VALIDUS HOLDINGS LTD
Form 10-Q
November 08, 2013

Table of Contents

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

Form 10-Q

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

For the quarterly period ended September 30, 2013

Commission file number 001-33606

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

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

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

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

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

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

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

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

As of November 6, 2013 there were 99,404,743 outstanding Common Shares, $0.175 par value per share, of the registrant.

1

Table of Contents

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

Validus Holdings, Ltd.
Consolidated Balance Sheets
As at September 30, 2013 (unaudited) and December 31, 2012
(Expressed in thousands of U.S. dollars, except share and per share information)

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Fixed maturities, at fair value (amortized cost: 2013—$5,415,864; 2012—$5,008,514)	$5,438,265	$5,085,334
Short-term investments at fair value (amortized cost: 2013—$761,631; 2012—$1,112,[illegible])	761,642	1,114,250
Other investments at fair value (cost: 2013—$606,485; 2012—$583,068)	559,472	564,448
Cash and cash equivalents	1,254,618	1,219,379
Total investments and cash	8,013,997	7,983,411
Investments in affiliates	111,814	172,329
Premiums receivable	1,050,073	802,159
Deferred acquisition costs	166,539	146,588
Prepaid reinsurance premiums	169,062	99,593
Securities lending collateral	1,021	225
Loss reserves recoverable	421,518	439,967
Paid losses recoverable	30,074	46,435
Income taxes recoverable	4,127	—
Intangible assets	107,449	110,569
Goodwill	20,393	20,393
Accrued investment income	17,821	21,321
Other assets	203,480	177,274
Total assets	$10,317,368	$10,020,264
Liabilities		
Reserve for losses and loss expenses	$3,223,735	$3,517,573
Unearned premiums	1,169,830	894,362
Reinsurance balances payable	159,590	138,550
Securities lending payable	1,487	691
Deferred income taxes	22,993	20,259
Net payable for investments purchased	33,066	38,346
Accounts payable and accrued expenses	139,098	167,577
Variable funding notes	437,970	—
Senior notes payable	247,171	247,090
Debentures payable	541,127	540,709
Total liabilities	$5,976,067	$5,565,157
Commitments and contingent liabilities		
Shareholders' equity		

Common shares, 571,428,571 authorized, par value $0.175 (Issued: 2013—154,386,316; 2012—152,698,191; Outstanding: 2013—99,897,996; 2012—107,921,259)	$27,018	$26,722
Treasury shares (2013—54,488,320; 2012—44,776,932)	(9,535)	(7,836)
Additional paid-in-capital	1,824,342	2,160,478
Accumulated other comprehensive (loss)	(3,872)	(2,953)
Retained earnings	1,946,209	1,844,416
Total shareholders' equity available to Validus	3,784,162	4,020,827
Noncontrolling interest	557,139	434,280
Total shareholders' equity	$4,341,301	$4,455,107
Total liabilities and shareholders' equity	$10,317,368	$10,020,264

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

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Comprehensive Income
For the Three and Nine Months Ended September 30, 2013 and 2012 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended		Nine Months Ended	
	September 30, 2013 (unaudited)	September 30, 2012 (unaudited)	September 30, 2013 (unaudited)	September 30, 2012 (unaudited)
Revenues				
Gross premiums written	$356,760	$390,215	$2,163,833	$1,854,593
Reinsurance premiums ceded	(39,415)	(45,743)	(348,027)	(271,847)
Net premiums written	317,345	344,472	1,815,806	1,582,746
Change in unearned premiums	213,943	130,632	(205,999)	(208,816)
Net premiums earned	531,288	475,104	1,609,807	1,373,930
Net investment income	20,009	25,489	71,868	79,134
Net realized (losses) gains on investments	(6,320)	9,063	(1,190)	22,749
Net unrealized gains (losses) on investments	69,967	86,345	(78,618)	53,442
Income (loss) from investment affiliate	1,044	(160)	4,274	(558)
Other (loss) income	(2,806)	7,324	4,297	22,209
Foreign exchange gains	6,036	1,103	4,735	3,617
Total revenues	619,218	604,268	1,615,173	1,554,523
Expenses				
Losses and loss expenses	177,965	155,455	587,780	541,136
Policy acquisition costs	94,900	98,623	275,663	252,884
General and administrative expenses	81,089	70,547	232,335	198,557
Share compensation expenses	10,527	7,345	19,483	19,583
Finance expenses	27,132	9,362	89,408	39,347
Transaction expenses	—	3,784	—	3,784
Total expenses	391,613	345,116	1,204,669	1,055,291
Income before taxes and income from operating affiliates	227,605	259,152	410,504	499,232
Tax (expense) benefit	(5)	(1,343)	220	(1,886)
Income from operating affiliates	1,463	6,235	8,779	13,194
Net income	$229,063	$264,044	$419,503	$510,540
Net (income) loss attributable to noncontrolling interest	(45,694)	(56,746)	17,831	(11,386)
Net income available to Validus	$183,369	$207,298	$437,334	$499,154
Other comprehensive income (loss)				
Foreign currency translation adjustments	4,390	1,400	(5,209)	2,036
Other comprehensive income (loss)	$4,390	$1,400	$(5,209)	$2,036
Comprehensive income available to Validus	$187,759	$208,698	$432,125	$501,190

Earnings per share				
Weighted average number of common shares and common share equivalents outstanding				
Basic	99,834,563	93,368,775	103,451,396	97,016,034
Diluted	103,613,766	98,236,490	105,264,913	102,333,515
Basic earnings per share available to common shareholders	$1.82	$2.20	$4.06	$5.09
Diluted earnings per share available to common shareholders	$1.77	$2.11	$3.99	$4.88
Cash dividends declared per share	$0.30	$0.25	$2.90	$0.75

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

3

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Shareholders' Equity
For the Nine Months Ended September 30, 2013 and 2012 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	September 30, 2013 (unaudited)	September 30, 2012 (unaudited)
Common shares		
Balance - Beginning of period	$26,722	$23,538
Common shares issued, net	296	373
Balance - End of period	$27,018	$23,911
Treasury shares		
Balance - Beginning of period	$(7,836)	$(6,131)
Repurchase of common shares	(1,699)	(1,418)
Balance - End of period	$(9,535)	$(7,549)
Additional paid-in capital		
Balance - Beginning of period	$2,160,478	$1,893,890
Common shares (redeemed) issued, net	(134)	2,551
Repurchase of common shares	(355,485)	(258,257)
Share compensation expenses	19,483	19,583
Balance - End of period	$1,824,342	$1,657,767
Accumulated other comprehensive (loss)		
Balance - Beginning of period	$(2,953)	$(6,601)
Amounts reclassified to retained earnings	4,290	—
Other comprehensive (loss) income	(5,209)	2,036
Balance - End of period	$(3,872)	$(4,565)
Retained earnings		
Balance - Beginning of period	$1,844,416	$1,543,729
Dividends	(331,251)	(78,594)
Net income	419,503	510,540
Net income (loss) attributable to noncontrolling interest	17,831	(11,386)
Amounts reclassified from accumulated other comprehensive (loss)	(4,290)	—
Balance - End of period	$1,946,209	$1,964,289
Total shareholders' equity available to Validus	$3,784,162	$3,633,853
Noncontrolling interest	$557,139	$461,486
Total shareholders' equity	$4,341,301	$4,095,339

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

Table of Contents

Validus Holdings, Ltd.
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2013 and 2012 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	September 30, 2013 (unaudited)	September 30, 2012 (unaudited)
Cash flows provided by (used in) operating activities		
Net income	$419,503	$510,540
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Share compensation expenses	19,483	19,583
Amortization of discount on senior notes	81	81
(Income) loss from investment affiliate	(4,274)	558
Net realized losses (gains) on investments	1,190	(22,749)
Net unrealized losses (gains) on investments	78,618	(53,442)
Amortization of intangible assets	3,120	3,120
(Income) from operating affiliates	(8,779)	(13,194)
Foreign exchange losses (gains) included in net income	4,927	(17,064)
Amortization of premium on fixed maturities	14,870	19,214
Change in:		
Premiums receivable	(226,154)	(132,292)
Deferred acquisition costs	(19,951)	(33,951)
Prepaid reinsurance premiums	(69,469)	(53,407)
Loss reserves recoverable	20,411	57,574
Paid losses recoverable	16,218	54,559
Income taxes recoverable	(3,099)	(5,041)
Accrued investment income	3,466	6,015
Other assets	(11,214)	(16,050)
Reserve for losses and loss expenses	(293,673)	(80,954)
Unearned premiums	275,468	262,223
Reinsurance balances payable	(634)	(33,487)
Deferred income taxes	2,565	6,241
Accounts payable and accrued expenses	(37,183)	4,948
Net cash provided by operating activities	185,490	483,025
Cash flows provided by (used in) investing activities		
Proceeds on sales of investments	3,598,080	2,528,442
Proceeds on maturities of investments	406,079	385,642
Purchases of fixed maturities	(4,414,320)	(2,832,179)
Sales of short-term investments, net	348,554	5,123
(Purchases) of other investments	(21,793)	(499,178)
(Increase) in securities lending collateral	(796)	(2,387)
Redemption from (purchase of) investment in operating affiliates	86,657	(26,500)
Purchase of investment in investment affiliate	(13,089)	(3,798)
Net cash (used in) investing activities	(10,628)	(444,835)

Cash flows provided by (used in) financing activities		
Net proceeds on issuance of variable funding notes	418,299	—
Issuance of common shares, net	162	2,924
Purchases of common shares under share repurchase program	(357,184)	(259,675)
Dividends paid	(329,201)	(81,391)
Increase in securities lending payable	796	2,387
Third party investment in noncontrolling interest	140,690	450,100
Net cash (used in) provided by financing activities	(126,438)	114,345
Effect of foreign currency rate changes on cash and cash equivalents	(13,185)	20,450
Net increase in cash	35,239	172,985
Cash and cash equivalents - beginning of period	$1,219,379	$832,844
Cash and cash equivalents - end of period	$1,254,618	$1,005,829
Taxes paid during the period	$438	$3,640
Interest paid during the period	$44,112	$37,122

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

Table of Contents

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

1. Basis of preparation and consolidation

These unaudited consolidated financial statements include Validus Holdings, Ltd. and its subsidiaries (together, the "Company") and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2012, as filed with the U.S. Securities and Exchange Commission (the "SEC").
In the opinion of management, these unaudited consolidated financial statements reflect all adjustments (including normal recurring adjustments) considered necessary for a fair presentation of the Company's financial position and results of operations as at the end of and for the periods presented. Certain amounts in prior periods have been reclassified to conform to current period presentation. All intercompany accounts and transactions have been eliminated. The preparation of 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. The significant estimates reflected in the Company's consolidated financial statements include the reserve for losses and loss expenses, premium estimates for business written on a line slip or proportional basis, reinsurance premiums ceded and reinsurance recoverable balances including the provision for unrecoverable reinsurance recoverable balances and investment valuation. Actual results could differ materially from those estimates. The results of operations for any interim period are not necessarily indicative of the results for a full year.
The term "ASC" used in these notes refers to the Accounting Standard Codification issued by the United States Financial Accounting Standards Board ("FASB").
On November 30, 2012, the Company acquired all of the outstanding common shares of Flagstone Reinsurance Holdings, S.A. ("Flagstone") in exchange for 0.1935 Company common shares and $2.00 in cash per Flagstone common share (the "Flagstone Acquisition"). For segmental reporting purposes, the results of Flagstone’s operations since the acquisition date have been included within the Validus Re segment in the consolidated financial statements.
On April 25, 2013, the Company acquired Longhorn Re, Ltd., a single contract Bermuda domiciled crop reinsurer.

