	\$785,795	\$382,790	
Reinsurance premiums ceded	(191,637 )	(79,000 )	
Net premiums written	594,158	303,790	
Change in unearned premiums	(294,620 )	(24,696 )	
Net premiums earned	299,538	279,094	
Other insurance related income	2,170	996	
Total underwriting revenues	301,708	280,090	
Underwriting deductions			
Losses and loss expenses	183,389	186,610	
Policy acquisition costs	60,057	61,192	
General and administrative expenses	68,050	45,276	
Share compensation expenses	2,989	3,373	
Total underwriting deductions	314,485	296,451	
Underwriting (loss)	\$(12,777 )	\$(16,361 )	
Selected ratios:			
Ratio of net to gross premiums written	75.6	% 79.4	%
Losses and loss expense ratio	61.2	% 66.9	%
Policy acquisition cost ratio	20.0	% 21.9	%
General and administrative expense ratio	23.7	% 17.4	%
Expense ratio	43.7	% 39.3	%
Combined ratio	104.9	% 106.2	%

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Validus Holdings, Ltd.

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	Three Months Ended March 31,		
	2018	2017	
Asset Management Segment Information			
Fee revenues			
Third party	\$6,209	\$4,644	
Related party	443	631	
Total fee revenues	6,652	5,275	
Expenses			
General and administrative expenses	4,547	3,844	
Share compensation expenses	41	82	
Finance expenses	78	31	
Tax (benefit)	(7	) (1	)
Foreign exchange losses (gains)	1	(1	)
Total expenses	4,660	3,955	
Income before investment income from funds and sidecars	1,992	1,320	
Investment income (loss) from funds and sidecars <sup>(a)</sup>			
AlphaCat Sidecars	32	(112	)
AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>	1,234	2,189	
AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>	3,820	2,367	
BetaCat ILS Funds	186	368	
Validus' share of investment income from funds and sidecars	5,272	4,812	
Asset Management segment income	\$7,264	\$6,132	
Gross premiums written			
AlphaCat Sidecars	\$(143	) \$66	
AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>	109,950	52,908	
AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>	165,896	93,536	
AlphaCat Direct <sup>(c)</sup>	10,922	18,416	
Total	\$286,625	\$164,926	

(a) The investment income (loss) from funds and sidecars is based on equity accounting.

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

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



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	Three Months Ended March 31,	
	2018	2017
Corporate and Investments		
Managed investments		
Managed net investment income <sup>(a)</sup>	\$39,791	\$36,192
Net realized gains (losses) on managed investments <sup>(a)</sup>	1,142	(2,892 )
Change in net unrealized (losses) gains on managed investments <sup>(a)</sup>	(56,777 )	14,349
Income from investment affiliates	13,068	5,188
Total managed investment return	\$(2,776 )	\$52,837
Corporate expenses		
General and administrative expenses	\$12,309	\$17,961
Share compensation expenses	4,036	3,413
Finance expenses <sup>(a)</sup>	14,090	13,864
Dividends on preferred shares	5,828	2,203
Tax (benefit) <sup>(a)</sup>	(6,826 )	(3,548 )
Total Corporate expenses	\$29,437	\$33,893
Other items		
Foreign exchange (losses) gains <sup>(a)</sup>	(3 )	1,103
Other income	44	94
Transaction expenses	(7,756 )	—
Total other items	\$(7,715 )	\$1,197
Total Corporate and Investments	\$(39,928)	\$20,141

<sup>(a)</sup> These items exclude the components which are included in the Asset Management segment income (loss) and amounts which are consolidated from VIEs.

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The following tables reconcile the results of our reportable segments and “Corporate & Investments” function to the Consolidated results of the Company for the years indicated:

	Three Months Ended March 31, 2018					Eliminations	Total
	Reinsurance Segment	Insurance Segment	Asset Management Segment and Consolidated VIEs	Corporate & Investments			
Underwriting revenues							
Gross premiums written	\$765,573	\$785,795	\$286,625	\$—	\$ (5,537 )	\$1,832,456	
Reinsurance premiums ceded	(190,194 )	(191,637 )	—	—	5,537	(376,294 )	
Net premiums written	575,379	594,158	286,625	—	—	1,456,162	
Change in unearned premiums	(350,627 )	(294,620 )	(191,973 )	—	—	(837,220 )	
Net premiums earned	224,752	299,538	94,652	—	—	618,942	
Other insurance related income	2	2,170	28,080	—	(4,756 )	25,496	
Total underwriting revenues	224,754	301,708	122,732	—	(4,756 )	644,438	
Underwriting deductions							
Losses and loss expenses	103,473	183,389	34,683	—	—	321,545	
Policy acquisition costs	48,340	60,057	8,059	—	—	116,456	
General and administrative expenses	28,915	68,050	10,208	12,309	(4,756 )	114,726	
Share compensation expenses	2,663	2,989	41	4,036	—	9,729	
Total underwriting deductions	183,391	314,485	52,991	16,345	(4,756 )	562,456	
Underwriting income (loss)	\$41,363	\$(12,777 )	\$69,741	\$(16,345 )	\$—	\$81,982	
Net investment return <sup>(a)</sup>	—	—	12,735	(2,776 )	—	9,959	
Other items <sup>(b)</sup>	—	—	362	(20,807 )	—	(20,445 )	
(Income) attributable to AlphaCat investors	—	—	(10,862 )	—	—	(10,862 )	
Net (income) attributable to noncontrolling interests	—	—	(64,712 )	—	—	(64,712 )	
Net income (loss) available (attributable) to Validus common shareholders	\$41,363	\$(12,777 )	\$7,264	\$(39,928 )	\$—	\$(4,078 )	

(a) Net investment return includes net investment income, net realized and change in net unrealized gains (losses) on investments and income (loss) from investment affiliates.

(b) Other items includes finance expenses, transaction expenses, dividends on preferred shares, tax benefit (expense), foreign exchange gains (losses), income (loss) from operating affiliate and other income (loss).

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	Three Months Ended March 31, 2017					
	Reinsurance Segment	Insurance Segment	Asset Management Segment and Consolidated VIEs	Corporate & Investments	Elimination	Total
Underwriting revenues						
Gross premiums written	\$643,141	\$382,790	\$164,926	\$—	\$—	\$1,190,857
Reinsurance premiums ceded	(114,446 )	(79,000 )	(6,660 )	—	—	(200,106 )
Net premiums written	528,695	303,790	158,266	—	—	990,751
Change in unearned premiums	(297,040 )	(24,696 )	(93,639 )	—	—	(415,375 )
Net premiums earned	231,655	279,094	64,627	—	—	575,376
Other insurance related income	2	996	5,161	—	(4,923)	1,236
Total underwriting revenues	231,657	280,090	69,788	—	(4,923)	576,612
Underwriting deductions						
Losses and loss expenses	80,881	186,610	2,094	—	—	269,585
Policy acquisition costs	43,535	61,192	6,901	—	—	111,628
General and administrative expenses	19,969	45,276	9,641	17,961	(4,923)	87,924
Share compensation expenses	2,623	3,373	82	3,413	—	9,491
Total underwriting deductions	147,008	296,451	18,718	21,374	(4,923)	478,628
Underwriting income (loss)	\$84,649	\$(16,361 )	\$51,070	\$(21,374 )	\$—	\$97,984
Net investment return <sup>(a)</sup>	—	—	4,749	52,837	—	57,586
Other items <sup>(b)</sup>	—	—	388	(11,322 )	—	(10,934 )
(Income) attributable to AlphaCat investors	—	—	(7,503 )	—	—	(7,503 )
Net (income) attributable to noncontrolling interests	—	—	(42,572 )	—	—	(42,572 )
Net income (loss) available (attributable) to Validus common shareholders	\$84,649	\$(16,361 )	\$6,132	\$20,141	\$—	\$94,561

(a) Net investment return includes net investment income, net realized and change in net unrealized gains (losses) on investments and income (loss) from investment affiliates.

(b) Other items includes finance expenses, transaction expenses, dividends on preferred shares, tax benefit (expense), foreign exchange gains (losses), income (loss) from operating affiliate and other income (loss).

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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 years indicated:

	Gross Premiums Written					
	Three Months Ended March 31, 2018					
	Reinsurance Segment	Insurance Segment	Asset Management Segment	Eliminations	Total	%
United States	\$200,174	\$560,722	\$ 31,023	\$ (1,525 )	\$790,394	43.1 %
Worldwide excluding United States <sup>(a)</sup>	39,325	52,232	2,879	—	94,436	5.2 %
Australia and New Zealand	1,136	8,177	—	—	9,313	0.5 %
Europe	37,982	5,560	338	—	43,880	2.4 %
Latin America and Caribbean	6,539	18,445	—	—	24,984	1.4 %
Japan	2,100	916	431	—	3,447	0.2 %
Canada	3,735	933	—	—	4,668	0.3 %
Rest of the world <sup>(b)</sup>	18,298	27,220	—	—	45,518	2.5 %
Sub-total, non United States	109,115	113,483	3,648	—	226,246	12.3 %
Worldwide including United States <sup>(a)</sup>	118,809	26,655	248,114	(4,012 )	389,566	21.3 %
Other locations non-specific <sup>(c)</sup>	337,475	84,935	3,840	—	426,250	23.3 %
Total	\$765,573	\$785,795	\$ 286,625	\$ (5,537 )	\$1,832,456	100.0 %

	Gross Premiums Written					
	Three Months Ended March 31, 2017					
	Reinsurance Segment	Insurance Segment	Asset Management Segment	Eliminations	Total	%
United States	\$223,928	\$190,188	\$ 28,203	\$	—\$442,319	37.1 %
Worldwide excluding United States <sup>(a)</sup>	35,208	32,538	7,035	—	74,781	6.3 %
Australia and New Zealand	789	3,174	—	—	3,963	0.3 %
Europe	31,945	8,681	466	—	41,092	3.5 %
Latin America and Caribbean	9,960	20,687	—	—	30,647	2.6 %
Japan	1,951	1,005	1,193	—	4,149	0.3 %
Canada	2,358	449	—	—	2,807	0.2 %
Rest of the world <sup>(b)</sup>	15,103	20,392	—	—	35,495	3.0 %
Sub-total, non United States	97,314	86,926	8,694	—	192,934	16.2 %
Worldwide including United States <sup>(a)</sup>	95,801	27,187	123,309	—	246,297	20.7 %
Other locations non-specific <sup>(c)</sup>	226,098	78,489	4,720	—	309,307	26.0 %
Total	\$643,141	\$382,790	\$ 164,926	\$	—\$1,190,857	100.0 %

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

(b) Represents risks in one geographic zone.

