VALIDUS HOLDINGS LTD
Form 10-Q
May 06, 2011

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

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011
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 þ **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 þ **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 þ	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** þ

As of May 3, 2011 there were 98,288,667 outstanding Common Shares, $0.175 par value per share, of the registrant.

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

Validus Holdings, Ltd.

Consolidated Balance Sheets

As at March 31, 2011 (unaudited) and December 31, 2010

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

	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Fixed maturities, at fair value (amortized cost: 2011 - $4,544,110; 2010 - $4,772,037)	$ 4,589,849	$ 4,823,867
Short-term investments, at fair value (amortized cost: 2011 - $565,600; 2010 - $273,444)	565,620	273,514
Other investments, at fair value (amortized cost: 2011 - $16,089; 2010 - $18,392)	19,772	21,478
Cash and cash equivalents	717,444	620,740
Total investments and cash	5,892,685	5,739,599
Premiums receivable	916,012	568,761
Deferred acquisition costs	174,361	123,897
Prepaid reinsurance premiums	115,522	71,417
Securities lending collateral	33,143	22,328
Loss reserves recoverable	453,701	283,134
Paid losses recoverable	26,483	27,996
Income taxes recoverable	876	1,142
Intangible assets	117,853	118,893
Goodwill	20,393	20,393
Accrued investment income	33,282	33,726
Other assets	41,379	49,592
Total assets	$ 7,825,690	$ 7,060,878
Liabilities		
Reserve for losses and loss expenses	$ 2,534,415	$ 2,035,973
Unearned premiums	1,083,164	728,516
Reinsurance balances payable	157,645	63,667
Securities lending payable	33,878	23,093
Deferred income taxes	22,705	24,908
Net payable for investments purchased	59,671	43,896
Accounts payable and accrued expenses	82,190	99,320
Senior notes payable	246,901	246,874
Debentures payable	289,800	289,800
Total liabilities	4,510,369	3,556,047

Commitments and contingent liabilities		
Shareholders equity		
Common shares, 571,428,571 authorized, par value $0.175 (Issued: 2011 - 133,320,162; 2010 - 132,838,111; Outstanding: 2011 - 98,288,177; 2010 - 98,001,226)	23,331	23,247
Treasury shares (2011 - 35,031,985; 2010 - 34,836,885)	(6,131)	(6,096)
Additional paid-in-capital	1,870,104	1,860,960
Accumulated other comprehensive (loss)	(4,498)	(5,455)
Retained earnings	1,432,515	1,632,175
Total shareholders equity	3,315,321	3,504,831
Total liabilities and shareholders equity	$ 7,825,690	$ 7,060,878

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

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Validus Holdings, Ltd.
Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Three Months Ended March 31, 2011 and 2010 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	Three Months Ended	
	March 31, 2011 (unaudited)	March 31, 2010 (unaudited)
Revenues		
Gross premiums written	$ 849,896	$ 870,934
Reinsurance premiums ceded	(109,820)	(90,739)
Net premiums written	740,076	780,195
Change in unearned premiums	(310,543)	(322,501)
Net premiums earned	429,533	457,694
Net investment income	29,975	34,299
Net realized gains on investments	6,379	11,398
Net unrealized (losses) gains on investments	(12,828)	15,413
Other income	1,606	888
Foreign exchange (losses)	(467)	(8,764)
Total revenues	454,198	510,928
Expenses		
Losses and loss expenses	476,198	478,531
Policy acquisition costs	77,296	76,176
General and administrative expenses	48,477	53,569
Share compensation expenses	12,049	6,576
Finance expenses	14,001	15,151
Total expenses	628,021	630,003
Net (loss) before taxes	(173,823)	(119,075)
Tax benefit	1,459	697
Net (loss)	$ (172,364)	$ (118,378)
Comprehensive income (loss)		
Foreign currency translation adjustments	957	(1,807)
Comprehensive (loss)	$ (171,407)	$ (120,185)
Earnings per share		

Weighted average number of common shares and common share equivalents outstanding		
Basic	97,944,340	126,633,277
Diluted	97,944,340	126,633,277
Basic (loss) per share	$ (1.78)	$ (0.95)
Diluted (loss) per share	$ (1.78)	$ (0.95)
Cash dividends declared per share	$ 0.25	$ 0.22