2. Recent accounting pronouncements

(a) Adoption of new accounting standards

Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, "Disclosures about Offsetting Assets and Liabilities" ("ASU 2011-11"). The objective of ASU 2011-11 is to enhance disclosures by requiring improved information about financial instruments and derivative instruments in relation to netting arrangements.
Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities
In January 2013, the FASB issued Accounting Standards Update No. 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” (“ASU 2013-01”). The objective of ASU 2013-01 is to address implementation issues about the scope of ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. The amendments clarify

that the scope of ASU 2011-11 applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either or subject to an enforceable master netting arrangement or similar agreement. Entities with other types of financial assets and financial liabilities subject to a master netting arrangement or similar agreement also are affected because these amendments make them no longer subject to the disclosure requirements in ASU 2011-11. ASU 2011-11 and 2013-01 became effective for fiscal periods beginning on or after January 1, 2013, and as a result, the Company adopted ASU 2011-11 and 2013-01 effective January 1, 2013. The adoption of these new accounting standards impacts disclosures only; therefore they did not have an impact on the Company's consolidated financial statements. Please refer to Note 7: "Derivative instruments".

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

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income
In February 2013, the FASB issued Accounting Standard Update No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (“ASU 2013-02”). The objective of this update is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. The amendments became effective for reporting periods beginning after December 15, 2012, and as a result, the Company adopted ASU 2013-02 effective January 1, 2013. Please refer to Note 14 "Accumulated other comprehensive income (loss)."
Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes
In July 2013, the FASB issued Accounting Standard Update No. 2013-10, “Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes” (“ASU 2013-10”). The amendments in this Update permit the Fed Funds Effective Swap Rate also referred to as the overnight index swap rate (“OIS”) to be used as a U.S. benchmark interest rate for hedge accounting purposes in addition to U.S. Treasury rate and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. Before the amendments in this Update, only the U.S. Treasury rate and the LIBOR swap rate were considered benchmark interest rates in the United States. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this standard update did not have an impact on the Company's consolidated financial statements.

(b) Recently issued accounting standards not yet adopted

In March 2013, the FASB issued Accounting Standard Update No. 2013-05, “Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity” (“ASU 2013-05”). The objective of this update is to resolve the diversity in practice about whether Subtopic 810-10, Consolidation-Overall, or Subtopic 830-30, Foreign Currency Matters-Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary within a foreign entity. The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. Early adoption is permitted. The Company is currently evaluating the impact of this guidance; however it is not expected to have a material impact on the Company's consolidated financial statements.
In June 2013, the FASB issued Accounting Standard Update No. 2013-08, “Financial Services - Investment Companies - Amendments to the Scope, Measurement, and Disclosure Requirements” (“ASU 2013-08”). The amendments in this Update change the assessment of whether an entity is an investment company by developing a new two-tiered approach for that assessment, which requires an entity to possess certain fundamental characteristics while allowing judgment in assessing other typical characteristics. The new approach requires an entity to assess all of the characteristics of an investment company and consider its purpose and design to determine whether it is an investment company. The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. Early adoption is prohibited. The Company is currently evaluating the impact of this guidance; however it is not expected to have a material impact on the Company's consolidated financial statements.

In July 2013, the FASB issued Accounting Standard Update No. 2013-11 “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists” (“ASU 2013-11”). This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. To the extent a net operating loss carryforward is not available to settle any additional income taxes that would result from the disallowance of a tax position at the reporting date, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The amendments in this Update are effective for fiscal years beginning after December 15, 2013. The Company is currently evaluating the impact of this guidance; however it is not expected to have a material impact on the Company's consolidated financial statements.

Table of Contents

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

3. Investments

(a) Trading Securities

The Company's investments in fixed maturities, short-term investments and other investments are classified as trading and carried at fair value, with related net unrealized gains or losses included in earnings.

The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments at September 30, 2013 were as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and government agency	$1,319,499	$4,313	$(3,329)	$1,320,483
Non-U.S. government and government agency	401,149	4,028	(1,180)	403,997
U.S. states, municipalities and political subdivisions	43,912	440	(423)	43,929
Agency residential mortgage-backed securities	313,177	8,384	(1,360)	320,201
Non-agency residential mortgage-backed securities	24,029	164	(1,062)	23,131
U.S. corporate	1,363,418	10,616	(6,889)	1,367,145
Non-U.S. corporate	686,656	5,658	(3,264)	689,050
Bank loans	732,922	5,421	(1,885)	736,458
Catastrophe bonds	56,504	2,358	—	58,862
Asset-backed securities	474,598	1,279	(868)	475,009
Total fixed maturities	5,415,864	42,661	(20,260)	5,438,265
Total short-term investments	761,631	12	(1)	761,642
Other investments				
Fund of hedge funds	3,274	97	(921)	2,450
Private equity investments	12,493	2,259	(79)	14,673
Hedge funds (a)	584,519	46,087	(97,261)	533,345
Mutual funds	6,199	2,805	—	9,004
Total other investments	606,485	51,248	(98,261)	559,472
Total	$6,783,980	$93,921	$(118,522)	$6,759,379
Noncontrolling interest (a)	$(527,850)	$(40,887)	$87,535	$(481,202)
Total investments excluding noncontrolling interest	$6,256,130	$53,034	$(30,987)	$6,278,177

(a) Included in the hedge funds balance are investments held by PaCRe in which the Company has an equity interest of 10%. The remaining 90% interest is held by third party investors.

Table of Contents

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

The amortized cost (or cost), gross unrealized gains and (losses) and estimated fair value of investments at December 31, 2012 were as follows:

	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government and government agency	$1,091,357	$7,957	$(84)	$1,099,230
Non-U.S. government and government agency	295,602	6,904	(227)	302,279
U.S. states, municipalities and political subdivisions	41,286	800	(23)	42,063
Agency residential mortgage-backed securities	375,368	13,708	(202)	388,874
Non-agency residential mortgage-backed securities	106,536	1,266	(1,346)	106,456
U.S. corporate	1,189,173	21,681	(681)	1,210,173
Non-U.S. corporate	582,115	11,373	(223)	593,265
Bank loans	663,217	10,593	(427)	673,383
Catastrophe bonds	56,757	481	(291)	56,947
Asset-backed securities	607,103	5,767	(206)	612,664
Total fixed maturities	5,008,514	80,530	(3,710)	5,085,334
Total short-term investments	1,112,929	1,349	(28)	1,114,250
Other investments				
Fund of hedge funds	4,677	299	(219)	4,757
Private equity investments	12,857	94	—	12,951
Hedge funds (a)	559,335	21,814	(42,623)	538,526
Mutual funds	6,199	2,015	—	8,214
Total other investments	583,068	24,222	(42,842)	564,448
Total	$6,704,511	$106,101	$(46,580)	$6,764,032
Noncontrolling interest (a)	(450,000)	(19,427)	36,690	(432,737)
Total investments excluding noncontrolling interest	$6,254,511	$86,674	$(9,890)	$6,331,295

(a) Included in the hedge funds balance are investments held by PaCRe in which the Company has an equity interest of 10%. The remaining 90% interest is held by third party investors.

Table of Contents

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

The following table sets forth certain information regarding the investment ratings of the Company's fixed maturities portfolio as at September 30, 2013 and December 31, 2012. Investment ratings are the lower of Moody's or Standard & Poor's rating for each investment security, presented in Standard & Poor's equivalent rating. For investments where Moody's and Standard & Poor's ratings are not available, Fitch ratings are used and presented in Standard & Poor's equivalent rating.

	September 30, 2013			December 31, 2012		
	Estimated Fair Value	% of Total		Estimated Fair Value	% of Total	
AAA	$776,896	14.3	%	$1,062,794	20.9	%
AA	2,256,592	41.5	%	1,862,322	36.6	%
A	1,196,037	22.0	%	1,049,969	20.6	%
BBB	423,228	7.8	%	374,447	7.4	%
Investment grade	4,652,753	85.6	%	4,349,532	85.5	%
BB	356,205	6.5	%	373,907	7.4	%
B	397,888	7.3	%	330,416	6.5	%
CCC	4,754	0.1	%	4,483	0.1	%
CC	2,821	0.1	%	3,259	0.1	%
D/NR	23,844	0.4	%	23,737	0.4	%
Non-Investment grade	785,512	14.4	%	735,802	14.5	%
Total Fixed Maturities	$5,438,265	100.0	%	$5,085,334	100.0	%

The amortized cost and estimated fair value amounts for fixed maturity securities held at September 30, 2013 and December 31, 2012 are shown below by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	September 30, 2013		December 31, 2012	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$745,812	$750,992	$526,529	$530,499
Due after one year through five years	3,492,605	3,504,812	2,971,118	3,018,544
Due after five years through ten years	362,563	361,011	418,377	424,304
Due after ten years	3,080	3,109	3,483	3,993
	4,604,060	4,619,924	3,919,507	3,977,340
Asset-backed and mortgage-backed securities	811,804	818,341	1,089,007	1,107,994
Total Fixed Maturities	$5,415,864	$5,438,265	$5,008,514	$5,085,334

Table of Contents

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

(b) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Fixed maturities and short-term investments	$20,936	$25,703	$74,618	$79,450
Cash and cash equivalents	1,079	1,770	3,241	5,536
Securities lending income	3	3	3	9
Total gross investment income	22,018	27,476	77,862	84,995
Investment expenses	(2,009)	(1,987)	(5,994)	(5,861)
Net investment income	$20,009	$25,489	$71,868	$79,134

(c) Net realized gains (losses) and change in net unrealized gains (losses)

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

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Fixed maturities, short-term and other investments and cash equivalents				
Gross realized gains	$7,706	$10,187	$25,578	$29,610
Gross realized (losses)	(14,026)	(1,124)	(26,768)	(6,861)
Net realized (losses) gains on investments	(6,320)	9,063	(1,190)	22,749
Net unrealized gains on securities lending	—	223	—	260
Change in net unrealized gains (losses) on investments	69,967	86,122	(78,618)	53,182
Net change in unrealized gains (losses) on investments	$69,967	$86,345	$(78,618)	$53,442
Total net realized (losses) gains and change in net unrealized gains (losses) on investments	$63,647	$95,408	$(79,808)	$76,191
Noncontrolling interest (a)	(42,578)	(55,806)	25,767	(10,924)
Total net realized gains and change in net unrealized (losses) on investments excluding noncontrolling interest	$21,069	$39,602	$(54,041)	$65,267

(a) Includes change in net unrealized (gains) losses on investments held by PaCRe in which the Company has an equity interest of 10%. The remaining 90% interest is held by third party investors.

Table of Contents

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

(d) Pledged investments

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

	September 30, 2013		
Description	Commitment	Issued and Outstanding	Investments pledged as collateral
$400,000 syndicated unsecured letter of credit facility	$400,000	$—	$—
$525,000 syndicated secured letter of credit facility	525,000	371,990	491,761
$200,000 secured bi-lateral letter of credit facility	200,000	77,626	129,768
Talbot FAL Facility	25,000	25,000	36,996
PaCRe senior secured letter of credit facility	10,000	258	—
IPC bi-lateral facility	40,000	26,019	98,260
$375,000 Flagstone bi-lateral facility	375,000	297,996	453,241
	$1,575,000	$798,889	$1,210,026

	December 31, 2012		
Description	Commitment	Issued and Outstanding	Investments pledged as collateral
$400,000 syndicated unsecured letter of credit facility	$400,000	$—	$—
$525,000 syndicated secured letter of credit facility	525,000	376,570	517,210
$500,000 secured bi-lateral letter of credit facility	500,000	92,402	125,991
Talbot FAL Facility	25,000	25,000	41,372
PaCRe senior secured letter of credit facility	10,000	219	—
IPC bi-lateral facility	80,000	40,613	98,593
$550,000 Flagstone bi-lateral facility	550,000	381,019	416,414
	$2,090,000	$915,823	$1,199,580

4. Fair value measurements

The Company has adopted all authoritative guidance in effect as of the balance sheet date regarding certain market conditions that allow for fair value measurements that incorporate unobservable inputs where active market transaction based measurements are unavailable.

(a) Classification within the fair value hierarchy

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.

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

- Level 3 - Fair values are measured based on inputs that are unobservable and significant to the overall fair value measurement. The unobservable inputs reflect our 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 us to change the selection of our valuation technique (for example, from market to cash flow approach) or may cause us to use multiple valuation techniques to estimate the fair value of a financial instrument. These circumstances could cause an instrument to be reclassified between levels within the fair value hierarchy.