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



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

The following is a discussion and analysis of the Company's consolidated results of operations for the three months ended March 31, 2018 and 2017 and the Company's consolidated financial condition, liquidity and capital resources as at March 31, 2018 and December 31, 2017. This discussion and analysis should be read in conjunction with the Company's unaudited Consolidated Financial Statements and notes thereto included in this filing and the Company's audited Consolidated Financial Statements and related notes for the fiscal year ended December 31, 2017, the discussions of critical accounting policies and the qualitative and quantitative disclosure about market risk, as well as management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

For a number of reasons, the Company's historical financial results may not accurately indicate future performance. See "Cautionary Note Regarding Forward-Looking Statements." The Risk Factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 present a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

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## Executive Overview

During the fourth quarter of 2017, the Company changed its reportable segments to “Reinsurance,” “Insurance,” and “Asset Management.” Furthermore, to better align the Company’s disclosures with its current strategy, the Company also changed its primary lines of business to “Property,” “Specialty - Short-tail” and “Specialty - Other.” The change in reportable segments and primary lines of business had no impact on the Company’s historical consolidated financial positions, results of operations or cash flows as previously reported. Where applicable, all prior periods presented have been reclassified to conform to this new presentation.

In addition, the Company has a corporate and investments function (“Corporate and Investments”), which includes the activities of the parent company, and which carries out certain functions for the group, including investment management. Corporate and Investments includes investment income on a managed basis and other non-segment expenses, predominantly general and administrative, stock compensation, finance and transaction expenses. Corporate and Investments also includes the activities of certain key executives such as the Chief Executive Officer and Chief Financial Officer. For reporting purposes, Corporate and Investments is reflected separately; however, it is not considered a reportable segment. The Company’s corporate expenses, capital servicing and debt costs and investment results are presented separately within the Corporate and Investments discussion.

The Company’s strategy is to concentrate primarily on short-tail risks, which has been an area where management believes prices and terms provide an attractive risk-adjusted return and the management team has proven expertise. The Company’s profitability in any given period is a function of net earned premium and investment revenues, less net losses and loss expenses, acquisition expenses and operating expenses. Financial results in the (re)insurance industry are influenced by the frequency and/or severity of claims and losses, including as a result of catastrophic events; changes in interest rates, financial markets and general economic conditions; the supply of (re)insurance capacity and changes in legal, regulatory and judicial environments.

## Merger Agreement

On January 21, 2018, the Company entered into a definitive agreement and plan of merger (the “Merger Agreement”) with American International Group, Inc. (“AIG”). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, the Company will merge with an existing AIG subsidiary in accordance with the Bermuda Companies Act (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of AIG (the “Surviving Company”).

Pursuant to the Merger Agreement, at the effective time of the Merger, holders of the Company’s common shares will be entitled to receive consideration of \$68.00 in cash per common share. Each of the Company’s issued and outstanding Series A and Series B Preferred Shares will remain issued and outstanding as a “Series A Preferred Share” and “Series B Preferred Share,” respectively, of the Surviving Company.

The Merger is expected to close in mid-2018, subject to regulatory approvals and other customary closing conditions. The Merger Agreement permits the Company to pay out regular quarterly cash dividends not to exceed \$0.38 per common share, with its quarterly dividend for the second fiscal quarter for 2018 to be paid prior to the closing of the Merger even if such closing occurs prior to the regular record or payment date of such dividend.

## Business Outlook and Trends

We underwrite global property (re)insurance and have large aggregate exposures to natural and man-made disasters. The occurrence of claims from catastrophic events results in substantial volatility, and can have material adverse effects on the Company’s financial condition and results and its ability to write new business. This volatility affects results for the period in which the loss occurs because U.S. GAAP does not permit (re)insurers to reserve for such catastrophic events until they occur. Catastrophic events of significant magnitude historically have been relatively infrequent, although management believes the property catastrophe reinsurance market has experienced a higher level of worldwide catastrophic losses in terms of both frequency and severity in the period from 1992 to the present. We also expect that increases in the values and concentrations of insured property will increase the severity of such occurrences in the future. The Company seeks to reflect these types of trends when pricing contracts.

Property and other reinsurance premiums have historically risen in the aftermath of significant catastrophic losses. As loss reserves are established, industry surplus is depleted and the industry’s capacity to write new business diminishes. The global property and casualty (re)insurance industry has historically been highly cyclical. Since 2007, increased

capital and the relative infrequency of significant catastrophic events resulted in a softening of rates on most lines. From 2010 to 2012, there was an increased level of catastrophe activity, principally the Chilean earthquake, Deepwater Horizon, the Tohoku earthquake, the New Zealand earthquakes and Superstorm Sandy; however, the impact of these events in the aggregate were not severe enough to increase rates. As such, the Company continued to see increased competition and decreased premium rates in most classes of business.

Following the significant catastrophic events of 2017: Hurricanes Harvey, Irma and Maria and the Northern and Southern California Wildfires, the Company expects the industry to see rate increases across all loss affected classes, some of which are noted



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in the renewal commentary below. However, the Company expects rate changes to be driven by the retrocession market, with reinsurers and insurers following accordingly; therefore, the full extent of rate increases will not likely be realized until mid-2018.

During the January 2018 renewal season, the Reinsurance segment underwrote \$646.8 million in gross premiums written (excluding agriculture premiums), an increase of \$159.6 million, or 32.8% from the 2017 renewal season. The increase was primarily driven by the continued build out of the Company's casualty portfolio and the timing of casualty renewals as well as rate increases and significant premium growth on a few U.S. property lines where the Company participated with large gross positions and managed its net exposure through strategic retrocession purchases.

The Asset Management segment underwrote \$274.4 million in gross premiums written during the January 2018 renewal season, an increase of \$111.2 million, or 68.1% from the 2017 renewal season. The increase was primarily driven by significant rate increases in the retrocession component of the portfolio and an increase in assets under management.

Business written by the Insurance segment is distributed evenly throughout the year. Through March 31, 2018, the Insurance segment experienced a whole account rate increase of 8.6% on business written through the Talbot Syndicate, primarily driven by rate increases on loss impacted accounts in the property and specialty - other classes, and a whole account rate increase of 5.8% on business written through Western World, primarily driven by increases in the property class.

**Non-GAAP Financial Measures**

In presenting the Company's results, management has included and discussed certain non-GAAP financial measures. The Company believes that these non-GAAP measures, which may be defined and calculated differently by other companies, better explain and enhance the understanding of the Company's results of operations. However, these measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP.

**Book value financial indicators**

In addition to presenting book value per common share determined in accordance with U.S. GAAP, the Company believes that the key financial indicator for evaluating our performance and measuring the overall growth in value generated for shareholders is book value per diluted common share plus accumulated dividends, a non-GAAP financial measure.

The following tables present reconciliations of book value per common share to book value per diluted common share plus accumulated dividends and other non-GAAP book value financial indicators:

	March 31, 2018		
	Equity Amount	Common Shares	Per Share Amount (a)
Book value per common share (b)	\$3,501,232	79,329,028	\$ 44.14
Non-GAAP Adjustments:			
Unvested restricted shares	—	2,489,888	
Book value per diluted common share (c)	3,501,232	81,818,916	\$ 42.79
Goodwill	(229,573 )	—	
Intangible assets	(169,168 )	—	
Tangible book value per diluted common share (c)	\$3,102,491	81,818,916	\$ 37.92
Book value per diluted common share (c)			\$ 42.79
Accumulated dividends			13.46
Book value per diluted common share plus accumulated dividends (c)			\$ 56.25

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	December 31, 2017		
	Equity Amount	Common Shares	Per Share Amount (a)
Book value per common share <sup>(b)</sup>	\$3,495,072	79,319,550	\$ 44.06
Non-GAAP Adjustments:			
Unvested restricted shares	—	2,503,859	
Book value per diluted common share <sup>(c)</sup>	3,495,072	81,823,409	\$ 42.71
Goodwill	(229,573 )	—	
Intangible assets	(171,411 )	—	
Tangible book value per diluted common share <sup>(c)</sup>	\$3,094,088	81,823,409	\$ 37.81
Book value per diluted common share <sup>(c)</sup>			\$ 42.71
Accumulated dividends			13.08
Book value per diluted common share plus accumulated dividends <sup>(c)</sup>			\$ 55.79

(a) Per share amounts are calculated by dividing the equity amount by the common shares.

(b) The equity amount used in the calculation of book value per common share represents total shareholders' equity available to Validus excluding the liquidation value of the preferred shares.

(c) Non-GAAP financial measure.

Book value per common share, a GAAP financial measure, increased by \$0.08, or 0.2%, from \$44.06 at December 31, 2017 to \$44.14 at March 31, 2018.

Book value per diluted common share plus accumulated dividends, a non-GAAP financial measure, is considered by management to be the key financial indicator of performance, as the Company believes growth in book value on a diluted basis, plus the dividends that have accumulated, ultimately translates into the return that a shareholder will receive. Book value per diluted common share plus accumulated dividends increased by \$0.46, or 0.8%, from \$55.79 at December 31, 2017 to \$56.25 at March 31, 2018. Cash dividends per common share are an integral part of the value created for shareholders. During the three months ended March 31, 2018, the Company paid cash dividends of \$0.38 (2017: \$0.38) per common share.

Book value per diluted common share, a non-GAAP financial measure, is considered by management to be a measure of returns to common shareholders, as the Company believes growth in book value on a diluted basis ultimately translates into growth in stock price. Book value per diluted common share after dividends paid increased by \$0.08, or 0.2%, from \$42.71 at December 31, 2017 to \$42.79 at March 31, 2018.

The change in book value per diluted common share inclusive of dividends paid was 1.1% and 2.9% for the three months ended March 31, 2018 and 2017, respectively.

Tangible book value per diluted common share, a non-GAAP financial measure, is considered by management to be a measure of returns to common shareholders excluding goodwill and other intangible assets, as the Company believes growth in tangible book value on a diluted basis ultimately translates into growth in the tangible value of the Company. Tangible book value per diluted common share increased by \$0.11, or 0.3%, from \$37.81 at December 31, 2017 to \$37.92 at March 31, 2018.

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## Other financial indicators

In addition to presenting net (loss) income (attributable) available to Validus common shareholders determined in accordance with U.S. GAAP, the Company believes that showing net operating income available to Validus common shareholders, a non-GAAP financial measure, provides investors with a valuable measure of profitability and enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the Company's results in a manner similar to how management analyzes the Company's underlying business performance.

Net operating income available to Validus common shareholders is calculated by the addition or subtraction of certain Consolidated Statement of (Loss) Income and Comprehensive Income line items from net (loss) income (attributable) available to Validus common shareholders, the most directly comparable GAAP financial measure, as illustrated in the table below:

	Three Months Ended March	
	31,	
	2018	2017
Net (loss) income (attributable) available to Validus common shareholders	\$(4,078 )	\$94,561
Non-GAAP Adjustments:		
Net realized (gains) losses on investments	(2,200 )	1,164
Change in net unrealized losses (gains) on investments	57,381	(13,348 )
(Income) from investment affiliates	(13,068 )	(5,188 )
Foreign exchange (gains)	(525 )	(1,569 )
Other (income)	(44 )	(94 )
Transaction expenses	7,756	—
Net income attributable to noncontrolling interests	429	728
Tax (benefit) expense <sup>(a)</sup>	(3,094 )	580
Net operating income available to Validus common shareholders <sup>(b)</sup>	\$42,557	\$76,834
Average shareholders' equity available to Validus common shareholders <sup>(c)</sup>	\$3,498,152	\$3,725,084
Annualized return on average equity	(0.5 %)	10.2 %
Annualized net operating return on average equity <sup>(b)</sup>	4.9 %	8.3 %

(a) Represents the tax expense or benefit associated with the specific country to which the pre-tax adjustment relates to. The tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the ability to utilize tax losses carried forward.