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

Validus Holdings, Ltd.
Consolidated Statements of Shareholders Equity
For the Three Months Ended March 31, 2011 and 2010 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	March 31, 2011 (unaudited)	March 31, 2010 (unaudited)
Common shares		
Balance Beginning of period	$ 23,247	$ 23,033
Common shares issued, net	84	48
Balance End of period	$ 23,331	$ 23,081
Treasury shares		
Balance Beginning of period	$ (6,096)	$ (553)
Repurchase of common shares	(35)	(844)
Balance End of period	$ (6,131)	$ (1,397)
Additional paid-in capital		
Balance Beginning of period	$ 1,860,960	$ 2,675,680
Common shares issued, net	3,055	300
Repurchase of common shares	(5,960)	(127,313)
Share compensation expenses	12,049	6,576
Balance End of period	$ 1,870,104	$ 2,555,243
Accumulated other comprehensive (loss)		
Balance Beginning of period	$ (5,455)	$ (4,851)
Foreign currency translation adjustments	957	(1,807)
Balance End of period	$ (4,498)	$ (6,658)
Retained earnings		
Balance Beginning of period	$ 1,632,175	$ 1,337,811
Dividends	(27,296)	(30,137)
Net (loss)	(172,364)	(118,378)
Balance End of period	$ 1,432,515	$ 1,189,296
Total shareholders equity	$ 3,315,321	$ 3,759,565

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

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Validus Holdings, Ltd.
Consolidated Statements of Cash Flows
For the Three Months Ended March 31, 2011 and 2010 (unaudited)
(Expressed in thousands of U.S. dollars, except share and per share information)

	March 31, 2011 (unaudited)	March 31, 2010 (unaudited)
Cash flows provided by (used in) operating activities		
Net (loss)	$ (172,364)	$ (118,378)
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Share compensation expenses	12,049	6,576
Amortization of discount on senior notes	27	
Net realized (gains) on investments	(6,379)	(11,398)
Net unrealized losses (gains) on investments	12,828	(15,413)
Amortization of intangible assets	1,040	1,040
Foreign exchange (gains) losses on cash and cash equivalents included in net income	(4,694)	4,538
Amortization of premium on fixed maturities	8,542	3,713
Change in:		
Premiums receivable	(345,025)	(255,394)
Deferred acquisition costs	(50,464)	(52,829)
Prepaid reinsurance premiums	(44,105)	(30,786)
Loss reserves recoverable	(168,836)	(18,871)
Paid losses recoverable	1,546	(3,509)
Income taxes recoverable	306	(41)
Accrued investment income	444	(4,875)
Other assets	5,409	(6,557)
Reserve for losses and loss expenses	489,356	366,176
Unearned premiums	354,648	359,487
Reinsurance balances payable	92,655	(19,203)
Deferred income taxes	(3,891)	(624)
Accounts payable and accrued expenses	(14,535)	(19,686)
Net cash provided by operating activities	168,557	183,966
Cash flows provided by (used in) investing activities		
Proceeds on sales of investments	1,581,206	1,226,380
Proceeds on maturities of investments	108,629	113,341
Purchases of fixed maturities	(1,449,698)	(1,693,657)
(Purchases) sales of short-term investments, net	(292,131)	173,233
Sales of other investments		4,383
(Increase) in securities lending collateral	(10,785)	(9,894)
Net cash (used in) investing activities	(62,779)	(186,214)

Cash flows provided by (used in) financing activities				
Net proceeds on issuance of senior notes				246,793
Issuance of common shares, net		3,139		348
Purchases of common shares under share repurchase program		(5,995)		(128,157)
Dividends paid		(27,196)		(29,944)
Increase in securities lending payable		10,785		9,894
Net cash (used in) provided by financing activities		(19,267)		98,934
Effect of foreign currency rate changes on cash and cash equivalents		10,193		(5,795)
Net increase in cash		96,704		90,891
Cash and cash equivalents beginning of period		620,740		387,585
Cash and cash equivalents end of period	$	717,444	$	478,476
Taxes paid during the period	$	26	$	198
Interest paid during the period	$	17,458	$	6,365