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

(b) Level 1 and Level 2 assets measured at fair value

Fixed maturity investments

Fixed maturity investments included in Level 2 are U.S. government and government agency, non-U.S. government and government agency, U.S. states, municipalities and political subdivisions, agency residential mortgage-backed securities, non-agency residential mortgage-backed securities, U.S. corporate, non-U.S. corporate, bank loans, catastrophe bonds and asset backed securities.

In general, the Company's fixed maturity investment portfolios are priced using pricing services, such as index providers and pricing vendors, as well as broker quotations. The pricing vendors provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices. Prices are generally verified using third party data. Securities which are priced by an index provider are generally included in the index.

In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets.

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

U.S. government and government agency

Level 2 - 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.

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

Non-U.S. government and government agency

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

U.S. states, municipalities and political subdivisions

Level 2 - 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.

Agency residential mortgage-backed securities

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

Non-agency residential mortgage-backed securities

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

U.S. corporate

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

Non - U.S. corporate

Level 2 - 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.

Table of Contents

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

Bank loans

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

Catastrophe bonds

Level 2 - Catastrophe bonds are based on broker or underwriter bid indications.

Asset-backed securities

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

Short term investments

Level 1 & Level 2 - Short term investments consist primarily of highly liquid securities, all with maturities less than one year from the date of purchase. The fair value of the Company's portfolio of short term investments are generally determined using amortized cost which approximates fair value. The Company determined that certain of its short-term investments held in highly liquid money market-type funds would be included in Level 1 as their fair values are based on quoted market prices in active markets. The remaining securities are classified within Level 2 because these securities are typically not actively traded due to their approaching maturity and, as such, their amortized cost approximates fair value.

Mutual funds

Level 2 -Mutual funds consist of two investment funds which are invested in various quoted investments. The fair value of units in the mutual funds is based on the net asset value of the fund as reported by the fund manager.

(c) Level 3 assets measured at fair value

Other investments

Level 3 includes financial instruments that are valued using market approach and income approach valuation techniques. These models incorporate both observable and unobservable inputs. The Company's hedge funds, a fund of hedge funds and private equity investments are the only financial instruments in this category as at September 30, 2013. For each respective hedge fund investment, the Company obtains and reviews the valuation methodology used by the fund administrators and investment managers to ensure that the hedge fund investments are following fair value principles consistent with U.S. GAAP in determining the net asset value (“NAV”).

Within the hedge fund industry, there is a general lack of transparency necessary to facilitate a detailed independent assessment of the values placed on the securities underlying the NAV provided by the fund manager or fund administrator. To address this, on a quarterly basis, we perform a number of monitoring procedures designed to assist us in the assessment of the quality of the information provided by managers and administrators. These procedures include, but are not limited to, regular review and discussion of each fund's performance with its manager and regular evaluation of fund performance against applicable benchmarks.

Hedge funds

The hedge funds were valued at $533,345 at September 30, 2013. The hedge funds consist of an investment in four Paulson & Co. managed funds (the "Paulson hedge funds") and two investment funds assumed from the Flagstone Acquisition (the "Flagstone investment funds"). The Paulson hedge funds' administrator provides monthly reported NAVs with a one-month delay in its valuation. As a result, the funds' administrator's August 31, 2013 NAV was used as a partial basis for fair value measurement in the Company's September 30, 2013 balance sheet. The fund manager provides an estimate of the NAV at September 30, 2013 based on estimated performance. The Company adjusts fair value to the fund manager's estimated NAV that incorporates relevant valuation sources on a timely basis. To determine the reasonableness of the estimated NAV, the Company assesses the variance between the fund manager's estimated NAV and the fund administrator's NAV. Material variances are recorded in the current reporting period while immaterial variances are recorded in the following reporting period. Historically, our valuation estimates have not materially differed from the subsequent NAVs. The Flagstone investment fund administrators provide either monthly or quarterly reported NAVs with a one-month or one-quarter delay in valuation, respectively. As a result, the August 31, 2013 NAV or the June 30, 2013 NAV was used as a basis for fair value measurement in the Company's September 30, 2013 balance sheet. As these valuation techniques incorporate both observable and significant unobservable inputs, both the Paulson hedge funds and the Flagstone investment funds are classified as Level 3 assets. The Paulson hedge funds are subject to quarterly liquidity.

Private equity investments

Private equity investments consist of investments in three private equity funds assumed from the Flagstone Acquisition. The private equity investments respective fund administrator provides either monthly or quarterly NAVs with a one-month or one-quarter delay in valuation, respectively. As a result, the August 31, 2013 NAV or the June 30, 2013 NAV was used as a basis for fair value measurement in the Company's September 30, 2013 balance sheet. As this valuation technique incorporates both observable and significant unobservable inputs, the private equity investments are classified as Level 3 assets.

Fund of hedge funds

The fund of hedge funds includes a side pocket. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is unknown. The fund's administrator provides a monthly reported NAV with a one-month delay in its valuation. As a result, the fund administrator's August 31, 2013 NAV was used as a basis for fair value measurement in the Company's September 30, 2013 balance sheet. The fund manager provides an estimate of the fund NAV at September 30, 2013 based on the estimated performance provided from the underlying funds. To determine the reasonableness of the NAV, the Company compares the one-month delayed fund administrator's NAV to the fund manager's estimated NAV that incorporates relevant valuation sources on a timely basis. Material variances are recorded in the current reporting period while immaterial variances are recorded in the following reporting period. As this valuation technique incorporates both observable and significant unobservable inputs, the fund of hedge funds is classified as a Level 3 asset.

Table of Contents

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

At September 30, 2013, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Total
U.S. government and government agency	$—	$1,320,483	$—	$1,320,483
Non-U.S. government and government agency	—	403,997	—	403,997
States, municipalities, political subdivision	—	43,929	—	43,929
Agency residential mortgage-backed securities	—	320,201	—	320,201
Non-agency residential mortgage-backed securities	—	23,131	—	23,131
U.S. corporate	—	1,367,145	—	1,367,145
Non-U.S. corporate	—	689,050	—	689,050
Bank loans	—	736,458	—	736,458
Catastrophe bonds	—	58,862	—	58,862
Asset-backed securities	—	475,009	—	475,009
Total fixed maturities	—	5,438,265	—	5,438,265
Short-term investments	755,747	5,895	—	761,642
Other investments				
Fund of hedge funds	—	—	2,450	2,450
Private equity investments	—	—	14,673	14,673
Hedge funds (a)	—	—	533,345	533,345
Mutual funds	—	9,004	—	9,004
Total other investments	—	9,004	550,468	559,472
Total	$755,747	$5,453,164	$550,468	$6,759,379
Noncontrolling interest (a)	(15,730)	—	(465,472)	(481,202)
Total investments excluding noncontrolling interest	$740,017	$5,453,164	$84,996	$6,278,177

(a) Included in the hedge funds balance are investments held by PaCRe in which the Company has an equity interest of 10%. The remaining 90% interest is held by third party investors.

Table of Contents

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

At December 31, 2012, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Total
U.S. government and government agency	$—	$1,099,230	$—	$1,099,230
Non-U.S. government and government agency	—	302,279	—	302,279
States, municipalities, political subdivision	—	42,063	—	42,063
Agency residential mortgage-backed securities	—	388,874	—	388,874
Non-agency residential mortgage-backed securities	—	106,456	—	106,456
U.S. corporate	—	1,210,173	—	1,210,173
Non-U.S. corporate	—	593,265	—	593,265
Bank loans	—	673,383	—	673,383
Catastrophe bonds	—	56,947	—	56,947
Asset-backed securities	—	612,664	—	612,664
Total fixed maturities	—	5,085,334	—	5,085,334
Short-term investments	1,063,175	51,075	—	1,114,250
Other investments				
Fund of hedge funds	—	—	4,757	4,757
Private equity investments	—	—	12,951	12,951
Hedge funds (a)	—	—	538,526	538,526
Mutual funds	—	8,214	—	8,214
Total other investments	—	8,214	556,234	564,448
Total	$1,063,175	$5,144,623	$556,234	$6,764,032
Noncontrolling interest (a)	—	—	(432,737)	(432,737)
Total investments excluding noncontrolling interest	$1,063,175	$5,144,623	$123,497	$6,331,295

(a) Included in the hedge funds balance are investments held by PaCRe in which the Company has an equity interest of 10%. The remaining 90% interest is held by third party investors.

At September 30, 2013, Level 3 investments excluding the noncontrolling interest totaled $84,996 (December 31, 2012: $123,497), representing 1.4% (December 31, 2012: 2.0%) of total investments, excluding noncontrolling interest, measured at fair value on a recurring basis.

Table of Contents

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

The following tables present 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 and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013 Total Fair Market Value	Three Months Ended September 30, 2012 Total Fair Market Value
Level 3 investments - Beginning of period	$505,158	$454,793
Purchases	33,154	—
Sales	(35,264)	(218)
Net realized gains	4,503	13
Net unrealized gains	42,917	61,746
Transfers	—	921
Level 3 investments - End of period	$550,468	$517,255
Noncontrolling interest (a)	(465,472)	(460,924)
Level 3 investments excluding noncontrolling interest	$84,996	$56,331

	Nine Months Ended September 30, 2013 Total Fair Market Value	Nine Months Ended September 30, 2012 Total Fair Market Value
Level 3 investments - Beginning of period	$556,234	$8,880
Purchases	98,669	500,000
Sales	(80,095)	(1,115)
Net realized gains	4,843	61
Net unrealized (losses) gains	(29,183)	11,762
Transfers	—	(2,333)
Level 3 investments - End of period	$550,468	$517,255
Noncontrolling interest (a)	(465,472)	(460,924)
Level 3 investments excluding noncontrolling interest	$84,996	$56,331

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

There have not been any transfers between Levels 1 and 2 during the three and nine months ended September 30, 2013 or 2012. There have not been any transfers into or out of Level 3 during the three and nine months ended September 30, 2013. During the three months ended September 30, 2012, there was a transfer of an investment into Level 3 of the fair value hierarchy. This transfer was due to the conversion of a bank loan to other investments. During the three months ended June 30, 2012, there was a transfer of a private equity investment out of Level 3 “Other investments” to “Investments in affiliates.” Refer to Note 5 “Investments in affiliates.”

5. Investments in affiliates

(a) Operating affiliates

AlphaCat Re 2011, Ltd.

On May 25, 2011, the Company joined with other investors in capitalizing AlphaCat Re 2011, Ltd. ("AlphaCat Re 2011"), a special purpose reinsurer formed for the purpose of writing collateralized reinsurance and retrocessional reinsurance. At the time of formation, Validus Reinsurance, Ltd. ("Validus Re"), a wholly owned subsidiary of the Company, had a majority voting equity interest in AlphaCat Re 2011 and as a result, the financial statements of AlphaCat Re 2011 were included in the consolidated financial statements of the Company.

Table of Contents

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

On December 23, 2011, AlphaCat Re 2011 completed a secondary offering of its common shares to third party investors, along with a partial sale of Validus Re's common shares to one of the third party investors.

As a result of these transactions, Validus Re maintained an equity interest in AlphaCat Re 2011, however its share of AlphaCat Re 2011's outstanding voting rights decreased to 43.7%. As a result of the Company's voting interest falling below 50%, the individual assets and liabilities and corresponding noncontrolling interest of AlphaCat Re 2011 were derecognized from the consolidated balance sheet of the Company as at December 31, 2011 and the remaining investment in AlphaCat Re 2011 has been treated as an equity method investment with effect from December 23, 2011.

AlphaCat Re 2011 is now considered "off-risk" as the risk periods for all reinsurance contracts written by the company have expired. As a result, on January 4, 2013, January 23, 2013, May 1, 2013, May 28, 2013 and July 22, 2013 partial returns of investment were made to the investors of AlphaCat Re 2011. Validus Re's corresponding portion of the return of investment was $54,914.

AlphaCat Re 2012, Ltd.

On May 29, 2012, the Company joined with other investors in capitalizing AlphaCat Re 2012, Ltd. ("AlphaCat Re 2012"), a special purpose reinsurer formed for the purpose of writing collateralized reinsurance with a particular focus on windstorm risks for Florida domiciled insurance companies. The Company holds an equity interest of 37.9% and a voting interest of 49.0% in AlphaCat Re 2012, therefore the investment has been treated as an equity method investment.