(b) Non-GAAP financial measure.

(c) Average shareholders' equity for the three months ended is the average of the beginning and ending quarter end shareholders' equity balances, excluding the liquidation value of the preferred shares.

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## First Quarter 2018 Results of Operations - Consolidated

The following table presents the results of operations for the three months ended March 31, 2018 and 2017:

(Dollars in thousands)	Three Months Ended March 31,		
	2018	2017	
Revenues			
Gross premiums written	\$ 1,832,456	\$ 1,190,857	
Reinsurance premiums ceded	(376,294 )	(200,106 )	
Net premiums written	1,456,162	990,751	
Change in unearned premiums	(837,220 )	(415,375 )	
Net premiums earned	618,942	575,376	
Net investment income	52,072	40,214	
Net realized gains (losses) on investments	2,200	(1,164 )	
Change in net unrealized (losses) gains on investments	(57,381 )	13,348	
Income from investment affiliates	13,068	5,188	
Other insurance related income and other income	25,540	1,330	
Foreign exchange gains	525	1,569	
Total revenues	654,966	635,861	
Expenses			
Losses and loss expenses	321,545	269,585	
Policy acquisition costs	116,456	111,628	
General and administrative expenses	114,726	87,924	
Share compensation expenses	9,729	9,491	
Finance expenses	14,263	13,943	
Transaction expenses	7,756	—	
Total expenses	584,475	492,571	
Income before taxes and (income) attributable to AlphaCat investors	70,491	143,290	
Tax benefit	6,833	3,549	
(Income) attributable to AlphaCat investors	(10,862 )	(7,503 )	
Net income	66,462	139,336	
Net (income) attributable to noncontrolling interests	(64,712 )	(42,572 )	
Net income available to Validus	1,750	96,764	
Dividends on preferred shares	(5,828 )	(2,203 )	
Net (loss) income (attributable) available to Validus common shareholders	\$(4,078 )	\$94,561	
Supplemental information:			
Losses and loss expenses:			
Current period excluding items below	\$ 329,115	\$ 311,054	
Current period—notable loss events	—	—	
Current period—non-notable loss events	—	19,762	
Change in prior accident years	(7,570 )	(61,231 )	
Total losses and loss expenses	\$ 321,545	\$ 269,585	
Selected ratios:			
Ratio of net to gross premiums written	79.5	% 83.2	%
Losses and loss expense ratio:			
Current period excluding items below	53.2	% 54.1	%
Current period—notable loss events	—	% —	%
Current period—non-notable loss events	—	% 3.4	%
Change in prior accident years	(1.2	)% (10.6	)%

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Losses and loss expense ratio	52.0	%	46.9	%
Policy acquisition cost ratio	18.8	%	19.4	%
General and administrative expense ratio	20.1	%	16.9	%
Expense ratio	38.9	%	36.3	%
Combined ratio	90.9	%	83.2	%

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Highlights for the first quarter 2018 were as follows:

Gross premiums written for the three months ended March 31, 2018 were \$1,832.5 million compared to \$1,190.9 million for the three months ended March 31, 2017, an increase of \$641.6 million, or 53.9% driven by increases in all segments.

Reinsurance premiums ceded for the three months ended March 31, 2018 were \$376.3 million compared to \$200.1 million for the three months ended March 31, 2017, an increase of \$176.2 million, or 88.0%. The increase was primarily driven by increases in the Insurance and Reinsurance segments.

Net premiums earned for the three months ended March 31, 2018 were \$618.9 million compared to \$575.4 million for the three months ended March 31, 2017, an increase of \$43.6 million, or 7.6%. The increase was primarily driven by an increase in the Asset Management and Insurance segments and was partially offset by a decrease in the Reinsurance segment.

Losses and loss expenses for the three months ended March 31, 2018 were \$321.5 million compared to \$269.6 million for the three months ended March 31, 2017, an increase of \$52.0 million or 19.3% and included the following:

#### Notable and Non-notable Loss Events

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

#### Notable Loss Events

There were no notable loss events occurring during the three months ended March 31, 2018 or 2017.

#### Non-notable Loss Events

There were no non-notable loss events occurring during the three months ended March 31, 2018.

Losses and loss expenses incurred from a single energy non-notable loss event during the three months ended March 31, 2017 were \$19.8 million, or 3.4 percentage points of the loss ratio. Including reinstatement premiums payable of \$1.0 million, the net loss attributable to Validus was \$20.8 million.

#### Attritional losses

Attritional losses of \$329.1 million, or 53.2 percentage points of the loss ratio during the three months ended March 31, 2018 compared to \$311.1 million, or 54.1 percentage points of the loss ratio during the three months ended March 31, 2017.

#### Change in prior accident years

Loss reserve development for the three months ended March 31, 2018 and 2017 was as follows:

(Dollars in thousands)	Three Months	
	Ended March 31,	
	2018	2017
Adverse (favorable) development on event losses	\$36,546	\$(10,610)
(Favorable) development on attritional losses	(44,116)	(50,621)
Change in prior accident years	\$(7,570)	\$(61,231)

The adverse development on event losses during the three months ended March 31, 2018 was primarily driven by adverse development on the 2017 notable loss events, Hurricanes Irma and Maria and the Northern California Wildfires and was partially offset by favorable development on the 2017 Southern California Wildfires. Excluding the Asset Management segment, which includes losses attributable to AlphaCat's third party investors and noncontrolling interests, favorable development during the three months ended March 31, 2018 was \$33.4 million, which included adverse development of \$6.5 million on event losses. The favorable development for the three months ended March 31, 2017 was primarily driven by favorable development on attritional losses.

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Loss ratio for the three months ended March 31, 2018 and 2017 was 52.0% and 46.9%, respectively, an increase of 5.1 percentage points.

Loss ratios by line of business for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31,	
	2018	2017
Property	45.2%	33.1%
Specialty - Short-tail	50.9%	48.9%
Specialty - Other	65.8%	69.4%
All lines	52.0%	46.9%

Policy acquisition cost ratio for the three months ended March 31, 2018 was 18.8% compared to 19.4% for the three months ended March 31, 2017, a decrease of 0.6 percentage points.

General and administrative (“G&A”) expenses for the three months ended March 31, 2018 were \$114.7 million compared to \$87.9 million for the three months ended March 31, 2017, an increase of \$26.8 million or 30.5%.

General and administrative expenses for the three months ended March 31, 2018 included \$12.0 million of Crop Risk Services (“CRS”) expenses, of which \$1.7 million related to the amortization of intangible assets acquired. The remaining increase was primarily driven by an increase in the performance bonus accrual.

Combined ratio for the three months ended March 31, 2018 and 2017 was 90.9% and 83.2%, respectively, an increase of 7.7 percentage points.

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## First Quarter 2018 Results of Operations - Reinsurance Segment

The following table presents underwriting results by line of business for the three months ended March 31, 2018 and 2017:

(Dollars in thousands)	Three Months Ended March 31, 2018				2017			
	Property	Specialty - Short-tail	Specialty - Other	Total	Property	Specialty - Short-tail	Specialty - Other	Total
Underwriting revenues								
Gross premiums written	\$273,989	\$352,110	\$139,474	\$765,573	\$216,667	\$376,878	\$49,596	\$643,141
Reinsurance premiums ceded	(136,390 )	(31,643 )	(22,161 )	(190,194 )	(88,417 )	(24,591 )	(1,438 )	(114,446 )
Net premiums written	137,599	320,467	117,313	575,379	128,250	352,287	48,158	528,695
Change in unearned premiums	(47,748 )	(223,413 )	(79,466 )	(350,627 )	(25,868 )	(247,936 )	(23,236 )	(297,040 )
Net premiums earned	89,851	97,054	37,847	224,752	102,382	104,351	24,922	231,655
Other insurance related income				2				2
Total underwriting revenues				224,754				231,657
Underwriting deductions								
Losses and loss expenses	29,122	50,907	23,444	103,473	17,437	49,450	13,994	80,881
Policy acquisition costs	17,631	19,760	10,949	48,340	17,884	18,103	7,548	43,535
Total underwriting deductions before G&A	46,753	70,667	34,393	151,813	35,321	67,553	21,542	124,416
Underwriting income before G&A	\$43,098	\$26,387	\$3,454	\$72,941	\$67,061	\$36,798	\$3,380	\$107,241
General and administrative expenses				28,915				19,969
Share compensation expenses				2,663				2,623
Total underwriting deductions				183,391				147,008
Underwriting income				\$41,363				\$84,649

Supplemental information:



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Losses and loss expenses:									
Current period excluding items below	\$33,944	\$64,358	\$23,009	\$121,311	\$21,144	\$71,480	\$14,308	\$106,932	
Current period—notable loss—events		—	—	—	—	—	—	—	
Current period—non-notable—loss events		—	—	—	355	4,718	—	5,073	
Change in prior accident years	(4,822 )	(13,451 )	435	(17,838 )	(4,062 )	(26,748 )	(314 )	(31,124 )	
Total losses and loss expenses	\$29,122	\$50,907	\$23,444	\$103,473	\$17,437	\$49,450	\$13,994	\$80,881	
Selected ratios:									
Ratio of net to gross premiums written	50.2	% 91.0	% 84.1	% 75.2	% 59.2	% 93.5	% 97.1	% 82.2	%
Losses and loss expense ratio:									
Current period excluding items below	37.8	% 66.3	% 60.8	% 53.9	% 20.7	% 68.5	% 57.5	% 46.1	%
Current period—notable loss—events		% —	% —	% —	% —	% —	% —	% —	%
Current period—non-notable—loss events		% —	% —	% —	% 0.3	% 4.5	% —	% 2.2	%
Change in prior accident years	(5.4 )	)% (13.9 )	)% 1.1	% (7.9 )	)% (4.0 )	)% (25.6 )	)% (1.3 )	)% (13.4 )	)%
Losses and loss expense ratio	32.4	% 52.4	% 61.9	% 46.0	% 17.0	% 47.4	% 56.2	% 34.9	%
Policy acquisition cost ratio	19.6	% 20.4	% 28.9	% 21.5	% 17.5	% 17.3	% 30.3	% 18.8	%
General and administrative expense ratio				14.1	%			9.8	%
Expense ratio				35.6	%			28.6	%
Combined ratio				81.6	%			63.5	%

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Highlights for the first quarter 2018 were as follows:

Gross premiums written for the three months ended March 31, 2018 were \$765.6 million compared to \$643.1 million for the three months ended March 31, 2017, an increase of \$122.4 million, or 19.0% and included the following:

Property premiums of \$274.0 million during the three months ended March 31, 2018, compared to \$216.7 million during the three months ended March 31, 2017, an increase of \$57.3 million, or 26.5%, primarily driven by increased participation on a number of catastrophe excess of loss programs and new proportional business written;

Specialty - short-tail premiums of \$352.1 million during the three months ended March 31, 2018, compared to \$376.9 million during the three months ended March 31, 2017, a decrease of \$24.8 million, or 6.6%. The decrease was primarily driven by the non-renewal of one significant agriculture contract and was partially offset by new composite business written; and

Specialty - other premiums of \$139.5 million during the three months ended March 31, 2018, compared to \$49.6 million during the three months ended March 31, 2017, an increase of \$89.9 million, or 181.2%, primarily driven by new casualty business written and the timing of renewals.