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

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

1. Basis of preparation and consolidation

These unaudited consolidated financial statements include Validus Holdings, Ltd. and its wholly and majority owned subsidiaries (together, the Company) and have been prepared in accordance with generally accepted accounting principles 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 for the year ended December 31, 2010, 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 (consisting of normal recurring accruals) 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 significant 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. Actual results could differ from these estimates. The major 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, the valuation of goodwill and intangible assets, reinsurance recoverable balances including the provision for unrecoverable reinsurance recoverable balances and investment valuation. Actual results could differ 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 Accounting Standard Codifications issued by the United States Financial Accounting Standards Board (FASB).

2. Recent accounting pronouncements

In January 2010, the FASB issued authoritative guidance on *Fair Value Measurements and Disclosures* (ASC 820). This update requires additional disclosures regarding the activity within Level 3 fair value measurements, including information on a gross basis for purchases, sales, issuances, and settlements. This guidance is effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this update has not had a material impact on the Company s consolidated financial statements.

In April 2010, the FASB issued authoritative guidance which clarifies the *Stock Compensation* guidance (ASC 718). This guidance clarifies the accounting for certain employee share-based payment awards. Awards with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades would not be considered to contain a condition that is not a market, performance or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. This accounting guidance is effective for accounting periods beginning after December 15, 2010. The adoption of this update did not impact the Company s consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). The objective of ASU 2010-20 is to

Validus Holdings, Ltd.
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provide financial statement users with greater transparency about an entity s allowance for credit losses and the credit quality of its financing receivables. ASU 2010-20 was effective for interim and annual periods ending on or after December 15, 2010. The adoption of this update did not have a material impact on the Company s consolidated financial statements.

In October 2010, the FASB issued Accounting Standards Update No. 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* (ASU 2010-26). The objective of ASU 2010-26 is to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. ASU 2010-26 is effective for interim and annual periods beginning after December 15, 2011 and may be applied prospectively or retrospectively. The Company early adopted this update effective January 1, 2011 and the adoption did not have an impact on the Company s consolidated financial statements.

3. Investments

The Company s investments in fixed maturities are classified as trading and carried at fair value, with related net unrealized gains or losses included in earnings. 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 quoted prices (unadjusted) 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.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement. Level 3 inputs are unobservable inputs for the asset or liability.

Level 1 primarily consists of financial instruments whose value is based on quoted market prices or alternative indices including overnight repos and commercial paper. Level 2 includes financial instruments that are valued through independent external sources using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. The Company performs internal procedures on the valuations received from independent external sources. Financial instruments in this category include U.S. and U.K. Treasuries, sovereign debt, corporate debt, catastrophe bonds, U.S. agency and non-agency mortgage and asset-backed securities and bank loans. Level 3 includes financial instruments that are valued using market approach and income approach valuation techniques. These models incorporate both observable and unobservable inputs. A hedge fund is the only financial instrument in this category as at March 31, 2011.

The Company s management and external investment advisors had noted illiquidity and dislocation in the non-Agency RMBS market for the period September 30, 2008 through to June 30, 2010. During this period, the Company identified certain non-Agency RMBS securities in its portfolio trading in inactive markets (identified RMBS securities). In order to gauge market activity for the identified RMBS securities, the Company, with

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assistance from external investment advisors, reviewed the pricing sources for each security in the portfolio. The Company utilized various pricing vendors to obtain market pricing information for investment securities.

Consistent with U.S. GAAP, market approach fair value measurements for securities trading in inactive markets are not determinative. In weighing the fair value measurements resulting from market approach and income approach valuation techniques, the Company previously placed less reliance on the market approach fair value measurements. The income approach valuation technique determines the fair value of each security on the basis of contractual cash flows, discounted using a risk-adjusted discount rate. As the income approach valuation technique incorporates both observable and significant unobservable inputs, the securities were included as Level 3 assets with respect to the fair value hierarchy. The foundation for the income approach was the amount and timing of future cash flows.