AlphaCat Re 2012 is now considered "off-risk" as the risk periods for all reinsurance contracts written by the company have expired. As a result, on February 22, 2013, June 20, 2013 and July 22, 2013, partial returns of investment were made to the investors of AlphaCat Re 2012. Validus Re's corresponding portion of the return of investment was $31,743.

AlphaCat 2013, Ltd.

On December 17, 2012, the Company joined with other investors in capitalizing AlphaCat 2013, Ltd. ("AlphaCat 2013"), a special purpose vehicle formed for the purpose of investing in collateralized reinsurance. The Company holds an equity interest of 19.7% and a voting interest of 40.9% in AlphaCat 2013, therefore the investment has been treated as an equity method investment.

Investment in Insurance Linked Securities ("ILS")

The Company received $219,400 of third party subscriptions in three of the AlphaCat ILS funds as of December 31, 2012. During the three and nine months ended September 30, 2013, the Company received $13,000 and $82,190 in additional third party subscriptions, respectively. The AlphaCat ILS funds invest in instruments with returns linked to property catastrophe reinsurance, retrocession and ILS contracts. Two of the funds are variable interest entities and are consolidated by the Company as Validus Re is deemed to be the primary beneficiary. The third fund is also a variable interest entity, however, it is not consolidated by the Company as Validus Re is not deemed to be the primary beneficiary. As a result, the investment in this fund is included in "Investments in affiliates" as at September 30, 2013. Income from this fund was $1,155 and $1,481 for the three and nine months ended September 30, 2013. The Company's carrying value of this fund amounted to $21,481 and $20,000 as at September 30, 2013 and December 31, 2012, respectively. The Company's maximum exposure to loss with respect to this investment is limited to the investment carrying value reported in the Company's Consolidated Balance Sheets.

Table of Contents

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

The following table presents a reconciliation of the beginning and ending investment in operating affiliates balances for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013				
	Investment in operating affiliates				
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat ILS funds	Total
As at June 30, 2013	$11,054	$5,204	$48,536	$20,326	$85,120
Return of investment	(2,800)	(4,550)	—	—	(7,350)
(Loss) income from operating affiliates	(270)	(7)	585	1,155	1,463
As at September 30, 2013	$7,984	$647	$49,121	$21,481	$79,233

	Three Months Ended September 30, 2012		
	Investment in operating affiliates		
	AlphaCat Re 2011	AlphaCat Re 2012	Total
As at June 30, 2012	$59,238	$27,252	$86,490
Income from operating affiliates	4,079	2,156	6,235
As at September 30, 2012	$63,317	$29,408	$92,725

	Nine Months Ended September 30, 2013				
	Investment in operating affiliates				
	AlphaCat Re 2011	AlphaCat Re 2012	AlphaCat 2013	AlphaCat ILS funds	Total
As at December 31, 2012	$62,792	$29,319	$45,000	$20,000	$157,111
Return of investment	(54,914)	(31,743)	—	—	(86,657)
Income from operating affiliates	106	3,071	4,121	1,481	8,779
As at September 30, 2013	$7,984	$647	$49,121	$21,481	$79,233

	Nine Months Ended September 30, 2012		
	Investment in operating affiliates		
	AlphaCat Re 2011	AlphaCat Re 2012	Total
As at December 31, 2011	$53,031	$—	$53,031
Purchase of shares	—	26,500	26,500
Income from operating affiliates	10,286	2,908	13,194
As at September 30, 2012	$63,317	$29,408	$92,725

Table of Contents

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

The following table presents the Company's investments in operating affiliates as at September 30, 2013:

	Investment in operating affiliates					
	Investment at cost	Voting ownership %		Equity ownership %		Carrying value
AlphaCat Re 2011	$8,254	43.7	%	22.3	%	$7,984
AlphaCat Re 2012	652	49.0	%	37.9	%	647
AlphaCat 2013	45,000	40.9	%	19.7	%	49,121
AlphaCat ILS Funds	20,000	—	%	9.1	%	21,481
Total	$73,906					$79,233

The following table presents the Company's investments in operating affiliates as at December 31, 2012:

	Investment in operating affiliates					
	Investment at cost	Voting ownership %		Equity ownership %		Carrying value
AlphaCat Re 2011	$41,389	43.7	%	22.3	%	$62,792
AlphaCat Re 2012	26,500	49.0	%	37.9	%	29,319
AlphaCat 2013	45,000	40.9	%	19.7	%	45,000
AlphaCat ILS Fund	$20,000	—	%	11.8	%	$20,000
Total	$132,889					$157,111

(b) Investment affiliate

Aquiline Financial Services Fund II L.P.

On December 20, 2011, Validus Re entered into an Assignment and Assumption Agreement (the "Agreement") with Aquiline Capital Partners LLC, a Delaware limited liability company (the "Assignor") and Aquiline Capital Partners II GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "General Partner") pursuant to which Validus Re has assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. (the "Partnership") representing a total capital commitment of $50,000 (the "Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). The Transferred Interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of July 2, 2010 (the "Limited Partnership Agreement"). Pursuant to the terms of the Limited Partnership Agreement, the Commitment will expire on July 2, 2015.

The Partnership provides quarterly capital account statements with a three-month delay in its valuation. As a result, the Partnership's June 30, 2013 capital account statement was used as the basis for calculating the Company's share of partnership income for the period.

The following table presents a reconciliation of the beginning and ending investment in the Company's investment affiliate balance for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Investment affiliate, beginning of period	$25,352	$6,317	$15,218	$3,253
Capital contributions	6,185	430	13,089	5,328

Net unrealized (loss) on investments (a)	—	—	—	(1,436)
Income (loss) from investment affiliate	1,044	(160)	4,274	(558)
Investment affiliate, end of period	$ 32,581	$ 6,587	$ 32,581	$ 6,587

(a) Until March 31, 2012, this investment was included in " Other investments" as a level 3 investment in the fair value hierarchy, hence the change in fair value was included in net unrealized (losses) gains on investments.

Table of Contents

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

The following table presents the Company's investment in the Partnership as at September 30, 2013:

	Investment in investment affiliate			
	Investment at cost	Voting ownership %	Equity Ownership	Carrying Value
Aquiline Financial Services Fund II L.P	$30,707	— %	6.59 %	$32,581

6. Noncontrolling interest

On April 2, 2012, the Company joined with other investors in capitalizing PaCRe, a new Class 4 Bermuda reinsurer formed for the purpose of writing high excess property catastrophe reinsurance. On May 1, 2013, PaCRe received additional capital contributions of $6,500 from Validus Re and $58,500 from a third party investor. Validus Re continues to have an equity interest of 10% and the remaining 90% interest is held by third party investors. Validus Re has a majority voting equity interest in PaCRe and as a result, the financial statements of PaCRe are included in the consolidated financial statements of the Company. The portion of PaCRe's earnings attributable to third party investors for the three and nine months ended September 30, 2013 and 2012 is recorded in the Consolidated Statements of Comprehensive Income as net (income) loss attributable to noncontrolling interest.

The Company received $219,400 of third party subscriptions in three AlphaCat ILS funds as of December 31, 2012. During the three and nine months ended September 30, 2013, the Company received $13,000 and $82,190 in additional third party subscriptions, respectively. The AlphaCat ILS funds invest in instruments with returns linked to property catastrophe reinsurance, retrocession and ILS contracts. Two of the funds are variable interest entities and are consolidated by the Company as Validus Re is deemed to be the primary beneficiary. Validus Re has a majority participating interest in these two funds and as a result, the financial statements of these funds are included in the consolidated financial statements of the Company. The portion of these two funds' earnings attributable to third party investors for the three and nine months ended September 30, 2013 is recorded in the Consolidated Statements of Comprehensive Income within net (income) loss attributable to noncontrolling interest.

The following table presents a reconciliation of the beginning and ending balances of noncontrolling interest for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended September 30, 2013		
	PaCRe	AlphaCat ILS funds	Total
As at June 30, 2013	$427,755	$70,690	$498,445
Purchase of shares by noncontrolling interest	—	13,000	13,000
Net income attributable to noncontrolling interest	44,178	1,516	45,694
As at September 30, 2013	$471,933	$85,206	$557,139

	Three Months Ended September 30, 2012	
	PaCRe	Total
As at June 30, 2012	$404,740	$404,740
Net income attributable to noncontrolling interest	56,746	56,746
As at September 30, 2012	$461,486	$461,486

Nine Months Ended September 30, 2013		
PaCRe	AlphaCat ILS funds	Total

As at December 31, 2012	$434,280	$—	$434,280
Purchase of shares by noncontrolling interest	58,500	82,190	140,690
Net (loss) income attributable to noncontrolling interest	(20,847)	3,016	(17,831)
As at September 30, 2013	$471,933	$85,206	$557,139

Table of Contents

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

	Nine Months Ended September 30, 2012	
	PaCRe	Total
As at December 31, 2011	$—	$—
Purchase of shares by noncontrolling interest	450,100	450,100
Net income attributable to noncontrolling interest	11,386	11,386
As at September 30, 2012	$461,486	$461,486

7. Derivative instruments

The Company enters into derivative instruments for risk management purposes, specifically to hedge unmatched foreign currency exposures and interest rate exposures. As at September 30, 2013, the Company held foreign currency forward contracts to mitigate the risk of fluctuations in the Euro, Chilean Peso, Australian Dollar, New Zealand Dollar and British Pound Sterling to U.S. dollar exchange rates. As at September 30, 2013, the Company held two interest rate swap contracts to mitigate the risk of interest rate exposure on the payment of interest on the Company's 2006 and 2007 Junior Subordinated Deferrable Debentures, as well as three interest rate swaps and one cross-currency interest rate swap to mitigate the risk of interest rate and foreign exchange rate exposure on the payment of interest on Flagstone's 2006 and 2007 Junior Subordinated Deferrable Debentures.

As part of the Flagstone Acquisition, the Company assumed foreign currency forward contracts which were not designated as hedging instruments. The contracts expired on July 15, 2013.

The following table summarizes information on the location and amount of the fair value of derivatives not designated as hedging instruments on the consolidated balance sheet at September 30, 2013 and December 31, 2012:

	At September 30, 2013			At December 31, 2012		
Derivatives not designated as hedging instruments:	Net notional exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Net notional exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)
Currency swaps	$—	$—	$—	$17,153	$—	$772
Foreign currency forward contracts	$—	$—	$—	$310,541	$—	$394

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

The following table summarizes information on the location and amount of the fair value of derivatives designated as hedging instruments on the consolidated balance sheets at September 30, 2013 and December 31, 2012:

	At September 30, 2013			At December 31, 2012		
Derivatives designated as hedging instruments:	Net notional exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)	Net notional exposure	Asset Derivative at Fair Value (a)	Liability Derivative at Fair Value (a)

Foreign currency forward contracts	$ 168,722	$ 4,977	$ 1,115	$ 35,976	$ —	$ 223
Interest rate swap contracts	$ 552,263	$ —	873	$ 289,800	$ —	$ 220

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

(a) Classification within the fair value hierarchy

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

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

(b)Derivative instruments designated as a fair value hedge

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

The following table provides the total impact on earnings relating to the derivative instruments formally designated as fair value hedges along with the impact of the related hedged items for the three and nine months ended September 30, 2013 and 2012:

Foreign currency forward contracts	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Amount of gain (loss) recognized in income on derivative	$ 3,116	$ 1,749	$ 2,670	$ 130
Amount of gain (loss) on hedged item recognized in income attributable to risk being hedged	$ (3,116)	$ (1,749)	$ (2,670)	$ (130)
Amount of gain (loss) recognized in income on derivative (ineffective portion)	$—	$—	$—	$—

The gain (loss) is recognized in income within foreign exchange gains (losses).