Reinsurance premiums ceded for the three months ended March 31, 2018 were \$190.2 million compared to \$114.4 million for the three months ended March 31, 2017, an increase of \$75.7 million, or 66.2%. The increase was primarily driven by an increase in the property lines of \$48.0 million as a result of new aggregate and proportional covers purchased and an increase in the specialty - other lines of \$20.7 million as a result of a new casualty retrocession cover.

Net premiums earned for the three months ended March 31, 2018 were \$224.8 million compared to \$231.7 million for the three months ended March 31, 2017, a decrease of \$6.9 million, or 3.0%.

Losses and loss expenses for the three months ended March 31, 2018 were \$103.5 million compared to \$80.9 million for the three months ended March 31, 2017, an increase of \$22.6 million or 27.9% and included the following:

Notable Loss Events

There were no notable loss events occurring during the three months ended March 31, 2018 or 2017.

Non-notable Loss Events

There were no non-notable loss events occurring during the three months ended March 31, 2018.

Losses and loss expenses incurred from a single energy non-notable loss event during the three months ended March 31, 2017 were \$5.1 million, or 2.2 percentage points of the loss ratio and related primarily to the specialty - short-tail lines.

Attritional losses

Attritional losses of \$121.3 million, or 53.9 percentage points of the loss ratio during the three months ended March 31, 2018 compared to \$106.9 million, or 46.1 percentage points of the loss ratio during the three months ended March 31, 2017. The increase in the attritional loss ratio was primarily due to \$10.0 million of losses from Winter Storm Friederike which did not meet the non-notable loss threshold and the earned impact of higher retrocession purchases as noted above.

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Change in prior accident years

Loss reserve development for the three months ended March 31, 2018 and 2017 was as follows:

(Dollars in thousands)	Three Months Ended March 31, 2018			
	Property	Specialty	Specialty	Total
		Short-tail	- Other	
Adverse development on event losses	\$ 857	\$ 3,348	\$ 450	\$ 4,655
(Favorable) development on attritional losses	(5,679 )	(16,799 )	(15 )	(22,493 )
Change in prior accident years	\$(4,822)	\$(13,451)	\$ 435	\$(17,838)
(Dollars in thousands)	Three Months Ended March 31, 2017			
	Property	Specialty	Specialty	Total
		Short-tail	- Other	
Adverse (favorable) development on event losses	\$ 2,623	\$(8,670 )	\$ 194	\$(5,853 )
(Favorable) development on attritional losses	(6,685 )	(18,078 )	(508 )	(25,271 )
Change in prior accident years	\$(4,062)	\$(26,748)	\$ (314 )	\$(31,124)

The net favorable development for the three months ended March 31, 2018 and 2017 was primarily driven by favorable development on attritional losses. The favorable development on event losses during the three months ended March 31, 2017 was primarily related to the 2015 Pemex notable loss event.

Loss ratio for the three months ended March 31, 2018 and 2017 was 46.0% and 34.9%, respectively, an increase of 11.1 percentage points.

Policy acquisition cost ratio for the three months ended March 31, 2018 was 21.5% compared to 18.8% for the three months ended March 31, 2017, an increase of 2.7 percentage points. The increase was primarily driven by the earned impact of higher retrocession purchases as noted above and a change in business mix in the specialty classes.

General and administrative expenses for the three months ended March 31, 2018 were \$28.9 million compared to \$20.0 million for the three months ended March 31, 2017, an increase of \$8.9 million or 44.8%. The increase was primarily driven by an increase in the performance bonus accrual and a higher allocation of costs to the segment.

Combined ratio for the three months ended March 31, 2018 and 2017 was 81.6% and 63.5%, respectively, an increase of 18.1 percentage points.

Underwriting income for the three months ended March 31, 2018 was \$41.4 million compared to \$84.6 million for the three months ended March 31, 2017, a decrease of \$43.3 million or 51.1%.

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## First Quarter 2018 Results of Operations - Insurance Segment

On May 1, 2017, the Company completed its acquisition of CRS. The results of CRS have been presented within the specialty - short-tail line of business in the Insurance segment from the date of acquisition.

The following table presents underwriting results by line of business for the three months ended March 31, 2018 and 2017:

(Dollars in thousands)	Three Months Ended March 31, 2018				2017			
	Property	Specialty - Short-tail	Specialty - Other	Total	Property	Specialty - Short-tail	Specialty - Other	Total
Underwriting revenues								
Gross premiums written	\$91,958	\$538,322	\$155,515	\$785,795	\$81,547	\$179,221	\$122,022	\$382,790
Reinsurance premiums ceded	(47,055 )	(105,303 )	(39,279 )	(191,637 )	(33,263 )	(26,554 )	(19,183 )	(79,000 )
Net premiums written	44,903	433,019	116,236	594,158	48,284	152,667	102,839	303,790
Change in unearned premiums	30,084	(312,988 )	(11,716 )	(294,620 )	19,990	(40,070 )	(4,616 )	(24,696 )
Net premiums earned	74,987	120,031	104,520	299,538	68,274	112,597	98,223	279,094
Other insurance related income				2,170				996
Total underwriting revenues				301,708				280,090
Underwriting deductions								
Losses and loss expenses	53,552	59,674	70,163	183,389	59,487	55,708	71,415	186,610
Policy acquisition costs	16,556	21,481	22,020	60,057	13,823	26,618	20,751	61,192
Total underwriting deductions before G&A	70,108	81,155	92,183	243,446	73,310	82,326	92,166	247,802
Underwriting income before G&A	\$4,879	\$38,876	\$12,337	\$58,262	\$(5,036 )	\$30,271	\$6,057	\$32,288
General and administrative expenses				68,050				45,276
Share compensation expenses				2,989				3,373
Total underwriting deductions				314,485				296,451
Underwriting (loss)				\$(12,777 )				\$(16,361 )

Supplemental  
information:Losses and loss  
expenses:

Current period excluding items below	\$49,484	\$71,875	\$77,578	\$198,937	\$53,464	\$67,471	\$77,675	\$198,610	
Current period—notable loss— events	—	—	—	—	—	—	—	—	
Current period—non-notable— loss events	—	—	—	—	14,689	—	—	14,689	
Change in prior accident years	4,068	(12,201 )	(7,415 )	(15,548 )	(8,666 )	(11,763 )	(6,260 )	(26,689 )	
Total losses and loss expenses	\$53,552	\$59,674	\$70,163	\$183,389	\$59,487	\$55,708	\$71,415	\$186,610	
Selected ratios:									
Ratio of net to gross premiums written	48.8	% 80.4	% 74.7	% 75.6	% 59.2	% 85.2	% 84.3	% 79.4	%
Losses and loss expense ratio:									
Current period excluding items below	66.0	% 59.9	% 74.2	% 66.4	% 78.3	% 59.9	% 79.1	% 71.2	%
Current period—notable loss— events	% —	% —	% —	% —	% —	% —	% —	% —	%
Current period—non-notable— loss events	% —	% —	% —	% —	% 21.5	% —	% —	% 5.3	%
Change in prior accident years	5.4	% (10.2 )	% (7.1 )	% (5.2 )	% (12.7 )	% (10.4 )	% (6.4 )	% (9.6 )	%
Losses and loss expense ratio	71.4	% 49.7	% 67.1	% 61.2	% 87.1	% 49.5	% 72.7	% 66.9	%
Policy acquisition cost ratio	22.1	% 17.9	% 21.1	% 20.0	% 20.2	% 23.6	% 21.1	% 21.9	%
General and administrative expense ratio				23.7	%			17.4	%
Expense ratio				43.7	%			39.3	%
Combined ratio				104.9	%			106.2	%

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Highlights for the first quarter 2018 were as follows:

Gross premiums written for the three months ended March 31, 2018 were \$785.8 million compared to \$382.8 million for the three months ended March 31, 2017, an increase of \$403.0 million, or 105.3% and included the following:

Property premiums of \$92.0 million during the three months ended March 31, 2018, compared to \$81.5 million during the three months ended March 31, 2017, an increase of \$10.4 million, or 12.8%;

Specialty - short-tail premiums of \$538.3 million during the three months ended March 31, 2018, compared to \$179.2 million during the three months ended March 31, 2017, an increase of \$359.1 million, or 200.4%. The increase was primarily driven by new agriculture business written through CRS; and

Specialty - other premiums of \$155.5 million during the three months ended March 31, 2018, compared to \$122.0 million during the three months ended March 31, 2017, an increase of \$33.5 million, or 27.4%, primarily driven by increased participation on renewals and the build out of product offerings in U.S. liability lines.

Reinsurance premiums ceded for the three months ended March 31, 2018 were \$191.6 million compared to \$79.0 million for the three months ended March 31, 2017, an increase of \$112.6 million, or 142.6%. The increase was primarily driven by an increase in the specialty - short-tail lines of \$78.7 million driven by ceded agriculture premiums relating to new business written through CRS and an increase in the specialty - other lines of \$20.1 million as a result of the continued build out of U.S. liability lines as noted above.

Net premiums earned for the three months ended March 31, 2018 were \$299.5 million compared to \$279.1 million for the three months ended March 31, 2017, an increase of \$20.4 million, or 7.3%. The increase was primarily due to agriculture net premiums earned relating to new business written through CRS.

Losses and loss expenses for the three months ended March 31, 2018 were \$183.4 million compared to \$186.6 million for the three months ended March 31, 2017, a decrease of \$3.2 million or 1.7% and included the following:

## Notable Loss Events

There were no notable loss events occurring during the three months ended March 31, 2018 or 2017.

## Non-notable Loss Events

There were no non-notable loss events occurring during the three months ended March 31, 2018.

Losses and loss expenses incurred from a single energy non-notable loss event during the three months ended March 31, 2017 were \$14.7 million, or 5.3 percentage points of the loss ratio and related solely to the property lines.

## Attritional losses

Attritional losses of \$198.9 million, or 66.4 percentage points of the loss ratio during the three months ended March 31, 2018 compared to \$198.6 million, or 71.2 percentage points of the loss ratio during the three months ended March 31, 2017.