During the three month period ended September 30, 2010, the Company, with assistance from external investment advisors, determined that market activity had increased for the identified RMBS securities. Therefore, a market approach valuation technique was adopted for the identified RMBS securities. Because the market approach incorporates observable inputs, the identified RMBS securities are classified as Level 2 with respect to the fair value hierarchy at September 30, 2010. During the three months ended December 31, 2010, the Company liquidated substantially all of the identified RMBS securities which had previously been classified as Level 3 securities.

Other investments consist of an investment in a fund of hedge funds and a deferred compensation trust held in mutual funds. The fund of hedge funds is a side pocket valued at $10,713 at March 31, 2011. While a redemption request has been submitted, the timing of receipt of proceeds on the side pocket is unknown. The fund investment manager provides monthly reported net asset values (NAV) with a one-month delay in its valuation. As a result, the fund investment manager s February 28, 2011 NAV was used as a partial basis for fair value measurement in the Company s March 31, 2011 balance sheet. The fund investment manager s NAV relies on an estimate of the performance of the fund based on the month end positions from the underlying third-party funds. The Company utilizes the fund investment manager s primary market approach estimated NAV that incorporates relevant valuation sources on a timely basis. As this valuation technique incorporates both observable and significant unobservable inputs, the fund of hedge funds is classified as a Level 3 asset. To determine the reasonableness of the estimated NAV, the Company assesses the variance between the estimated NAV and the one-month delayed fund investment manager s NAV. Immaterial variances are recorded in the following reporting period.

At March 31, 2011, 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	$	$ 1,050,342	$	$ 1,050,342
Non-U.S. Government and Government Agency		501,722		501,722
States, municipalities, political subdivision		30,991		30,991
Agency residential mortgage-backed securities		483,479		483,479
Non-Agency residential mortgage-backed securities		53,369		53,369
U.S. corporate		1,375,281		1,375,281
Non-U.S. corporate		640,177		640,177
Bank Loans		205,196		205,196
Catastrophe bonds		58,071		58,071
Asset-backed securities		180,069		180,069
Commercial mortgage-backed securities		11,152		11,152
Total fixed maturities		4,589,849		4,589,849
Short-term investments	534,426	31,194		565,620
Hedge fund			10,713	10,713
Mutual funds		9,059		9,059

Total	$ 534,426	$ 4,630,102	$ 10,713	$ 5,175,241

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

At December 31, 2010, 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	$	$ 1,677,166	$	$ 1,677,166
Non-U.S. Government and Government Agency		554,199		554,199
States, municipalities, political subdivision		26,285		26,285
Agency residential mortgage-backed securities		445,859		445,859
Non-Agency residential mortgage-backed securities		56,470		56,470
U.S. corporate		1,308,406		1,308,406
Non-U.S. corporate		502,067		502,067
Bank loans		52,566		52,566
Catastrophe bonds		58,737		58,737
Asset-backed securities		123,569		123,569
Commercial mortgage-backed securities		18,543		18,543
Total fixed maturities		4,823,867		4,823,867
Short-term investments	259,261	14,253		273,514
Hedge fund			12,892	12,892
Mutual funds		8,586		8,586
Total	$ 259,261	$ 4,846,706	$ 12,892	$ 5,118,859

At March 31, 2011, Level 3 investments totaled $10,713, representing 0.2% of total investments measured at fair value on a recurring basis. At December 31, 2010, Level 3 investments totaled $12,892 representing 0.3% of total investments measured at fair value on a recurring basis.

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs as at March 31, 2011 and December 31, 2010:

	Three Months Ended March 31, 2011		
	Fixed Maturity Investments	Other Investments	Total Fair Market Value
Level 3 investments Beginning of period	$	$ 12,892	$ 12,892
Purchases			
Sales		(2,562)	(2,562)
Issuances			
Settlements			
Realized gains		260	260
Unrealized gains		123	123
Amortization			
Transfers			
Level 3 investments End of period	$	$ 10,713	$ 10,713

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

	Year Ended December 31, 2010		
	Fixed Maturity Investments	Other Investments	Total Fair Market Value
Level 3 investments Beginning of period	$ 85,336	$ 25,670	$ 111,006
Purchases			
Sales		(13,850)	(13,850)
Issuances			
Settlements			
Realized gains		662	662
Unrealized (losses) gains	(6,307)	410	(5,897)
Amortization	(11,841)		(11,841)
Transfers (out)	(67,188)		(67,188)
Level 3 investments End of period	$	$ 12,892	$ 12,892