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

The following table provides the total impact on other comprehensive income and earnings relating to the derivative instruments formally designated as cash flow hedges along with the impact of the related hedged items for the three and nine months ended September 30, 2013:

Interest rate swap contracts	Three Months Ended September 30, 2013	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012

Amount of effective portion recognized in other comprehensive income	$3,268	$195	$7,838	$195
Amount of effective portion subsequently reclassified to earnings	$(3,268)	$(195)	$(7,838)	$(195)
Amount of ineffective portion excluded from effectiveness testing	$—	$—	$—	$—

The above balances relate to interest paid and have been classified as finance expenses in the consolidated statements of comprehensive income. There was no interest rate swap contract activity for the three and nine months ended September 30, 2012.

(d) Balance sheet offsetting

There was no balance sheet offsetting activity as at September 30, 2013 or December 31, 2012.

The Company currently provides cash collateral as security for interest rate swap contracts. The Company does not provide cash collateral or financial instruments as security for foreign currency forward contracts. Our derivative instruments are generally

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

traded under International Swaps and Derivatives Association master netting agreements, which establish terms that apply to all transactions. On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash. The Company has not elected to settle multiple transactions with an individual counterparty on a net basis.

8. Reserve for losses and loss expenses

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

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid losses and loss expenses for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Reserve for losses and loss expenses, beginning of period	$3,283,450	$2,591,299	$3,517,573	$2,631,143
Losses and loss expenses recoverable	(418,693)	(371,484)	(439,967)	(372,485)
Net reserves for losses and loss expenses, beginning of period	2,864,757	2,219,815	3,077,606	2,258,658
Net reserves acquired	—	—	948	—
Increase (decrease) in net losses and loss expenses incurred in respect of losses occurring in:				
Current year	243,015	205,219	759,617	658,884
Prior years	(65,050)	(49,764)	(171,837)	(117,748)
Total incurred losses and loss expenses	177,965	155,455	587,780	541,136
Total net paid losses	(274,868)	(144,628)	(847,192)	(569,380)
Foreign exchange	34,363	14,710	(16,925)	14,938
Net reserve for losses and loss expenses, end of period	2,802,217	2,245,352	2,802,217	2,245,352
Losses and loss expenses recoverable	421,518	317,252	421,518	317,252
Reserve for losses and loss expenses, end of period	$3,223,735	$2,562,604	$3,223,735	$2,562,604

9. Reinsurance

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

Credit risk

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, was A- or better by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. At September 30, 2013, 97.7% (December 31, 2012: 97.9%) of reinsurance recoverables

Table of Contents

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

(which includes loss reserves recoverable and recoverables on paid losses) were fully collateralized or from reinsurers rated A- or better and included $211,864 of total IBNR recoverable (December 31, 2012: $185,255). Reinsurance recoverables by reinsurer are as follows:

	September 30, 2013		December 31, 2012	
	Reinsurance Recoverable	% of Total	Reinsurance Recoverable	% of Total
Top 10 reinsurers	$340,988	75.5 %	$360,234	74.1 %
Other reinsurers' balances > $1 million	102,714	22.7 %	115,262	23.7 %
Other reinsurers' balances < $1 million	7,890	1.8 %	10,906	2.2 %
Total	$451,592	100.0 %	$486,402	100.0 %

	September 30, 2013		
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total
Lloyd's Syndicates	A+	$74,586	21.9 %
Everest Re	A+	52,372	15.3 %
National Indemnity	AA+	50,984	14.9 %
Hannover Re	AA-	45,975	13.5 %
Fully Collateralized	NR	34,293	10.1 %
Swiss Re	AA-	20,728	6.1 %
Third Point Reinsurance Ltd	A-	20,049	5.9 %
Transatlantic Re	A+	15,887	4.7 %
XL Re	A	14,062	4.1 %
Munich Re	AA-	12,052	3.5 %
Total		$340,988	100.0 %

	December 31, 2012		
Top 10 Reinsurers	Rating	Reinsurance Recoverable	% of Total
Lloyd's Syndicates	A+	$71,469	19.9 %
National Indemnity	AA+	59,941	16.6 %
Everest Re	A+	51,340	14.3 %
Fully Collateralized	NR	47,445	13.2 %
Hannover Re	AA-	40,552	11.3 %
Munich Re	AA-	20,954	5.8 %
Transatlantic Re	A+	20,320	5.6 %
Swiss Re	AA-	16,992	4.7 %
Allianz	AA-	16,367	4.5 %
XL Re	A	14,854	4.1 %
Total		$360,234	100.0 %

NR: Not rated

At September 30, 2013 and December 31, 2012, the provision for uncollectible reinsurance relating to losses recoverable was $6,209 and $6,602, respectively. To estimate the provision for uncollectible reinsurance recoverable, the reinsurance recoverable is first allocated to applicable reinsurers. This determination is based on a process rather than an estimate, although an element of judgment is applied. As part of this process, ceded IBNR is allocated by reinsurer. The Company uses a default analysis to estimate

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

uncollectible reinsurance. The primary components of the default analysis are reinsurance recoverable balances by reinsurer and default factors used to determine the portion of a reinsurer's balance deemed to be uncollectible. Default factors require considerable judgment and are determined using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions.

Of the $451,592 reinsurance recoverable at September 30, 2013 (December 31, 2012: $486,402), $34,293 was fully collateralized (December 31, 2012: $47,445).

10. Share capital

(a) Authorized and issued

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

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. On February 6, 2013, the Board of Directors of the Company approved an increase in the Company's common share purchase authorization to $500,000. This amount is in addition to the $1,206,845 of common shares repurchased by the Company through February 6, 2013 under its previously authorized share repurchase programs.

There were no additional share repurchases during the three months ended September 30, 2013. The Company has repurchased 52,849,445 common shares for an aggregate purchase price of $1,564,029 from the inception of its share repurchase program to September 30, 2013. The Company had $142,816 remaining under its authorized share repurchase program as of September 30, 2013.

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

On November 30, 2012, the Company acquired all of the outstanding shares of Flagstone from a group of institutional and other investors. Pursuant to the merger agreement, the Company acquired all of Flagstone's outstanding common shares in exchange for the Company's common shares and cash. The Company issued 14,202,664 common shares, net of 87,725 shares withheld for income taxes, valued at $34.87 per share as partial consideration for the acquisition. In addition, 1,638,875 common shares recorded in treasury are owned by Flagstone (Bermuda) Holdings Limited, a wholly-owned subsidiary of Validus Holdings, Ltd. As part of the Flagstone Acquisition, warrants to acquire Flagstone shares were converted into 121,942 warrants to acquire the Company's common shares. In accordance with the merger agreement, these warrants have a $62.02 strike price and expire on December 31, 2013.

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

Table of Contents

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

	Common Shares
Common shares issued, December 31, 2012	152,698,191
Restricted share awards vested, net of shares withheld	768,889
Restricted share units vested, net of shares withheld	14,381
Options exercised	277,615
Warrants exercised	591,480
Direct issuance of common stock	928
Performance share awards vested, net of shares withheld	31,897
Deferred share units vested, net of shares withheld	2,935
Common shares issued, September 30, 2013	154,386,316
Shares repurchased, September 30, 2013	(54,488,320)
Common shares outstanding, September 30, 2013	99,897,996

	Common Shares
Common shares issued, December 31, 2011	134,503,065
Restricted share awards vested, net of shares withheld	1,545,024
Restricted share units vested, net of shares withheld	15,173
Options exercised	439,065
Warrants exercised	130,121
Common shares issued, September 30, 2012	136,632,448
Shares repurchased, September 30, 2012	(43,138,057)
Common shares outstanding, September 30, 2012	93,494,391

(b) Warrants

During the three months ended September 30, 2013, 163,772 warrants were exercised which resulted in the issuance of 83,287 common shares. During the nine months ended September 30, 2013, 1,114,416 warrants were exercised which resulted in the issuance of 591,480 common shares. During the three and nine months ended September 30, 2012, 264,127 warrants were exercised which resulted in the issuance of 130,121 shares. Holders of the outstanding warrants are entitled to exercise the warrants in whole or in part at any time until the expiration date. The total outstanding warrants at September 30, 2013 were 5,296,056 (December 31, 2012: 6,410,472). No further warrants are anticipated to be issued.

(c) Deferred share units

Under the terms of the Company’s Director Stock Compensation Plan, non-management directors may elect to receive their director fees in deferred share units rather than cash. The number of share units distributed in case of election under the plan is equal to the amount of the annual retainer fee otherwise payable to the director on such payment date divided by 100% of the fair market value of a share on such payment date. Additional deferred share units are issued in lieu of dividends that accrue on these deferred share units. There were no outstanding deferred share units at September 30, 2013 (December 31, 2012: 5,001).

As of February 16, 2013, John Hendrickson became an employee director. As a result, his 5,039 deferred share units vested and 2,935 common shares were issued to him, net of shares withheld for taxes.

(d) Dividends

On February 6, 2013, the Company announced a special dividend in the amount of $2.00 per common share and $2.00 per common share equivalent for which each outstanding warrant is exercisable (the "2013 Special Dividend"). The 2013 Special Dividend was paid on February 26, 2013 to shareholders and warrant holders of record as of February 19, 2013.

Table of Contents

In addition, the Company announced a quarterly cash dividend of $0.30 (2012: $0.25) per common share and $0.30 per common share equivalent for which each outstanding warrant is exercisable. This dividend was paid on March 29, 2013 to holders of record on March 15, 2013.

On May 1, 2013, the Company announced a quarterly cash dividend of $0.30 (2012: $0.25) per common share and $0.30 per common share equivalent for which each outstanding warrant is exercisable. This dividend was paid on June 28, 2013 to holders of record on June 14, 2013.

On July 30, 2013, the Company announced a quarterly cash dividend of $0.30 (2012: $0.25) per common share and $0.30 per common share equivalent for which each outstanding warrant is exercisable. This dividend was paid on September 30, 2013 to holders of record on September 13, 2013.

Table of Contents

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

11. Stock plans

Long Term Incentive Plan and Short Term Incentive Plan

The Company’s Amended and Restated 2005 Long Term Incentive Plan (“LTIP”) provides for grants to employees of options, stock appreciation rights (“SARs”), restricted shares, restricted share units, performance shares, dividend equivalents or other share-based awards. In addition, the Company may issue restricted share awards or restricted share units in connection with awards issued under its annual Short Term Incentive Plan (“STIP”). The total number of shares reserved for issuance under the LTIP and STIP are 13,126,896 shares of which 1,783,462 shares are remaining. The LTIP and STIP are administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. Grant prices are established at the fair market value of the Company’s common shares at the date of grant.

i.Options

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

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

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

Share compensation expenses in respect of options of $nil were recorded for the three months ended September 30, 2013 (2012: $nil). Share compensation expenses in respect of options of $nil were recorded for the nine months ended September 30, 2013 (2012: $142). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

A modification event was triggered as a result of the 2013 Special Dividend. In accordance with the terms of the LTIP under which the options were issued, an adjustment was required to protect the holders of such stock options from changes in the value of the stock options following the declaration of the 2013 Special Dividend. The modification of the options included a decrease in the exercise price of each stock option and an increase in the number of shares underlying each stock option. The fair value of the options before and after the modification was unchanged.

Activity with respect to options for the nine months ended September 30, 2013 was as follows:

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2012	1,823,947	$6.52	$20.69

Options regranted (modified)	1,833,414	6.76	19.02
Options exercised	(277,615)	5.24	23.58
Options cancelled (modified)	(1,733,139)	6.76	20.12
Options outstanding, September 30, 2013	1,646,607	$6.75	$18.94
Options exercisable, September 30, 2013	1,646,607	$6.75	$18.94

Table of Contents

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

Activity with respect to options for the nine months ended September 30, 2012 was as follows:

	Options	Weighted Average Grant Date Fair Value	Weighted Average Grant Date Exercise Price
Options outstanding, December 31, 2011	2,263,012	$6.69	$20.12
Options exercised	(439,065)	7.44	17.73
Options outstanding, September 30, 2012	1,823,947	$6.52	$20.69
Options exercisable, September 30, 2012	1,823,947	$6.52	$20.69

ii.Restricted share awards

Restricted shares granted under the LTIP and STIP vest either pro rata or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. Share compensation expenses of $10,041 were recorded for the three months ended September 30, 2013 (2012: $6,626). Share compensation expenses of $20,035 were recorded for the nine months ended September 30, 2013 (2012: $18,742). 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 nine months ended September 30, 2013 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2012	2,170,547	$29.24
Restricted share awards granted	1,580,117	36.06
Restricted share awards vested	(930,296)	28.08
Restricted share awards forfeited	(110,912)	28.34
Restricted share awards outstanding, September 30, 2013	2,709,456	$33.65

Activity with respect to unvested restricted share awards for the nine months ended September 30, 2012 was as follows:

	Restricted Share Awards	Weighted Average Grant Date Fair Value
Restricted share awards outstanding, December 31, 2011	3,003,547	$25.77
Restricted share awards granted	901,506	31.38
Restricted share awards vested	(1,678,905)	24.36
Restricted share awards forfeited	(30,801)	28.10
Restricted share awards outstanding, September 30, 2012	2,195,347	$29.12

At September 30, 2013, there were $76,084 (December 31, 2012: $43,952) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 3.4 years (December 31, 2012: 2.6 years).