## Change in prior accident years

Loss reserve development for the three months ended March 31, 2018 and 2017 was as follows:

(Dollars in thousands)	Three Months Ended March 31, 2018			
	Property- Short-tail	Specialty	Specialty	Total
		-	- Other	
Adverse (favorable) development on event losses	\$2,934	\$(887 )	\$(156 )	\$1,891
Adverse (favorable) development on attritional losses	1,134	(11,314 )	(7,259 )	(17,439 )
Change in prior accident years	\$4,068	\$(12,201)	\$(7,415)	\$(15,548)

## Three Months Ended March 31, 2017

(Dollars in thousands)	Property - Short-tail	Specialty	Specialty	Total
		-	- Other	
	(Favorable) development on event losses	\$(800 )	\$(3,730 )	\$(1 )
(Favorable) development on attritional losses	(7,866 )	(8,033 )	(6,259 )	(22,158 )
Change in prior accident years	\$(8,666)	\$(11,763)	\$(6,260)	\$(26,689)

The net favorable development for the three months ended March 31, 2018 and 2017 was primarily driven by favorable development on attritional losses.



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Loss ratio for the three months ended March 31, 2018 and 2017 was 61.2% and 66.9%, respectively, a decrease of 5.7 percentage points.

Policy acquisition cost ratio for the three months ended March 31, 2018 was 20.0% compared to 21.9% for the three months ended March 31, 2017, a decrease of 1.9 percentage points.

General and administrative expenses for the three months ended March 31, 2018 were \$68.1 million compared to \$45.3 million for the three months ended March 31, 2017, an increase of \$22.8 million or 50.3%. General and administrative expenses for the three months ended March 31, 2018 included \$12.0 million of CRS expenses, of which \$1.7 million related to the amortization of intangible assets acquired. The remaining increase was primarily driven by an increase in the performance bonus accrual and a higher allocation of costs to the segment.

Combined ratio for the three months ended March 31, 2018 and 2017 was 104.9% and 106.2%, respectively, a decrease of 1.3 percentage points.

Underwriting (loss) for the three months ended March 31, 2018 was \$(12.8) million compared to \$(16.4) million for the three months ended March 31, 2017, a decrease of \$3.6 million or 21.9%.



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## First Quarter 2018 Results of Operations - Asset Management Segment

The following table presents the Asset Management segment income on an asset manager basis for the three months ended March 31, 2018 and 2017:

(Dollars in thousands)	Three Months Ended		
	March 31,		
	2018	2017	
Fee revenues			
Third party	\$6,209	\$4,644	
Related party	443	631	
Total fee revenues	6,652	5,275	
Expenses			
General and administrative expenses	4,547	3,844	
Share compensation expenses	41	82	
Finance expenses	78	31	
Tax (benefit)	(7	) (1	)
Foreign exchange losses (gains)	1	(1	)
Total expenses	4,660	3,955	
Income before investment income from funds and sidecars	1,992	1,320	
Investment income (loss) from funds and sidecars <sup>(a)</sup>			
AlphaCat Sidecars	32	(112	)
AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>	1,234	2,189	
AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>	3,820	2,367	
BetaCat ILS Funds	186	368	
Validus' share of investment income from funds and sidecars	5,272	4,812	
Asset Management segment income	\$7,264	\$6,132	
Gross premiums written			
AlphaCat Sidecars	\$(143	) \$66	
AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>	109,950	52,908	
AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>	165,896	93,536	
AlphaCat Direct <sup>(c)</sup>	10,922	18,416	
Total	\$286,625	\$164,926	

(a) The investment income (loss) from funds and sidecars is based on equity accounting.

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

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

Highlights for the first quarter 2018 were as follows:

Fee revenues earned for the three months ended March 31, 2018 were \$6.7 million compared to \$5.3 million during the three months ended March 31, 2017, an increase of \$1.4 million or 26.1%. Third party fee revenues earned during the three months ended March 31, 2018 were \$6.2 million compared to \$4.6 million during the three months ended March 31, 2017, an increase of \$1.6 million or 33.7%. The increase in third party fee revenues was primarily driven by an increase in management fees as a result of an increase in assets under management over the last twelve months. Total expenses for the three months ended March 31, 2018 were \$4.7 million compared to \$4.0 million during the three months ended March 31, 2017, an increase of \$0.7 million, or 17.8%. The increase was driven by a higher allocation of costs to the segment.

Validus' share of investment income from AlphaCat Funds and Sidecars for the three months ended March 31, 2018 was \$5.3 million compared to \$4.8 million during the three months ended March 31, 2017, an increase of \$0.5

million, or 9.6%.

Asset Management segment income for the three months ended March 31, 2018 was \$7.3 million compared to \$6.1 million during the three months ended March 31, 2017, an increase of \$1.1 million, or 18.5%.

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## Assets Under Management

(Dollars in thousands)	Assets Under Management <sup>(a)</sup>	
	April 1, 2018	January 1, 2018
Assets Under Management - Related Party <sup>(a)</sup>		
AlphaCat Sidecars	\$4,777	\$5,631
AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>	75,283	75,898
AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>	74,253	68,290
AlphaCat Direct <sup>(c)</sup>	—	—
BetaCat ILS Funds	25,104	24,914
Total	\$179,417	\$174,733
Assets Under Management - Third Party <sup>(a)</sup>		
AlphaCat Sidecars	\$17,120	\$20,565
AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>	1,741,804	1,663,606
AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>	1,157,510	1,029,224
AlphaCat Direct <sup>(c)</sup>	490,716	443,730
BetaCat ILS Funds	77,547	67,046
Total	3,484,697	3,224,171
Total Assets Under Management <sup>(a)</sup>	\$3,664,114	\$3,398,904

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

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

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

Assets under management were \$3.7 billion as at April 1, 2018, compared to \$3.4 billion as at January 1, 2018, of which third party assets under management were \$3.5 billion as at April 1, 2018, compared to \$3.2 billion as at January 1, 2018. During the three months ended April 1, 2018, a total of \$200.4 million of capital was raised, of which \$198.1 million was raised from third parties. During the three months ended April 1, 2018, \$4.3 million was returned to investors, of which \$3.4 million was returned to third party investors.

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## First Quarter 2018 Results - Corporate and Investments

The following table presents the Corporate and Investment function's income and expense items on a consolidated basis for the three months ended March 31, 2018 and 2017:

(Dollars in thousands)	Three Months	
	Ended March 31, 2018	2017
Managed investments		
Managed net investment income <sup>(a)</sup>	\$39,791	\$36,192
Net realized gains (losses) on managed investments <sup>(a)</sup>	1,142	(2,892 )
Change in net unrealized (losses) gains on managed investments <sup>(a)</sup>	(56,777 )	14,349
Income from investment affiliates	13,068	5,188
Total managed investment return	(2,776 )	52,837
Corporate expenses		
General and administrative expenses	12,309	17,961
Share compensation expenses	4,036	3,413
Finance expenses <sup>(a)</sup>	14,090	13,864
Dividends on preferred shares	5,828	2,203
Tax (benefit) <sup>(a)</sup>	(6,826 )	(3,548 )
Total Corporate expenses	29,437	33,893
Other items		
Foreign exchange (losses) gains <sup>(a)</sup>	(3 )	1,103
Other income	44	94
Transaction expenses	(7,756 )	—
Total other items	(7,715 )	1,197
Total Corporate and Investments	\$(39,928)	\$20,141

<sup>(a)</sup> These items exclude the components which are included in the Asset Management segment income and amounts which are consolidated from VIEs.

## Managed investments

Highlights for the first quarter 2018 were as follows:

Managed net investment income for the three months ended March 31, 2018 was \$39.8 million compared to \$36.2 million for the three months ended March 31, 2017, an increase of \$3.6 million, or 9.9%.

Annualized effective yield on managed investments for the three months ended March 31, 2018 was 2.33%, compared to 2.27% for the three months ended March 31, 2017, an increase of 6 basis points.

Net realized gains on managed investments for the three months ended March 31, 2018 were \$1.1 million compared to (losses) of \$(2.9) million for the three months ended March 31, 2017.

Change in net unrealized (losses) on managed investments for the three months ended March 31, 2018 of \$(56.8) million compared to gains \$14.3 million for the three months ended March 31, 2017. Changes in unrealized (losses) on managed investments during the three months ended March 31, 2018 were primarily driven by the impact of interest rate increases on the Company's managed fixed maturity portfolio.

Income from investment affiliates for the three months ended March 31, 2018 was \$13.1 million compared to \$5.2 million for the three months ended March 31, 2017, an increase of \$7.9 million, or 151.9%. The income from investment affiliates represents equity earnings on investments in funds managed by Aquiline Capital Partners LLC.

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Corporate expenses and other items

Highlights for the first quarter 2018 were as follows:

General and administrative expenses for the three months ended March 31, 2018 were \$12.3 million compared to \$18.0 million for the three months ended March 31, 2017, a decrease of \$5.7 million, or 31.5%. The decrease was primarily driven by a higher allocation of costs to reporting segments during the three months ended March 31, 2018.

Share compensation expenses for the three months ended March 31, 2018 were \$4.0 million compared to \$3.4 million for the three months ended March 31, 2017, an increase of \$0.6 million, or 18.3%.

Finance expenses for the three months ended March 31, 2018 were \$14.1 million compared to \$13.9 million for the three months ended March 31, 2017, an increase of \$0.2 million, or 1.6%.

Dividends on preferred shares for the three months ended March 31, 2018 were \$5.8 million compared to \$2.2 million for the three months ended March 31, 2017, an increase of \$3.6 million, or 164.5% due to \$250.0 million of new preferred shares issued during the second quarter of 2017.

Tax (benefit) for the three months ended March 31, 2018 was \$(6.8) million compared to \$(3.5) million for the three months ended March 31, 2017. The tax (benefit) during the three months ended March 31, 2018 mainly related to operating losses in the Insurance segment and unrealized losses on the Company's investment portfolio.

Foreign exchange (losses) for the three months ended March 31, 2018 were \$nil compared to gains of \$1.1 million for the three months ended March 31, 2017.

Transaction expenses for the three months ended March 31, 2018 were \$7.8 million compared to \$nil for the three months ended March 31, 2017 and were primarily composed of legal and financial advisory services in relation to the Company's Merger with AIG.

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## Liquidity and Capital Resources

## Investments

Managed investments represent assets governed by the Company's Investment Policy Statement ("IPS") whereas, non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company's IPS. Refer to Note 6, "Variable interest entities," to the Consolidated Financial Statements in Part I, Item 1 for further details.