(b) Net investment income

Net investment income was derived from the following sources:

	Three Months Ended	
	March 31, 2011	March 31, 2010
Fixed maturities and short-term investments	$ 28,935	$ 35,755
Cash and cash equivalents	2,581	586
Securities lending income	16	70
Total gross investment income	31,532	36,411
Investment expenses	(1,557)	(2,112)
Net investment income	$ 29,975	$ 34,299

(c) Fixed maturity and short-term investments

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

	Three Months Ended	
	March 31, 2011	March 31, 2010
Fixed maturities, short-term and other investments and cash equivalents		
Gross realized gains	$ 15,765	$ 12,765
Gross realized (losses)	(9,386)	(1,367)

Net realized gains on investments	6,379	11,398
Net unrealized gains (losses) on securities lending	30	(1,014)
Change in net unrealized (losses) gains on investments	(12,858)	16,427
Total net realized gains and change in net unrealized (losses) gains on investments	$ (6,449)	$ 26,811

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

The amortized cost, gross unrealized gains and (losses) and estimated fair value of investments at March 31, 2011 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and Government Agency	$ 1,044,727	$ 9,871	$ (4,256)	$ 1,050,342
Non-U.S. Government and Government Agency	495,686	9,523	(3,487)	501,722
States, municipalities, political subdivision	31,102	59	(170)	30,991
Agency residential mortgage-backed securities	469,409	14,937	(867)	483,479
Non-Agency residential mortgage-backed securities	58,995	124	(5,750)	53,369
U.S. corporate	1,356,102	24,715	(5,536)	1,375,281
Non-U.S. corporate	634,965	8,078	(2,866)	640,177
Bank loans	205,154	691	(649)	205,196
Catastrophe bonds	57,026	1,346	(301)	58,071
Asset-backed securities	179,919	614	(464)	180,069
Commercial mortgage-backed securities	11,025	127		11,152
Total fixed maturities	4,544,110	70,085	(24,346)	4,589,849
Total short-term investments	565,600	111	(91)	565,620
Total other investments	16,089	3,683		19,772
Total	$ 5,125,799	$ 73,879	$ (24,437)	$ 5,175,241

The amortized cost, gross unrealized gains and (losses) and estimated fair value of investments at December 31, 2010 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government and Government Agency	$ 1,665,050	$ 20,134	$ (8,018)	$ 1,677,166
Non-U.S. Government and Government Agency	550,759	11,635	(8,195)	554,199
States, municipalities, political subdivision	26,365	90	(170)	26,285
Agency residential mortgage-backed securities	430,873	15,491	(505)	445,859
	62,020	64	(5,614)	56,470

Non-Agency residential mortgage-backed securities				
U.S. corporate	1,288,078	28,526	(8,198)	1,308,406
Non-U.S. corporate	497,689	7,939	(3,561)	502,067
Bank loans	52,612	58	(104)	52,566
Catastrophe bonds	56,991	2,042	(296)	58,737
Asset-backed securities	123,354	605	(390)	123,569
Commercial mortgage-backed securities	18,246	299	(2)	18,543
Total fixed maturities	4,772,037	86,883	(35,053)	4,823,867
Total short-term investments	273,444	70		273,514
Total other investments	18,392	3,086		21,478
Total	$ 5,063,873	$ 90,039	$ (35,053)	$ 5,118,859

Validus Holdings, Ltd.
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The following table sets forth certain information regarding the investment ratings of the Company s fixed maturities portfolio as at March 31, 2011 and December 31, 2010. 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.