Table of Contents

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

iii.Restricted share units

Restricted share units under the LTIP and STIP vest either ratably or at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment and transferability. Share compensation expenses of $168 were recorded for the three months ended September 30, 2013 (2012: $132). Share compensation expenses of $419 were recorded for the nine months ended September 30, 2013 (2012: $363). 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 nine months ended September 30, 2013 was as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2012	47,238	$29.61
Restricted share units granted	36,635	36.11
Restricted share units vested	(21,814)	28.17
Restricted share units issued in lieu of cash dividends	3,924	30.29
Restricted share units outstanding, September 30, 2013	65,983	$33.74

Activity with respect to unvested restricted share units for the nine months ended September 30, 2012 was as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Restricted share units outstanding, December 31, 2011	53,312	$27.60
Restricted share units granted	16,633	31.77
Restricted share units vested	(22,818)	26.49
Restricted share units issued in lieu of cash dividends	1,162	28.36
Restricted share units forfeited	(1,393)	28.57
Restricted share units outstanding, September 30, 2012	46,896	$29.61

At September 30, 2013, there were $1,839 (December 31, 2012: $978) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 3.5 years (December 31, 2012: 2.6 years).

iv.Performance share awards

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

Share compensation expenses of $318 were recorded for the three months ended September 30, 2013 (2012: $587). Share compensation expenses of ($971) were recorded for the nine months ended September 30, 2013 (2012: $336). The negative expense is due to a reversal of expenses on unvested performance share awards based on a review of current and projected performance criteria.

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

Activity with respect to unvested performance share awards for the nine months ended September 30, 2013 was as follows:

	Performance Share Awards	Weighted Average Grant Date Fair Value
Performance share awards outstanding, December 31, 2012	220,845	$31.81
Performance share awards granted	38,386	36.11
Performance share awards vested	(39,094)	28.70
Performance share awards forfeited	(18,701)	31.05
Performance share awards conversion adjustment	(99,616)	$33.05
Performance share awards outstanding, September 30, 2013	101,820	$33.56

Activity with respect to unvested performance share awards for the nine months ended September 30, 2012 was as follows:

	Performance Share Awards	Weighted Average Grant Date Fair Value
Performance share awards outstanding, December 31, 2011	279,019	$30.77
Performance share awards granted	41,128	31.38
Performance share awards forfeited	(99,302)	28.70
Performance share awards outstanding, September 30, 2012	220,845	$31.81

At September 30, 2013, there were $1,893 (December 31, 2012: $3,328) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 2.2 years (December 31, 2012: 1.7 years).

Total share compensation expenses

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

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Options	$—	$—	$—	$142
Restricted share awards	10,041	6,626	20,035	18,742
Restricted share units	168	132	419	363
Performance share awards	318	587	(971)	336
Total	$10,527	$7,345	$19,483	$19,583

Table of Contents

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

12. Debt and financing arrangements

(a) Financing structure and finance expenses

The financing structure at September 30, 2013 was:

	Commitment	Outstanding (a)	Drawn
2006 Junior Subordinated Deferrable Debentures	$150,000	$150,000	$150,000
2007 Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
2010 Senior Notes due 2040	250,000	250,000	247,171
$400,000 syndicated unsecured letter of credit facility	400,000	—	—
$525,000 syndicated secured letter of credit facility	525,000	371,990	—
$200,000 bi-lateral secured letter of credit facility	200,000	77,626	—
Talbot FAL Facility (b)	25,000	25,000	—
PaCRe senior secured letter of credit facility	10,000	258	—
IPC bi-lateral facility	40,000	26,019	—
$375,000 Flagstone bi-lateral facility	375,000	297,996	—
Flagstone 2006 Junior Subordinated Deferrable Debentures	137,577	137,577	137,577
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total	$2,426,327	$1,590,016	$788,298

The financing structure at December 31, 2012 was:

	Commitment	Outstanding (a)	Drawn
2006 Junior Subordinated Deferrable Debentures	$150,000	$150,000	$150,000
2007 Junior Subordinated Deferrable Debentures	200,000	139,800	139,800
2010 Senior Notes due 2040	250,000	250,000	247,090
$400,000 syndicated unsecured letter of credit facility	400,000	—	—
$525,000 syndicated secured letter of credit facility	525,000	376,570	—
$500,000 secured letter of credit facility	500,000	92,402	—
Talbot FAL Facility (b)	25,000	25,000	—
PaCRe senior secured letter of credit facility	10,000	219	—
IPC bi-lateral facility	80,000	40,613	—
$550,000 Flagstone bi-lateral facility	550,000	381,019	—
Flagstone 2006 Junior Subordinated Deferrable Debentures	137,159	137,159	137,159
Flagstone 2007 Junior Subordinated Deferrable Debentures	113,750	113,750	113,750
Total	$2,940,909	$1,706,532	$787,799

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

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

Finance expenses consist of interest on our junior subordinated deferrable debentures, senior notes, variable funding notes, the amortization of debt offering costs, fees relating to our credit facilities, bank charges and the costs of FAL as follows:

Table of Contents

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

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
2006 Junior Subordinated Deferrable Debentures	$2,235	$1,628	$6,633	$4,729
2007 Junior Subordinated Deferrable Debentures	1,848	1,211	5,492	7,072
2010 Senior Notes due 2040	5,597	5,597	16,792	16,792
Variable Funding Notes (a)	11,893	—	44,562	—
Flagstone 2006 Junior Subordinated Deferrable Debentures	2,285	—	5,988	—
Flagstone 2007 Junior Subordinated Deferrable Debentures	1,807	—	4,426	—
Credit facilities	1,248	948	5,001	10,530
Bank charges	187	(52)	419	131
Talbot FAL Facility	32	30	95	93
Total	$27,132	$9,362	$89,408	$39,347

(a) Includes variable funding note expense and other AlphaCat related fees. Refer to Note 13: "Variable funding notes" for further details.

(b) $250,000 2010 Senior Notes due 2040

On January 21, 2010, the Company offered and sold $250,000 of Senior Notes due 2040 (the “2010 Senior Notes”) in a registered public offering. The 2010 Senior Notes mature on January 26, 2040, and are redeemable at the Company’s option in whole any time or in part from time to time at a make-whole redemption price. The Company may redeem the notes in whole, but not in part, at any time upon the occurrence of certain tax events as described in the prospectus supplement of the 2010 Senior Notes. The 2010 Senior Notes bear interest at the rate of 8.875% per annum from January 26, 2010 to maturity or early redemption. Interest on the 2010 Senior Notes is payable semi-annually in arrears on January 26 and July 26 of each year, commencing on July 26, 2010. The net proceeds of $243,967 from the sale of the 2010 Senior Notes, after the deduction of commissions paid to the underwriters in the transaction and other expenses, was used by the Company for general corporate purposes, which included the repurchase of its outstanding capital stock and payment of dividends to shareholders. Debt issuance costs of $2,808 were deferred as an asset and amortized over the life of the 2010 Senior Notes. There were no redemptions made during the nine months ended September 30, 2013 and 2012.

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

Future expected payments of principal on the 2010 Senior Notes are as follows:

2013	$—
2014	—
2015	—
2016	—

2017 and thereafter	250,000
Total minimum future payments	$250,000

(c) Junior subordinated deferrable debentures

On June 15, 2006, the Company participated in a private placement of $150,000 of junior subordinated deferrable interest debentures due 2036 (the “2006 Junior Subordinated Deferrable Debentures”). The 2006 Junior Subordinated Deferrable Debentures mature on June 15, 2036, are redeemable at the Company’s option at par as of June 15, 2011, and require quarterly interest payments by the Company to the holders of the 2006 Junior Subordinated Deferrable Debentures. Interest was payable at 9.069% per annum through June 15, 2011, and thereafter at a floating rate of three-month LIBOR plus 355 basis points, reset

Table of Contents

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

quarterly. The proceeds of $150,000 from the sale of the 2006 Junior Subordinated Deferrable Debentures, after the deduction of commissions paid to the placement agents in the transaction and other expenses, were used by the Company to fund Validus Re segment operations and for general working capital purposes. Debt issuance costs of $3,750 were deferred as an asset and were amortized to income over the five year optional redemption period. There were no redemptions made during the nine months ended September 30, 2013 and 2012.

On June 21, 2007, the Company participated in a private placement of $200,000 of junior subordinated deferrable interest debentures due 2037 (the "2007 Junior Subordinated Deferrable Debentures"). The 2007 Junior Subordinated Deferrable Debentures mature on June 15, 2037, are redeemable at the Company's option at par as of June 15, 2012, and require quarterly interest payments by the Company to the holders of the 2007 Junior Subordinated Deferrable Debentures. Interest was payable at 8.480% per annum through June 15, 2012, and thereafter at a floating rate of three-month LIBOR plus 295 basis points, reset quarterly. The proceeds of $200,000 from the sale of the 2007 Junior Subordinated Deferrable Debentures, after the deduction of commissions paid to the placement agents in the transaction and other expenses, were used by the Company to fund the purchase of Talbot Holdings Ltd. Debt issuance costs of $2,000 were deferred as an asset and were amortized to income over the five year optional redemption period. There were no redemptions made during the nine months ended September 30, 2013 and 2012.

As part of the Flagstone Acquisition, the Company assumed $137,577 of junior subordinated deferrable debentures due 2036 (the "Flagstone 2006 Junior Subordinated Deferrable Debentures"). The Flagstone 2006 Junior Subordinated Deferrable Debentures mature on September 15, 2036, are redeemable at the Company's option at par beginning as of September 15, 2011, and require quarterly interest payments by the Company to the holders of the Flagstone 2006 Junior Subordinated Deferrable Debentures. Interest is payable at a floating rate of three-month LIBOR plus 354 basis points, reset quarterly. There were no redemptions made during the nine months ended September 30, 2013 and 2012.