The fair value of the Company's investments, cash and cash equivalents and restricted cash as at March 31, 2018 and December 31, 2017 was as follows:

	Fair Value	
	March 31, 2018	December 31, 2017
Managed investments, cash and cash equivalents and restricted cash		
Fixed maturities		
U.S. government and government agency	\$589,161	\$727,397
Non-U.S. government and government agency	318,345	312,239
U.S. states, municipalities and political subdivisions	184,964	201,303
Agency residential mortgage-backed securities	968,258	978,049
Non-agency residential mortgage-backed securities	43,487	40,373
U.S. corporate	1,534,805	1,533,395
Non-U.S. corporate	415,156	422,249
Bank loans	468,815	442,951
Asset-backed securities	741,712	658,303
Commercial mortgage-backed securities	318,392	312,395
Total fixed maturities	5,583,095	5,628,654
Short-term investments	188,251	230,011
Other investments		
Hedge funds	15,758	15,774
Private equity investments	79,774	78,407
Fixed income investment funds	200,944	204,426
Overseas deposits	60,770	56,611
Total other investments	357,246	355,218
Investments in investment affiliates <sup>(a)</sup>	113,471	100,137
Cash and cash equivalents	666,527	691,687
Restricted cash	70,968	62,848
Total managed investments, cash and cash equivalents and restricted cash	\$6,979,558	\$7,068,555
Non-managed investments, cash and cash equivalents and restricted cash		
Catastrophe bonds	\$219,927	\$229,694
Short-term investments	3,450,689	3,151,746
Cash and cash equivalents	5,646	63,303
Restricted cash	231,309	331,815
Total non-managed investments, cash and cash equivalents and restricted cash	3,907,571	3,776,558
Total investments and cash	\$10,887,129	\$10,845,113

<sup>(a)</sup> The Company's investments in investment affiliates have been treated as equity method investments with the corresponding gains and losses recorded in income as "Income from investment affiliates."

As at March 31, 2018, the Company's managed cash and investment portfolio totaled \$7.0 billion (December 31, 2017: \$7.1 billion). Refer to Note 4 to the Consolidated Financial Statements, "Investments," in Part I, Item 1 for further details related to the Company's managed investments.

A significant portion of (re)insurance contracts written by the Company provide short-tail reinsurance coverage for losses resulting mainly from natural and man-made catastrophes, which could result in payment of a substantial amount of losses at short notice. Accordingly, the Company's investment portfolio is primarily structured to provide liquidity, which means the investment portfolio contains a significant amount of relatively short-term fixed maturity investments. The Company's IPS specifically requires certain minimum thresholds of cash, short-term investments, and highly-rated fixed maturity securities relative to our consolidated

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net reserves and estimates of probable maximum loss exposures at the 1 in 100 year threshold to provide necessary liquidity in a wide range of reasonable scenarios. As such, the Company structures its managed cash and investment portfolio to support policyholder reserves and contingent risk exposures with a liquid portfolio of high quality fixed-income investments with a comparable duration profile.

The Company's IPS requires managed investments to have an average duration in the range of 0.75 years to 3.25 years. At March 31, 2018, the average duration of the Company's managed investment portfolio was 2.19 years (December 31, 2017: 2.17 years). This duration is reviewed regularly based on changes in the duration of the Company's liabilities and general market conditions.

The Company's IPS also requires certain minimum credit quality standards for its managed fixed maturity portfolio, including a minimum weighted average portfolio rating of A+ for securities with ratings. Further limits on asset classes and security types are also mandated. In addition, the Company stress-tests the downside risks within its asset portfolio using internal and external inputs and stochastic modeling processes to help define and limit asset risks to acceptable levels that are consistent with our overall ERM framework. At March 31, 2018, the Company's rated managed fixed maturity portfolio had an average credit quality rating of A+ (December 31, 2017: AA-). Refer to Note 4(a) to the Consolidated Financial Statements, "Investments," in Part I, Item 1 for further details related to the investment ratings of the Company's fixed maturity portfolio.

The value of the Company's managed fixed maturity portfolio will fluctuate with, among other factors, changes in the interest rate environment and in overall economic conditions. Additionally, the structure of the Company's overall managed investment portfolio exposes the Company to other risks, including insolvency or reduced credit quality of corporate debt securities, prepayment, default and structural risks on asset-backed securities, mortgage-backed securities and bank loans and liquidity risks on certain other investments, including hedge funds, fixed income investment funds and private equity investments. For further details on market risks, refer to Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

	March 31, 2018		
(Dollars in thousands)	Fair Value	% of Total	
Supranational	\$70,161	9.6	%
Germany	59,199	8.1	%
Canada	40,512	5.5	%
Province of Ontario	30,784	4.2	%
France	25,457	3.5	%
United Kingdom	15,804	2.2	%
Netherlands	10,610	1.4	%
Other (individual jurisdictions below \$10,000)	65,818	9.0	%
Total Managed Non-U.S. Government Securities	318,345	43.5	%
European Corporate Securities	156,345	21.2	%
U.K. Corporate Securities	121,808	16.6	%
Other Non-U.S. Corporate Securities	137,003	18.7	%
Total Managed Non-U.S. Fixed Maturity Portfolio	\$733,501	100.0	%



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(Dollars in thousands)	December 31, 2017		
	Fair Value	% of Total	
Germany	\$71,287	9.7	%
Supranational	60,200	8.2	%
Canada	38,805	5.3	%
Province of Ontario	31,069	4.2	%
United Kingdom	19,886	2.7	%
France	14,066	1.9	%
Netherlands	10,348	1.4	%
Other (individual jurisdictions below \$10,000)	66,578	9.1	%
Total Managed Non-U.S. Government Securities	312,239	42.5	%
European Corporate Securities	139,779	19.0	%
U.K. Corporate Securities	122,534	16.7	%
Other Non-U.S. Corporate Securities	159,936	21.8	%
Total Managed Non-U.S. Fixed Maturity Portfolio	\$734,488	100.0	%

At March 31, 2018, the Company did not have an aggregate exposure to any single issuer of more than 0.9% (December 31, 2017: 0.9%) of managed cash and investments, other than with respect to government and agency securities. The top ten exposures to fixed income corporate issuers at March 31, 2018 and December 31, 2017 were as follows:

Issuer <sup>(a)</sup>	March 31, 2018			% of Managed Investments, Cash and Restricted Cash	
	Fair Value <sup>(b)</sup>	Rating <sup>(c)</sup>	Cash		
JPMorgan Chase & Co.	\$62,897	BBB+	0.9	%	
Morgan Stanley	55,645	BBB+	0.8	%	
Goldman Sachs Group	55,316	BBB+	0.8	%	
Citigroup Inc.	49,566	BBB+	0.7	%	
Bank of America Corp.	48,184	BBB+	0.7	%	
Wells Fargo & Company	47,163	A	0.7	%	
HSBC Holdings plc	34,960	A	0.5	%	
CVS Health Corp.	33,611	BBB	0.5	%	
AT&T Inc.	30,973	BBB+	0.4	%	
International Business Machines Corp.	30,303	A+	0.4	%	
Total	\$448,618		6.4	%	

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Issuer <sup>(a)</sup>	December 31, 2017		% of	
	Fair Value <sup>(b)</sup>	Rating <sup>(c)</sup>	Cash and Equivalents and Restricted Cash	Managed Investments, Cash and Equivalents and Restricted Cash
JPMorgan Chase & Co.	\$67,079	BBB+	0.9	%
Citigroup Inc.	59,438	BBB+	0.8	%
Morgan Stanley	56,503	BBB+	0.8	%
Bank of America Corp.	51,579	A-	0.7	%
Goldman Sachs Group	49,679	BBB+	0.7	%
Wells Fargo & Company	45,545	A	0.6	%
AT&T Inc.	34,615	BBB+	0.5	%
HSBC Holdings plc	33,972	A	0.5	%
Bank of New York Mellon Corp.	32,592	A	0.5	%
Capital One Financial Corporation	29,145	BBB+	0.4	%
Total	\$460,147		6.4	%

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

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

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

## Reserve for Losses and Loss Expenses

At March 31, 2018 and 2017, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The following tables indicate the breakdown of gross and net reserves for losses and loss expenses between lines of business and between case reserves and IBNR.

(Dollars in thousands)	March 31, 2018		December 31, 2017			
	Gross Case Reserves	Gross IBNR	Total Gross Reserve for Losses and Expenses	Gross Case Reserves	Gross IBNR	Total Gross Reserve for Losses and Expenses
Property	\$898,512	\$1,314,079	\$2,212,591	\$893,180	\$1,398,563	\$2,291,743
Specialty - Short-tail	537,548	746,147	1,283,695	515,450	930,062	1,445,512
Specialty - Other	334,218	802,125	1,136,343	345,214	748,921	1,094,135
Total	\$1,770,278	\$2,862,351	\$4,632,629	\$1,753,844	\$3,077,546	\$4,831,390
(Dollars in thousands)	March 31, 2018		December 31, 2017			
	Net IBNR		Net IBNR			

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	Net Case Reserves		Total Net Reserve for Losses and Loss Expenses	Net Case Reserves	Total Net Reserve for Losses and Loss Expenses	
Property	\$768,768	\$809,606	\$1,578,374	\$732,289	\$820,301	\$1,552,590
Specialty - Short-tail	464,911	614,369	1,079,280	435,201	653,693	1,088,894
Specialty - Other	300,785	694,246	995,031	310,904	645,005	955,909
Total	\$1,534,464	\$2,118,221	\$3,652,685	\$1,478,394	\$2,118,999	\$3,597,393

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The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by operating segment for the three months ended March 31, 2018.

(Dollars in thousands)	Three Months Ended March 31, 2018			
	Reinsurance Segment	Insurance Segment	Asset Management Segment	Total
Reserve for losses and loss expenses, beginning of period	\$ 1,816,654	\$ 2,300,437	\$ 714,299	\$ 4,831,390
Loss reserves recoverable	(548,131 )	(640,866 )	(45,000 )	(1,233,997 )
Net reserves for losses and loss expenses, beginning of period	1,268,523	1,659,571	669,299	3,597,393
Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in:				
Current year	121,311	198,937	8,867	329,115
Prior years	(17,838 )	(15,548 )	25,816	(7,570 )
Total net incurred losses and loss expenses	103,473	183,389	34,683	321,545
Foreign exchange loss	8,683	6,803	141	15,627
Less net losses and loss expenses paid in respect of losses occurring in:				
Current year	(3,081 )	(16,654 )	—	(19,735 )
Prior years	(93,307 )	(192,024 )	23,186	(262,145 )
Total net paid losses	(96,388 )	(208,678 )	23,186	(281,880 )
Net reserves for losses and loss expenses, end of period	1,284,291	1,641,085	727,309	3,652,685
Loss reserves recoverable	529,574	450,370	—	979,944
Reserve for losses and loss expenses, end of period	\$ 1,813,865	\$ 2,091,455	\$ 727,309	\$ 4,632,629

For further information regarding the Company's reserves for losses and loss expenses refer to Note 9 to the Consolidated Financial Statements, "Reserve for losses and loss expenses," in Part I, Item 1. The amount of recorded reserves represents management's best estimate of expected losses and loss expenses on premiums earned. For the three months ended March 31, 2018, net favorable loss reserve development on prior accident years was \$7.6 million, of which \$17.8 million related to the Reinsurance segment and \$15.5 million related to the Insurance segment. The favorable development was partially offset by \$25.8 million of adverse development related to the Asset Management segment.