	March 31, 2011		December 31, 2010	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
AAA	$ 2,437,814	53.1%	$ 2,946,514	61.2%
AA	606,860	13.2%	428,972	8.9%
A	926,119	20.2%	1,077,389	22.3%
BBB	322,274	7.0%	219,523	4.6%
Investment grade	4,293,067	93.5%	4,672,398	97.0%
BB	154,257	3.4%	74,475	1.5%
B	112,515	2.4%	45,660	0.9%
CCC	27,715	0.6%	29,219	0.6%
CC		0.0%		0.0%
D/NR	2,295	0.1%	2,115	0.0%
Non-Investment grade	296,782	6.5%	151,469	3.0%
Total Fixed Maturities	$ 4,589,849	100.0%	$ 4,823,867	100.0%

The amortized cost and estimated fair value amounts for fixed maturity securities held at March 31, 2011 and December 31, 2010 are shown 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.

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	March 31, 2011		December 31, 2010	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 395,245	$ 398,058	$ 424,327	$ 426,167
Due after one year through five years	3,195,073	3,229,472	3,498,334	3,540,408
Due after five years through ten years	232,448	232,235	207,918	206,317
Due after ten years	1,996	2,015	6,965	6,534
	3,824,762	3,861,780	4,137,544	4,179,426
Asset-backed and mortgage-backed securities	719,348	728,069	634,493	644,441
Total	$ 4,544,110	$ 4,589,849	$ 4,772,037	$ 4,823,867

The Company has a five year, $500,000 secured letter of credit facility provided by a syndicate of commercial banks. At March 31, 2011, approximately $285,048 (December 31, 2010: $268,944) of letters of credit were issued and outstanding under this facility for which $348,182 of investments were pledged as collateral (December 31, 2010: $325,532). In 2007, the Company entered into a $100,000 standby letter of credit facility which provides Funds at Lloyd s (the Talbot FAL Facility). On November 19, 2009, the Company entered into a Second Amendment to the Talbot FAL Facility to reduce the commitment from $100,000 to $25,000. At March 31, 2011, $25,000 (December 31, 2010: $25,000) of letters of credit were issued and outstanding under the Talbot FAL Facility for which $45,278 of investments were pledged as collateral (December 31, 2010: $45,504). In addition, $1,810,402 of investments were held in trust at March 31, 2011 (December 31, 2010: $1,729,631). Of those, $1,553,756 were held in trust for the benefit of Talbot s cedants and policyholders, and to facilitate the accreditation of Talbot as an alien insurer/reinsurer by certain regulators (December 31, 2010: $1,489,243).

The Company assumed two letters of credit facilities as part of the acquisition of IPC Holdings, Ltd. (IPC and such acquisition, the IPC Acquisition). A Credit Facility between IPC, IPCRe Limited, the Lenders party thereto and Wachovia Bank, National Association (the IPC Syndicated Facility) and a Letters of Credit Master Agreement between Citibank N.A. and IPCRe Limited (the IPC Bi-Lateral Facility). At March 31, 2010, the IPC Syndicated Facility was closed. At March 31, 2011, the IPC Bi-Lateral Facility had $64,368 (December 31, 2010: $68,063) letters of credit issued and outstanding for which $105,771 (December 31, 2010: $105,310) of investments were held in an associated collateral account.

(d) Securities lending

The Company participates in a securities lending program whereby certain securities from its portfolio are loaned to third parties for short periods of time through a lending agent. The Company retains all economic interest in the securities it lends and receives a fee from the borrower for the temporary use of the securities. Collateral in the form of cash, government securities and letters of credit is required at a rate of 102% of the market value of the loaned securities and is held by a third party. As at March 31, 2011, the Company had $33,407 (December 31, 2010: $22,566) in securities on loan. During the three months ended March 31, 2011, the Company recorded a $30 unrealized gain on this collateral in its Statements of Operations (March 31, 2010: unrealized loss $1,014).

Securities lending collateral reinvested includes corporate floating rate securities and overnight repo with an average reset period of 4.0 days (December 31, 2010: 17.6 days). As at March 31, 2011, the securities lending collateral reinvested by the Company in connection with its securities lending program was allocated between Levels 1, 2 and 3 as follows:

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	Level 1	Level 2	Level 3	Total
Corporate	$	$ 254	$	$ 254
Agency				
Asset-backed securities		5,011		5,011
Short-term investments	27,572	306		27,878
Total	$ 27,572	$ 5,571	$	$ 33,143

As at December 31, 2010, the securities lending collateral reinvested by the Company in connection with its securities program was allocated between Levels 1, 2 and 3 as follows:

	Level 1	Level 2	Level 3	Total
Corporate	$	$ 229	$	$ 229
Agency				
Asset-backed securities		5,005		5,005
Short-term investments	2,644	14,450		17,094
Total	$ 2,644	$ 19,684	$	$ 22,328

The following table sets forth certain information regarding the investment ratings of the Company s securities lending collateral reinvested as at March 31, 2011 and December 31, 2010. 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.