As part of the Flagstone Acquisition, the Company assumed $113,750 of junior subordinated deferrable debentures due 2037 (the "Flagstone 2007 Junior Subordinated Deferrable Debentures"). Of these, $88,750 of the Flagstone 2007 Junior Subordinated Deferrable Debentures mature on July 30, 2037, are redeemable at the Company's option at par as of July 30, 2012, and require quarterly interest payments by the Company to the holders of the Flagstone 2007 Junior Subordinated Deferrable Debentures. Interest is payable at a floating rate of three-month LIBOR plus 300 basis points, reset quarterly. The remaining $25,000 of the Flagstone 2007 Junior Subordinated Deferrable Debentures mature on September 15, 2037, are redeemable at the Company's option at par as of September 15, 2012, and require quarterly interest payments by the Company to the holders of the Flagstone 2007 Junior Subordinated Deferrable Debentures. Interest is payable at a floating rate of three-month LIBOR plus 310 basis points, reset quarterly. There were no redemptions made during the nine months ended September 30, 2013 and 2012.
Future expected payments of principal on the 2006 and 2007 Junior Subordinated Deferrable Debentures and Flagstone 2006 and 2007 Junior Subordinated Deferrable Debentures are as follows:

2013	$—
2014	—
2015	—
2016	—
2017 and thereafter	540,709
Total minimum future payments	$540,709

(d) Credit facilities

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

On March 9, 2012, the Company, IPCRe Limited ("IPC"), (formerly Validus Re Americas, Ltd.), PaCRe and Validus Re entered into a $400,000 four year unsecured credit facility with Deutsche Bank Securities Inc., as syndication agent, JPMorgan Chase Bank, N.A. as administrative agent, Lloyds Securities Inc. and Suntrust Bank, as co-documentation agents and the lenders party thereto, which provides for letter of credit availability for the Company and certain designated subsidiaries of the Company and revolving credit availability for the Company (the "Four Year Unsecured Facility") (the full $400,000 of which is available for letters of credit and/or revolving loans). The Four Year Unsecured Facility was provided by a syndicate of commercial banks arranged by J.P. Morgan Securities LLC, Deutsche Bank Securities Inc., Lloyds Securities Inc. and SunTrust Robinson Humphrey, Inc. Letters of credit under the Four Year Unsecured Facility are available to support obligations in connection with

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

the insurance business of the Company and its subsidiaries. Loans under the Four Year Unsecured Facility are available for the general corporate and working capital purposes of the Company. The Company may request that existing lenders under the Four Year Unsecured Facility or prospective additional lenders agree to make available additional commitments from time to time so long as the aggregate commitments under the Four Year Unsecured Facility do not exceed $500,000. Letter of credit fees are payable on account of each letter of credit issued under the Four Year Unsecured Facility at a rate per annum equal to an applicable rate. Borrowings under the Four Year Unsecured Facility bear interest, at the option of the Company, at the base rate (the higher of the prime rate announced by JPMorgan Chase Bank, N.A., the federal funds effective rate plus 0.5%, and the adjusted LIBOR rate plus 1.0%) or the adjusted LIBOR rate applicable to such loans, plus an applicable rate.

Also on March 9, 2012, the Company, IPC and Validus Re entered into a $525,000 four-year secured credit facility with Deutsche Bank Securities Inc., as syndication agent, JPMorgan Chase Bank, N.A. as administrative agent, Lloyds Securities Inc. and Suntrust Bank, as co-documentation agents and the lenders party thereto, which provides for letter of credit availability for the Company and certain designated subsidiaries of the Company (the "Four Year Secured Facility" and together with the Four Year Unsecured Facility, the "Credit Facilities"). The Four Year Secured Facility was provided by a syndicate of commercial banks arranged by J.P. Morgan Securities LLC, Deutsche Bank Securities Inc., Lloyds Securities Inc. and SunTrust Robinson Humphrey, Inc. Letters of credit under the Four Year Secured Facility will be available to support obligations in connection with the insurance business of the Company and its subsidiaries. The Company may request that existing lenders under the Four Year Secured Facility or prospective additional lenders agree to make available additional commitments from time to time so long as the aggregate commitments under the Four Year Secured Facility do not exceed $700,000. The obligations of the Company and its designated subsidiaries under the Four Year Secured Facility are secured by cash and securities deposited into cash collateral accounts from time to time with The Bank of New York Mellon. Letter of credit fees are payable on account of each letter of credit issued under the Four Year Secured Facility at a rate per annum equal to an applicable rate. Borrowings under the Four Year Secured Facility bear interest at the base rate (the higher of the prime rate announced by JPMorgan Chase Bank, N.A., the federal funds effective rate plus 0.5%, and the adjusted LIBOR rate plus 1.0%).

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

As of September 30, 2013, there was $371,990 in outstanding letters of credit under the Four Year Secured Facility (December 31, 2012: $376,570) and $nil outstanding under the Four Year Unsecured Facility (December 31, 2012: $nil).

As of September 30, 2013, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Credit Facilities.

On March 9, 2012, upon entering into the Credit Facilities, the Company terminated its (a) three-year bi-lateral $60,000 unsecured revolving credit facility, dated March 12, 2010 with Lloyds TSB Bank plc, (b) $340,000 three-year unsecured credit facility, dated March 12, 2010 with Deutsche Bank Securities Inc., as syndication agent and JPMorgan Chase Bank, N.A. as administrative agent, and (c) $500,000 five-year secured credit facility, dated March 12, 2007 with Deutsche Bank Securities Inc., as syndication agent and JPMorgan Chase Bank, N.A. as administrative agent. No early termination penalties were incurred.

Table of Contents

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

(ii) Talbot FAL Facility

On November 29, 2007, Talbot entered into a $100,000 standby Letter of Credit facility (the “Talbot FAL Facility”) to provide Funds at Lloyd’s for the 2008 and 2009 underwriting years of account; this facility is guaranteed by the Company and is secured against the assets of Validus Re. The Talbot FAL Facility was provided by a syndicate of commercial banks arranged by Lloyds TSB Bank plc and ING Bank N.V., London Branch.

On November 19, 2009, the Company entered into an Amendment and Restatement of the Talbot FAL Facility to reduce the commitment from $100,000 to $25,000, and to extend the support to the 2010 and 2011 underwriting years of account. On November 18, 2011, the Company entered into an Amendment and Restatement of the Talbot FAL Facility to extend the support to the 2012 and 2013 underwriting years of account.

As amended, the Talbot FAL Facility contains affirmative covenants that include, among other things, (i) the requirement that the Company initially maintain a minimum level of consolidated net worth of at least $2,589,615, and commencing with the end of the fiscal quarter ended December 31, 2011 to be increased quarterly by an amount equal to 50% of our consolidated net income (if positive) for such quarter plus 50% of any net proceeds received from any issuance of common shares during such quarter, and (ii) the requirement that we maintain at all times a consolidated total debt to consolidated total capitalization ratio not greater than 0.35:1.00.

The Talbot FAL Facility also contains restrictions on our ability to incur debt at our subsidiaries, incur liens, sell assets and merge or consolidate with others. Other than in respect of existing and future preferred and hybrid securities, the payment of dividends and other payments in respect of equity interests are not permitted at any time that we are in default with respect to certain provisions under the Talbot FAL Facility. As of September 30, 2013, the Company had $25,000 (December 31, 2012: $25,000) in outstanding letters of credit under this facility.

As of September 30, 2013, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Talbot FAL Facility.

(iii) IPC Syndicated Facility and IPC bi-lateral facility

IPC obtained letters of credit through the IPC Syndicated Facility and the IPC Bi-Lateral Facility. In July 2009, certain terms of these facilities were amended including suspending IPC’s ability to increase existing letters of credit or to issue new letters of credit. Effective March 31, 2010, the IPC Syndicated Facility was closed. As of September 30, 2013, $26,019 of outstanding letters of credit were issued under the IPC bi-lateral facility (December 31, 2012: $40,613).

As of September 30, 2013, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the IPC bi-lateral facility.

(iv) $200,000 secured bi-lateral letter of credit facility

On August 10, 2009, Validus Re entered into an uncommitted secured bi-lateral letter of credit facility with Citibank Europe plc (the “secured bi-lateral letter of credit facility”). Letters of credit were first issued under the Secured Bi-Lateral Letter of Credit Facility during the first quarter of 2012. As of September 30, 2013, $77,626 of letters of credit were outstanding under the Secured Bi-Lateral Letter of Credit Facility (December 31, 2012: $92,402). The secured bi-lateral letter of credit facility has no fixed termination date and as of September 30, 2013, Validus Re was in compliance with all terms and covenants thereof.

(v) $10,000 PaCRe Senior secured letter of credit facility

On May 11, 2012, PaCRe (as Borrower) and its subsidiary, PaCRe Investments, Ltd. (as Guarantor) entered into a 364-Day secured revolving credit and letter of credit facility with JPMorgan Chase Bank, N.A. This facility provides for revolving borrowings by the Borrower and for letters of credit issued by the Borrower to be used to support its reinsurance obligations in an aggregate amount of $10,000. As of September 30, 2013, $258 of letters of credit were outstanding under this facility (December 31, 2012: $219).

Table of Contents

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

As of September 30, 2013, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the PaCRe Senior secured letter of credit facility.

(vi) $375,000 Flagstone bi-lateral facility

As part of the Flagstone Acquisition, the Company assumed a Letter of Credit Master Agreement between Citibank Europe Plc and Flagstone Reassurance Suisse, S.A. (the “Flagstone bi-lateral facility”). At September 30, 2013, the Flagstone bi-lateral facility had $297,996 letters of credit issued and outstanding (December 31, 2012: $381,019).

As of September 30, 2013, and throughout the reporting periods presented, the Company was in compliance with all covenants and restrictions under the Flagstone bi-lateral facility.

13. Variable funding notes

AlphaCat Master Fund Ltd. (“Master Fund”), a wholly-owned Bermuda registered exempt mutual fund company and AlphaCat Reinsurance Ltd. (“AlphaCat Re”), a wholly-owned Bermuda Class 3 licensed insurance company, issued Variable Funding Notes (“VFNs”) to the AlphaCat ILS funds and AlphaCat 2013.

The purpose of the VFNs is to enable the AlphaCat ILS funds and AlphaCat 2013 to invest in specific contracts or cat bonds through the market facing entities. The economic benefit of the investments is transferred to the AlphaCat ILS funds and AlphaCat 2013 by way of interim payments, which accrue to the AlphaCat ILS funds and AlphaCat 2013 according to the earnings in AlphaCat Re and Master Fund.

The following table presents a summary of the VFNs on the balance sheet as at September 30, 2013:

	September 30, 2013
AlphaCat 2013	$214,639
AlphaCat ILS funds	223,331
Total	$437,970

For details on the VFNs interest expense which is included in the Company's Consolidated Statements of Comprehensive Income, refer to Note 12: "Debt and financing arrangements."

14. Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income ("AOCI"), by component for the three and nine months ended September 30, 2013 are as follows:

	Three Months Ended September 30, 2013 Foreign currency translation adjustments	
Beginning Balance - June 30, 2013	(8,262	)
Amounts reclassified to retained earnings	—	
Current period foreign currency translation adjustments	4,390	
Ending balance - September 30, 2013	(3,872	)

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

	Nine Months Ended September 30, 2013
	Foreign currency translation adjustments
Beginning Balance - December 31, 2012	(2,953)
Amounts reclassified to retained earnings	4,290
Current period foreign currency translation adjustments	(5,209)
Ending balance - September 30, 2013	(3,872)

15. Commitments and contingencies

(a) Concentrations of credit risk

The Company's investments are managed following prudent standards of diversification. The Company attempts to limit its credit exposure by purchasing high quality fixed income investments to maintain an average portfolio, excluding bank loans, credit quality of AA- or higher, with mortgage and commercial mortgage-backed issues having an aggregate weighted average credit quality of AAA. In addition, the Company limits its exposure to any single issuer to 3% of its investment portfolio or less, excluding government and agency securities. With the exception of the Company's bank loan portfolio, which represents 10.9% of the Company's total investments as at September 30, 2013, the minimum credit rating of any security purchased is Baa3/BBB-. In the case where currently held investments are downgraded below Baa3/BBB-, the Company tolerates a holding of up to 2% of its investment portfolio in aggregate market value, or 10% with written authorization. Excluding bank loans, 1.3% of the portfolio had a split rating below Baa3/BBB- as at September 30, 2013. The Company did not have an aggregate exposure to any single issuer of more than 1.0% of its investment portfolio, other than with respect to government and agency securities as at September 30, 2013.

(b) Funds at Lloyd's

Talbot operates in Lloyd's through a corporate member, Talbot 2002 Underwriting Capital Ltd ("T02"), which is the sole participant in Syndicate 1183. Lloyd's sets T02's required capital annually based on Syndicate 1183's business plan, rating environment and reserving environment together with input arising from Lloyd's discussions with, inter alia, regulatory and rating agencies. Such capital, called Funds at Lloyd's (“FAL”), comprises: cash, investments and undrawn letters of credit provided by various banks. The amounts of cash, investments and letters of credit at September 30, 2013 amounted to $428,700 (December 31, 2012: $428,700) of which $25,000 is provided under the Talbot FAL Facility (December 31, 2012: $25,000).