The management of (re)insurance companies use significant judgment in the estimation of reserves for losses and loss expenses. Given the magnitude of some notable loss events and other uncertainties inherent in loss estimation, meaningful uncertainty remains regarding the estimation for these events. The Company's actual ultimate net loss may vary materially from these estimates. Ultimate losses for notable loss events are estimated through detailed review of contracts which are identified by the Company as potentially exposed to the specific notable loss event. However, there can be no assurance that the ultimate loss amount estimated for a specific contract will be accurate, or that all contracts with exposure to a specific notable loss event will be identified in a timely manner. Potential losses in excess of the estimated ultimate loss assigned to a contract on the basis of a specific review, or loss amounts from contracts not specifically included in the detailed review may be reserved for in the reserve for potential development on notable loss events ("RDE") and would be included as part of the Company's overall reserves. As at March 31, 2018, the Company had no RDE.

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

2016 Notable Loss Events	Initial estimate <sup>(a)</sup>	Year Ended December 31, 2016		Year Ended December 31, 2017		Three Months Ended March 31, 2018	
		(Favorable) Closing Estimate <sup>(b)</sup>	Unfavorable	(Favorable) Closing Estimate <sup>(b)</sup>	Unfavorable	(Favorable) Closing Estimate <sup>(b)</sup>	Unfavorable
Canadian Wildfires	\$36,915	\$(17,265)	\$ 19,650	\$(162 )	\$ 19,488	\$1	\$ 19,489
Hurricane Matthew	39,140	—	39,140	9,222	48,362	(1,372 )	46,990
2016 New Zealand Earthquake	31,421	—	31,421	—	31,421	—	31,421
Total	\$107,476	\$(17,265)	\$ 90,211	\$9,060	\$99,271	\$(1,371 )	\$97,900

2016 Notable Loss Events	Paid Loss	Closing Reserve <sup>(c)</sup>	Paid Loss	Closing Reserve <sup>(c)</sup>	Paid Loss	Closing Reserve <sup>(c)</sup>
Hurricane Matthew	6,712	32,428	25,090	16,560	1,642	13,546
2016 New Zealand Earthquake	—	31,421	817	30,604	65	30,539
Total	\$12,388	\$ 77,823	\$29,981	\$56,902	\$1,872	\$53,659

2017 Notable Loss Events	Initial estimate <sup>(a)</sup>	Development (Favorable) Closing Estimate <sup>(b)</sup>		Development (Favorable) Closing Estimate <sup>(b)</sup>	
		Unfavorable	Unfavorable	Unfavorable	Unfavorable
Hurricane Harvey	\$247,409	\$65,795	\$313,204	\$(458 )	\$312,746
Hurricane Irma	518,559	(60,414 )	458,145	37,320	495,465
Hurricane Maria	160,207	(10,856 )	149,351	10,658	160,009
Northern California Wildfires	87,754	—	87,754	7,068	94,822
Southern California Wildfires	38,495	—	38,495	(25,050 )	13,445
Total	\$1,052,424	\$(5,475 )	\$1,046,949	\$29,538	\$1,076,487

2017 Notable Loss Events	Paid Loss	Closing Reserve <sup>(c)</sup>	Paid Loss	Closing Reserve <sup>(c)</sup>
Hurricane Irma	119,045	339,100	21,080	355,340
Hurricane Maria	9,817	139,534	1,668	148,524
Northern California Wildfires	12,172	75,582	1,067	81,583
Southern California Wildfires	—	38,495	461	12,984
Total	\$200,044	\$846,905	\$38,306	\$838,137

(a) Includes paid losses, case reserves and IBNR reserves.

(b) Excludes impact of movements in foreign exchange rates.

(c) Closing Reserve for the period equals closing estimate for the period less cumulative paid losses.

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## Sources of Liquidity

## Holding Company Liquidity

Validus Holdings, Ltd. is a holding company and conducts no operations of its own. The Company relies primarily on cash dividends and other permitted payments from operating subsidiaries within the Reinsurance, Insurance, and Asset Management segments to pay dividends, finance expenses and other holding company expenses. There are restrictions on the payment of dividends from most operating subsidiaries, primarily due to regulatory requirements in the jurisdictions in which the operating subsidiaries are domiciled. The Company believes the dividend/distribution capacity of the Company's subsidiaries will provide the Company with sufficient liquidity for the foreseeable future. The Company continues to generate substantial cash from operating activities and remains in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing capital structure to meet its short and long-term objectives.

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

(Dollars in thousands)	March 31, 2018	December 31, 2017
Validus Reinsurance, Ltd. (excluding capital supporting FAL) <sup>(a) (b)</sup>	\$3,952,489	\$3,898,905
Talbot Holdings, Ltd. (including capital supporting FAL) <sup>(b)</sup>	815,158	824,946
Other, net	(81,229)	(44,057)
Redeemable noncontrolling interests in AlphaCat	1,423,110	1,004,094
Noncontrolling interests in AlphaCat	334,357	16,718
Total consolidated capitalization	6,443,885	5,700,606
Senior notes payable	(245,614)	(245,564)
Debentures payable	(539,572)	(539,158)
Redeemable noncontrolling interests in AlphaCat	(1,423,110)	(1,004,094)
Total shareholders' equity	4,235,589	3,911,790
Preferred shares <sup>(c)</sup>	(400,000)	(400,000)
Noncontrolling interests in AlphaCat	(334,357)	(16,718)
Total shareholders' equity available to Validus common shareholders <sup>(c)</sup>	\$3,501,232	\$3,495,072

(a) Validus Reinsurance, Ltd. (excluding capital supporting FAL) includes capital of \$691,901 (December 31, 2017: \$702,932) relating to Western World Insurance Group, Inc.

Validus Reinsurance, Ltd. (excluding capital supporting FAL) excludes capital of \$586,260 (December 31, 2017: \$599,077) which supports Talbot's FAL. This capital was included in Talbot Holdings, Ltd. (including capital supporting FAL).

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

## Sources and Uses of Cash

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

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



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There are three main sources of cash flows for the Company: operating activities, investing activities and financing activities. The movement in net cash provided by or used in operating, investing and financing activities and the effect of foreign currency rate changes on cash and cash equivalents and restricted cash for the three months ended March 31, 2018 and 2017 is provided in the following table:

	Three Months Ended March 31,	
(Dollars in thousands)	2018	2017
Net cash provided by operating activities	\$ 45,942	\$ 17,799
Net cash (used in) provided by investing activities	(271,787 )	177,601
Net cash provided by financing activities	34,535	24,354
Effect of foreign currency rate changes on cash and cash equivalents and restricted cash	16,107	5,798
Net increase in cash and cash equivalents and restricted cash	\$ (175,203 )	\$ 225,552
<b>Operating Activities</b>		

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

Net cash provided by operating activities during three months ended March 31, 2018 and 2017 was \$45.9 million and \$17.8 million, respectively. The favorable movement of \$28.1 million during the three months ended March 31, 2018 compared to 2017 was primarily due to the timing of cash receipts and payments, notably with regard to premiums receivable and losses payable, respectively.

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

**Investing Activities**

Cash flow (used in) provided by investing activities is primarily from net (purchases) sales made in the Company’s investment portfolio. As at March 31, 2018, the Company’s portfolio was composed of fixed income, short-term and other investments and investments in investment affiliates amounting to \$9.9 billion or 91.0% of total cash and investments. For further details related to investments pledged as collateral, refer to Note 4 to the Consolidated Financial Statements, “Investments,” in Part I Item 1.

Net cash (used in) investing activities during the three months ended March 31, 2018 was \$(271.8) million compared to net cash provided by investing activities of \$177.6 million during the three months ended March 31, 2017. The increase in net cash used in investing activities of \$449.4 million during the three months ended March 31, 2018 compared to 2017 was primarily driven by an increase in purchases of fixed maturity investments in the Company’s managed portfolio and an increase in purchases of short-term investments in the Company’s non-managed portfolio primarily on behalf of AlphaCat investors.

**Financing Activities**

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



AlphaCat investors, and is partially offset by repurchases of shares in the Company and the payment of dividends. Net cash provided by financing activities during the three months ended March 31, 2018 and 2017 was \$34.5 million and \$24.4 million, respectively.

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## Capital Resources

The following table details the Company's capital position as at March 31, 2018 and December 31, 2017:

(Dollars in thousands)	March 31, 2018	December 31, 2017		
Senior Notes <sup>(a)</sup>	\$245,614	\$245,564		
Junior Subordinated Deferrable Debentures (JSDs) <sup>(a)</sup>	289,800	289,800		
Flagstone Junior Subordinated Deferrable Debentures (JSDs) <sup>(a)</sup>	249,772	249,358		
Total debt	785,186	784,722		
Redeemable noncontrolling interests	1,423,110	1,004,094		
Preferred shares, liquidation value <sup>(b)</sup>	400,000	400,000		
Ordinary shares, capital and surplus available to Validus common shareholders	3,491,827	3,517,264		
Accumulated other comprehensive income (loss)	9,405	(22,192 )		
Noncontrolling interests	334,357	16,718		
Total shareholders' equity	\$4,235,589	\$3,911,790		
Total capitalization <sup>(c)</sup>	\$6,443,885	\$5,700,606		
Total capitalization available to Validus <sup>(d)</sup>	\$4,686,418	\$4,679,794		
Debt to total capitalization	12.2	% 13.8		%
Debt (excluding JSDs) to total capitalization	3.8	% 4.3		%
Debt and preferred shares to total capitalization	18.4	% 20.8		%
Debt to total capitalization available to Validus	16.8	% 16.8		%
Debt (excluding JSDs) to total capitalization available to Validus	5.2	% 5.2		%
Debt and preferred shares to total capitalization available to Validus	25.3	% 25.3		%

<sup>(a)</sup> Refer to Part I, Item 1, Note 13 to the Consolidated Financial Statements, "Debt and financing arrangements," for further details and discussion on the debt and financing arrangements of the Company.

<sup>(b)</sup> Refer to Part I, Item 1, Note 11 to the Consolidated Financial Statements, "Share capital," for further details and discussion on the Company's preferred shares.

<sup>(c)</sup> Total capitalization equals total shareholders' equity plus redeemable noncontrolling interests and total debt.

<sup>(d)</sup> Total capitalization available to Validus equals total capitalization (as per (c)) less redeemable noncontrolling interests and noncontrolling interests.

## Shareholders' Equity

Shareholders' equity available to Validus common shareholders at March 31, 2018 and December 31, 2017 was \$3.5 billion. Including the liquidation value of preferred shares, shareholders' equity available to Validus at March 31, 2018 and December 31, 2017 was \$3.9 billion.

On February 7, 2018, the Company announced a quarterly cash dividend of \$0.38 per common share, payable on March 29, 2018 to shareholders of record on March 15, 2018. The Company also announced a cash dividend of \$0.3671875 and \$0.3625000 per depository share on the outstanding Series A and Series B Preferred Shares, respectively. The Series A and Series B Preferred Share dividends are payable on March 15, 2018 to shareholders of record on March 1, 2018.