	March 31, 2011		December 31, 2010	
	Estimated Fair Value	% of Total	Estimated Fair Value	% of Total
AAA	$ 5,317	16.0%	$ 5,454	24.4%
AA+		0.0%	11,003	49.3%
AA		0.0%		
AA-		0.0%	2,998	13.5%
A+		0.0%		
A		0.0%		
NR	254	0.8%	229	1.0%
	5,571	16.8%	19,684	88.2%
NR- Short-term investments (a)	27,572	83.2%	2,644	11.8%
Total	$ 33,143	100.0%	$ 22,328	100.0%

(a) This amount relates to short-term investments and is therefore not a rated security.

The amortized cost and estimated fair value amounts for securities lending collateral reinvested by the Company at March 31, 2011 and December 31, 2010 are shown by contractual maturity below. 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.

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	March 31, 2011		December 31, 2010	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 27,878	$ 27,878	$ 17,093	$ 17,095
Due after one year through five years	6,000	5,265	6,000	5,233
Total	$ 33,878	$ 33,143	$ 23,093	$ 22,328

4. Derivative Instruments Used in Hedging Activities

The Company enters into derivative instruments for risk management purposes, specifically to economically hedge unmatched foreign currency exposures. During the three months ended March 31, 2011, the Company entered into foreign currency forward exchange contracts to mitigate the risk of fluctuations in the Euro and Australian dollar to U.S. dollar rates. During the year ended December 31, 2010, the Company entered into a foreign currency forward contract to mitigate the risk of foreign currency exposure of unpaid losses denominated in Chilean Pesos (CLP). The CLP foreign currency forward contract was renewed during the three months ended March 31, 2011. The following table summarizes information on the location and amount of the derivative fair value on the consolidated balance sheet at March 31, 2011:

		Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments:	**Notional Amount**	**Balance Sheet location**	**Fair value**	**Balance Sheet location**	**Fair value**
Foreign exchange contracts	$ 70,416	Other assets	$ 551	Other liabilities	$ 843

The following table summarizes information on the location and amount of the derivative fair value on the consolidated balance sheet at December 31, 2010:

		Asset Derivatives		Liability Derivatives	
Derivatives designated as hedging instruments:	**Notional Amount**	**Balance Sheet location**	**Fair value**	**Balance Sheet location**	**Fair value**
Foreign exchange contract	$ 75,000	Other assets	$ 2,905	Other liabilities	$

(a) Classification within the fair value hierarchy

As described in Note 3 Investments under U.S. GAAP, a company must determine the appropriate level in the fair value hierarchy for each fair value measurement. We estimate the fair value for these asset derivatives using a valuation obtained from an independent external source. 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 transactions are executed in the marketplace. Accordingly, these derivatives were classified within Level 2 of the fair value hierarchy.

(b) Derivative instruments designated as a fair value hedge

The Company designates its 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 and liabilities. The Company assesses the effectiveness of the hedges, both at inception and on an on-going basis and determines whether the hedges are highly effective in offsetting changes in fair value of the linked hedged items.

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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 months ended March 31, 2011:

	Three months ended March 31, 2011			
Derivatives designated as fair value hedges and related hedged item:	**Location of Gain (Loss) Recognized in Income**	**Amount of Gain (Loss) Recognized in Income on Derivative**	**Amount of Gain (Loss) on Hedged Item Recognized in Income Attributable to Risk Being Hedged**	**Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)**
Foreign exchange	Foreign exchange (losses) gains	$ (3,822)	$ 3,822	$

There was no derivative activity for the three months ended March 31, 2010.

5. Reserve for losses and loss expenses

Reserves for losses and loss expenses are based in part upon the estimation of case losses 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, the reporting of a loss to the Company and 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, case 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