The amounts which the Company provides as FAL are not available for distribution to the Company for the payment of dividends. Talbot’s corporate member may also be required to maintain funds under the control of Lloyd’s in excess of its capital requirement and such funds also may not be available for distribution to the Company for the payment of dividends. The amounts provided under the Talbot FAL Facility would become a liability of the Company in the event of Syndicate 1183 declaring a loss at a level between $403,700 and $428,700 which would call on this arrangement.

(c) Lloyd's Central Fund

Whenever a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2013 underwriting capacity at Lloyd's of £620,000, at the September 30, 2013 exchange rate of £1 equals $1.6192 and assuming the maximum 3% assessment, the Company would be assessed approximately $30,117.

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

(d) Aquiline Commitment
On December 20, 2011, Validus Re entered into an Assignment and Assumption Agreement (the "Agreement") with Aquiline Capital Partners LLC, a Delaware limited liability company (the "Assignor") and Aquiline Capital Partners II GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "General Partner") pursuant to which Validus Re has assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. (the "Partnership") representing a total capital commitment of $50,000 (the "Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). The Transferred Interest is governed by the terms of an Amended and Restated Exempted Limited Partnership Agreement dated as of July 2, 2010 (the "Limited Partnership Agreement"). Pursuant to the terms of the Limited Partnership Agreement, the Commitment will expire on July 2, 2015. The Company's remaining commitment at September 30, 2013 was $19,292.
16. Related party transactions

The transactions listed below are classified as related party transactions as each counter party has either a direct or indirect shareholding in the Company.
Aquiline Capital Partners, LLC and its related companies ("Aquiline"), which own 4,946,643 shares in the Company, hold warrants to purchase 2,756,088 shares, and have two employees on the Company's Board of Directors who do not receive compensation from the Company and are shareholders of Group Ark Insurance Holdings Ltd. ("Group Ark"). Christopher E. Watson, a director of the Company, also serves as a director of Group Ark. Pursuant to reinsurance agreements with a subsidiary of Group Ark, the Company recognized gross premiums written during the three and nine months ended September 30, 2013 of $nil (2012: $6,167) and $2,848 (2012: $7,582) respectively, with $603 included in premiums receivable at September 30, 2013 (December 31, 2012: $251). The Company also recognized reinsurance premiums ceded during the three and nine months ended September 30, 2013 of $19 (2012: $nil) and $23 (2012: $nil) respectively. The Company recorded $4,420 of loss reserves recoverable at September 30, 2013 (December 31, 2012: $3,694). Earned premium adjustments of $718 (2012: $5,019) and $2,147 (2012: $5,751) were recorded during the three and nine months ended September 30, 2013 respectively.
Aquiline was previously a shareholder of Tiger Risk Partners LLC (“Tiger Risk”). Christopher E. Watson, a director of the Company serves as a director of Tiger Risk. As of March 31, 2013, Tiger Risk was no longer a related party due to Aquiline's disposal of its investment. Pursuant to certain reinsurance contracts, the Company recognized brokerage expenses paid to Tiger Risk for the three and nine months ended September 30, 2012 of $58 and $2,418 of which $964 was included in accounts payable and accrued expenses at December 31, 2012.

On November 24, 2009, the Company entered into an Investment Management Agreement with Conning, Inc. ("Conning") to manage a portion of the Company's investment portfolio. Aquiline acquired Conning on June 16, 2009. Jeffrey W. Greenberg, a director of the Company, serves as a director of Conning Holdings Corp., the parent company of Conning and Michael Carpenter, the Chairman of Talbot Holdings Ltd. and a director of the Company, serves as a director of a subsidiary company of Conning Holdings Corp. Investment management fees earned by Conning for the three and nine months ended September 30, 2013 were $165 (2012: $207) and $396 (2012: $611) respectively with $179 included in accounts payable and accrued expenses at September 30, 2013 (December 31, 2012: $201).
On December 20, 2011, Validus Re entered into an Assignment and Assumption Agreement (the "Agreement") with Aquiline Capital Partners LLC, a Delaware limited liability company (the "Assignor") and Aquiline Capital Partners II GP (Offshore) Ltd., a Cayman Islands company limited by shares (the "General Partner") pursuant to which Validus Re has assumed 100% of the Assignor's interest in Aquiline Financial Services Fund II L.P. (the "Partnership") representing a total capital commitment of $50,000 (the "Commitment"), as a limited partner in the Partnership (the "Transferred Interest"). Messrs. Greenberg and Watson, directors of the Company, serve as managing principal and

senior principal, respectively, of Aquiline Capital Partners LLC. For the three and nine months ended September 30, 2013, the Company incurred $505 (2012: $674) and $625 (2012: $2,560) in partnership fees and made $6,185 (2012: $430) and $13,089 (2012: $5,328) of capital contributions respectively, of which $nil was included in accounts payable and accrued expenses at September 30, 2013 (December 31, 2012: $nil).
Certain shareholders of the Company and their affiliates, as well as the employers or entities otherwise associated with certain directors and officers or their affiliates, have purchased insurance and/or reinsurance from the Company in the ordinary course of business on terms the Company believes were no more favorable to these (re)insureds than those made available to other customers.

Table of Contents

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

17. Earnings per share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2013 and 2012:

	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Basic earnings per share				
Net income	$229,063	$264,044	$419,503	$510,540
Loss attributable to noncontrolling interest	(45,694)	(56,746)	17,831	(11,386)
Net income available to Validus	183,369	207,298	437,334	499,154
Less: Dividends and distributions declared on outstanding warrants	(1,552)	(1,663)	(17,662)	(5,121)
Net income available to common shareholders	$181,817	$205,635	$419,672	$494,033
Weighted average number of common shares outstanding	99,834,563	93,368,775	103,451,396	97,016,034
Basic earnings per share available to common shareholders	$1.82	$2.20	$4.06	$5.09
Diluted earnings per share				
Net income	$229,063	$264,044	$419,503	$510,540
(Income) loss attributable to noncontrolling interest	(45,694)	(56,746)	17,831	(11,386)
Net income available to Validus	183,369	207,298	437,334	499,154
Less: Dividends and distributions declared on outstanding warrants	—	—	(17,662)	—
Net income available to common shareholders	$183,369	$207,298	$419,672	$499,154
Weighted average number of common shares outstanding	99,834,563	93,368,775	103,451,396	97,016,034
Share equivalents:				
Warrants	2,606,669	3,248,788	—	3,116,298
Stock options	782,158	716,693	1,090,298	777,245
Unvested restricted shares	390,376	902,234	723,219	1,423,938
Weighted average number of diluted common shares outstanding	103,613,766	98,236,490	105,264,913	102,333,515
Diluted earnings per share available to common shareholders	$1.77	$2.11	$3.99	$4.88

Share equivalents that would result in the issuance of common shares of 125,728 (2012: 2,724) and 464,516 (2012: 231,621) were outstanding for the three and nine months ended September 30, 2013, respectively, but were not included in the computation of diluted earnings per share because the effect would be antidilutive.

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

18. Segment information

The Company conducts its operations worldwide through two wholly-owned subsidiaries, Validus Reinsurance, Ltd. and Talbot Holdings Ltd. from which three operating segments have been determined under U.S. GAAP segment reporting. During the first quarter of 2012, to better align the Company's operating and reporting structure with its current strategy, there was a change in the segment structure. This change included the AlphaCat group of companies as a separate operating segment. "AlphaCat segment" was included as an additional segment and includes the Company's investments in AlphaCat Re 2011, AlphaCat Re 2012, AlphaCat 2013, PaCRe and the AlphaCat ILS funds. The Company's operating segments are strategic business units that offer different products and services. They are managed and have capital allocated separately because each business requires different strategies.

Validus Re Segment

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

AlphaCat Segment

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

Talbot Segment

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

Corporate and other reconciling items

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

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

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

Three Months Ended September 30, 2013	Validus Re Segment	AlphaCat Segment	Talbot Segment	Corporate & Eliminations	Total
Underwriting income					
Gross premiums written	$130,925	$3,481	$246,468	$(24,114)	$356,760
Reinsurance premiums ceded	(13,006)	(525)	(49,998)	24,114	(39,415)
Net premiums written	117,919	2,956	196,470	—	317,345
Change in unearned premiums	157,873	34,210	21,860	—	213,943
Net premiums earned	275,792	37,166	218,330	—	531,288
Underwriting deductions					
Losses and loss expenses	62,250	15,615	100,100	—	177,965
Policy acquisition costs	47,662	3,787	44,899	(1,448)	94,900
General and administrative expenses	19,785	5,728	37,402	18,174	81,089
Share compensation expenses	2,479	152	2,992	4,904	10,527
Total underwriting deductions	132,176	25,282	185,393	21,630	364,481
Underwriting income (loss)	$143,616	$11,884	$32,937	$(21,630)	$166,807
Net investment income	15,628	967	4,395	(981)	20,009
Other (loss) income	(1,892)	3,791	73	(4,778)	(2,806)
Finance expenses	(3,640)	(11,895)	(107)	(11,490)	(27,132)
Operating income (loss) before taxes and income from operating affiliates	153,712	4,747	37,298	(38,879)	156,878
Tax benefit (expense)	143	—	(513)	365	(5)
Income from operating affiliates	—	1,463	—	—	1,463
Net operating income (loss)	$153,855	$6,210	$36,785	$(38,514)	$158,336
Net realized (losses) gains on investments	(10,137)	4,084	(267)	—	(6,320)
Net unrealized gains on investments	23,144	44,145	2,678	—	69,967
Income from investment affiliate	1,044	—	—	—	1,044
Foreign exchange gains (losses)	2,168	388	4,238	(758)	6,036
Net income (loss)	$170,074	$54,827	$43,434	$(39,272)	$229,063
Net loss attributable to noncontrolling interest	—	(45,694)	—	—	(45,694)
Net income (loss) available (attributable) to Validus	$170,074	$9,133	$43,434	$(39,272)	$183,369
Selected ratios:					
Net premiums written / Gross premiums written	90.1 %	84.9 %	79.7 %		89.0 %

Losses and loss expenses (a)	22.6 %	42.0 %	45.8 %		33.5 %
Policy acquisition costs (a)	17.3 %	10.2 %	20.6 %		17.9 %
General and administrative expenses (a) (b)	8.1 %	15.8 %	18.5 %		17.2 %
Expense ratio (a)	25.4 %	26.0 %	39.1 %		35.1 %
Combined ratio (a)	48.0 %	68.0 %	84.9 %		68.6 %
Total assets	$5,854,354	$1,446,941	$2,892,477	$123,596	$10,317,368

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

45

Table of Contents

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

Three Months Ended September 30, 2012	Validus Re Segment	AlphaCat Segment	Talbot Segment	Corporate & Eliminations	Total
Underwriting income					
Gross premiums written	$145,010	$2,934	$260,755	$(18,484)	$390,215
Reinsurance premiums ceded	(10,426)	—	(53,801)	18,484	(45,743)
Net premiums written	134,584	2,934	206,954	—	344,472
Change in unearned premiums	107,728	2,591	20,313	—	130,632
Net premiums earned	242,312	5,525	227,267	—	475,104
Underwriting deductions					
Losses and loss expenses	66,890	—	88,565	—	155,455
Policy acquisition costs	37,785	547	61,640	(1,349)	98,623
General and administrative expenses	16,938	2,087	36,605	14,917	70,547
Share compensation expenses	2,076	84	2,200	2,985	7,345
Total underwriting deductions	123,689	2,718	189,010	16,553	331,970
Underwriting income (loss)	$118,623	$2,807	$38,257	$(16,553)	$143,134
Net investment income	19,644	1,193	5,260	(608)	25,489
Other income	1,543	7,674	680	(2,573)	7,324
Finance expenses	(789)	(56)	(73)	(8,444)	(9,362)
Operating income (loss) before taxes and income from operating affiliates	139,021	11,618	44,124	(28,178)	166,585
Tax expense	(2)	—	(11)	(1,330)	(1,343)
Income from operating affiliates	—	6,235	—	—	6,235
Net operating income (loss)	$139,019	$17,853	$44,113	$(29,508)	$171,477
Net realized gains on investments	6,643	300	2,120	—	9,063
Net unrealized on investments	19,232				