The timing and amount of any future cash dividends, however, will be at the discretion of the Board and will depend upon results of operations and cash flows, the Company's financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that the Board deems relevant.

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. The Company has repurchased 81,035,969 common shares for an aggregate

purchase price of \$2.7 billion from the inception of the share repurchase program to April 30, 2018. The Company had \$293.4 million remaining under its authorized share repurchase program as of April 30, 2018.

The Company may make purchases under its share repurchase program 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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## Debt and financing arrangements

For additional information about our debt, including the terms of our financing arrangements, basis for interest rates and debt covenants, refer to Part I, Item 1, Note 13 to the Consolidated Financial Statements, “Debt and financing arrangements,” and Part II, Item 8, Note 19 to the Consolidated Financial Statements, “Debt and financing arrangements,” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

## Noncontrolling interests

Investors in certain of the AlphaCat and BetaCat ILS funds have rights that enable them, subject to certain limitations, to redeem their shares. Such investments held by third parties are therefore recorded in the Company’s Consolidated Balance Sheets as redeemable noncontrolling interests, a mezzanine item between liabilities and shareholders’ equity. If and when a redemption notice is received, the fair value of the redemption is reclassified to accounts payable and accrued expenses. As at March 31, 2018 and December 31, 2017, the amount of the Company’s total capitalization owed to third parties as redeemable noncontrolling interests was \$1.4 billion and \$1.0 billion, respectively.

The AlphaCat sidecars and one of the AlphaCat ILS funds have no shareholder redemption rights. Therefore, the third party equity is recorded in the Company’s Consolidated Balance Sheets as noncontrolling interests. As at March 31, 2018 and December 31, 2017, the amount of the Company’s total capitalization owed to third parties as noncontrolling interests was \$334.4 million and \$16.7 million, respectively. Refer to Part I, Item 1, Notes 6 and 7 to the Consolidated Financial Statements, “Variable Interest Entities,” and “Noncontrolling interests,” respectively, for further details.

## Ratings

The following table summarizes the financial strength ratings of the Company and its principal (re)insurance subsidiaries from internationally recognized rating agencies as of May 2, 2018:

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

A.M. Best has placed all Validus Holdings, Ltd. ratings “under review with developing implications” following the announcement by the Company of the entry into a definitive agreement and plan of merger with AIG on January 22, 2018. The ratings will remain under review until the transaction closes and A.M. Best completes its evaluation of organizational changes and strategic position within the new structure.



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Recent Accounting Pronouncements

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

Critical Accounting Policies and Estimates

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

- the reserve for losses and loss expenses;
- the premium written on a line slip or proportional basis;
- the valuation of goodwill and intangible assets;
- the loss reserves recoverable, including the provision for uncollectible amounts; and
- the valuation of invested assets and other financial instruments.

Critical accounting policies and estimates are discussed further in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Any prospectus, prospectus supplement, the Company’s Annual Report to shareholders, any proxy statement, any other Form 10-K, Form 10-Q or Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements that reflect the Company’s current views with respect to future events and financial performance. These projections, goals, assumptions and statements are not historical facts but instead represent only the Company’s belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Company’s control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as “will,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “focused on achieving,” “view,” “target,” “goal,” or “estimate.” All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Company’s actual results and financial condition to differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements and, therefore, you should not place undue reliance on any such statement.

We believe that these factors include, but are not limited to, the following:

- unpredictability and severity of catastrophic events;
- our ability to obtain and maintain ratings, which may affect by our ability to raise additional equity or debt financings, as well as other factors described herein;
- adequacy of the Company’s risk management and loss limitation methods;
- cyclicality of demand and pricing in the (re)insurance markets;
- the Company’s ability to implement its business strategy during “soft” as well as “hard” markets;
- adequacy of the Company’s loss reserves;
- continued availability of capital and financing;
- the Company’s ability to identify, hire and retain, on a timely and unimpeded basis and on anticipated economic and other terms, experienced and capable senior management, as well as underwriters, claims professionals and support staff;
- acceptance of our business strategy, security and financial condition by rating agencies and regulators, as well as by brokers and (re)insureds;
- competition, including increased competition, on the basis of pricing, capacity, coverage terms or other factors;
- potential loss of business from one or more major insurance or reinsurance brokers;

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the Company’s ability to implement, successfully and on a timely basis, complex infrastructure, distribution capabilities, systems, procedures and internal controls, and to develop accurate actuarial data to support the business and regulatory and reporting requirements;

general economic and market conditions (including inflation, volatility in the credit and capital markets, interest rates and foreign currency exchange rates) and conditions specific to the (re)insurance markets in which we operate;

the integration of businesses we may acquire or new business ventures, including overseas offices, we may start and the risk associated with implementing our business strategies and initiatives with respect to the new business ventures;

accuracy of those estimates and judgments used in the preparation of our financial statements, including those related to revenue recognition, insurance and other reserves, reinsurance recoverables, investment valuations, intangible assets, bad debts, taxes, contingencies, litigation and any determination to use the deposit method of accounting, which, for a relatively new (re)insurance company like our company, are even more difficult to make than those made in a mature company because of limited historical information;

the effect on the Company’s investment portfolio of changing financial market conditions including inflation, interest rates, liquidity and other factors;

acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;

availability and cost of reinsurance and retrocession coverage;

the failure of reinsurers, retrocessionaires, producers or others to meet their obligations to us;

the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;

changes in domestic or foreign laws or regulations, or their interpretations;

changes in accounting principles or the application of such principles by regulators;

statutory or regulatory or rating agency developments, including as to tax policy and reinsurance and other regulatory matters such as the adoption of proposed legislation that would affect Bermuda-headquartered companies and/or Bermuda based insurers or reinsurers;

termination of or changes in the terms of the U.S. MPCI program and termination or changes to the U.S. Farm Bill, including modifications to the SRA put in place by the Risk Management Agency of the U.S. Department of Agriculture;

the inability to complete the proposed transaction with AIG (the “proposed transaction”) because, among other reasons, conditions to the closing of the proposed transaction may not be satisfied or waived;

uncertainty as to the timing of completion of the proposed transaction;

the inability to complete the proposed transaction due to the failure to satisfy conditions to completion of the proposed transaction, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the transaction;

the occurrence of any event, change or other circumstances that could give rise to the termination of the proposed transaction;

risks related to disruption of management’s attention from the Company’s ongoing business operations due to the proposed transaction;

the effect of the announcement of the proposed transaction on the Company’s relationships with its clients, operating results and business generally;

the outcome of any legal proceedings to the extent initiated against the Company or others following the announcement of the proposed transaction; and

the other factors set forth herein under Part I Item 1A “Risk Factors” and under Part II Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the other sections of this Annual Report on Form 10-K for the year ended December 31, 2017, as well as the risk and other factors set forth in the Company’s other filings with the SEC, as well as management’s response to any of the aforementioned factors.

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

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

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

For quantitative and qualitative disclosures about market risk, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The Company’s exposure to market risks has not changed materially since December 31, 2017.

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

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

**Changes in Internal Control Over Financial Reporting**

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

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

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

As at March 31, 2018, the Company was not a party to, or involved in any litigation or arbitration that it believes could have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

**ITEM 1A. RISK FACTORS**

The Company’s results of operations and financial condition are subject to numerous risks and uncertainties described in “Risk Factors” included in Item 1A in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

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

The Company, from time to time, repurchases its shares in the open market, or in privately negotiated transactions, under its share repurchase program. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. Share repurchases may also include repurchases by the Company of shares from employees in order to facilitate the payment of withholding taxes on restricted shares that have vested. The Company repurchases these shares at their fair market value, as determined by reference to the closing price of its common shares on the day the restricted shares vested. The Company's share repurchase program may be modified, extended or terminated by its Board of Directors at any time.

The Company did not repurchase any common shares during the three months ended March 31, 2018. A summary of the common share repurchases made to date under the Company's previously announced share repurchase programs is as follows:

(Dollars in thousands, except share and per share amounts)	Total shares repurchased under publicly announced repurchase program			
	Total number of shares repurchased	Aggregate Purchase Price <sup>(a)</sup>	Average Price per Share <sup>(a)</sup>	Approximate dollar value of shares that may yet be purchased under the Program
Cumulative inception-to-date to April 30, 2018	81,035,969	\$2,730,975	\$ 33.70	\$ 293,426

<sup>(a)</sup> Share transactions are on a trade date basis through April 30, 2018 and are inclusive of commissions. Average share price is rounded to two decimal places.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

## ITEM 5. OTHER INFORMATION

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

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

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

Certain of the Company's non-U.S. subsidiaries provide global marine hull, war, cargo and liability policies that provide coverage for vessels navigating into and out of ports worldwide. In light of EU and U.S. modifications to Iran sanctions in 2016, including the issuance of General License H, and consistent with General License H, the Company has been notified that certain of its policyholders have begun to ship cargo to and from Iran, including transporting crude oil from Iran to another country and transporting refined petroleum products to Iran. Since these policies insure multiple voyages and fleets containing multiple ships, the Company is unable to attribute gross revenues and net profits from such marine policies to these activities involving Iran. The Company intends for its non-U.S. subsidiaries to continue to provide such coverage to the extent permitted by applicable law.

Certain of the Company's other non-U.S. subsidiaries have policies that provide excess of loss reinsurance coverage for various risks worldwide. In light of EU and U.S. modifications to Iran sanctions in 2016, including the issuance of General License H, and consistent with General License H, the Company has been notified by certain of its cedants that they either provide or intend to provide aviation spare parts coverage or marine and hull, war and related coverage for certain risks involving Iran. As the reinsurance coverage provided to these cedants covers multiple global risks and

multiple insureds, the Company is unable to attribute gross revenues and net profits from such policy to these activities involving Iran. The Company intends for its non-U.S. subsidiaries to continue to provide such coverage to the extent permitted by applicable law.

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ITEM 6. EXHIBITS

Exhibit Number	Description of Document
<u>2.1</u>	<u>Agreement and Plan of Merger, dated as of January 21, 2018, by and among Validus Holdings Ltd., American International Group, Inc. and Venus Holdings Limited (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 22, 2018)</u>
<u>31.1</u>	<u>*Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002</u>
<u>31.2</u>	<u>*Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002</u>
<u>32</u>	<u>*Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002</u>
101.1 INS	*XBRL Instance Document
101.SCH	*XBRL Taxonomy Extension Schema Document
101.CAL	*XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	*XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	*XBRL Taxonomy Extension Definition Linkbase Document
	*Filed herewith

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SIGNATURES

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

VALIDUS HOLDINGS, LTD.

(Registrant)

Date: May 2, 2018 /s/ Edward J. Noonan

Edward J. Noonan

Chief Executive Officer

Date: May 2, 2018 /s/ Jeffrey D. Sangster

Jeffrey D. Sangster

Executive Vice President and Chief Financial Officer