

VALIDUS RE

**Validus Reinsurance
(Switzerland) Ltd**

**Financial Condition Report
2018**

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1. General Remarks

This report on the financial condition of Validus Reinsurance (Switzerland) Ltd (hereafter referred to as “the Company” or “VRS”) has been prepared to comply with art. 111a of the Swiss Insurance Supervision Ordinance applicable since 1 January 2016 and is not intended, nor necessarily suitable, for any other purpose. The content and structure of this report are in accordance with circular 2016/02 Public disclosure (the “Circular”) issued by the Swiss Financial Market Supervisory Authority (“FINMA”) and consider the specific situation, size and complexity of the Company. This report contains both qualitative and quantitative information.

Quantitative information is based on *i)* the Company’s 2018 audited financial statements (“statutory financial statements”) and *ii)* the Company’s 2019 reporting on the Swiss Solvency Test (“SST”) as submitted to FINMA in April 2019, which is still subject to FINMA’s regulatory review. The information contained in this report is consistent with information reported to FINMA in accordance with art. 25 of the Insurance Supervision Act and art. 53 of the Insurance Supervision Ordinance. Appendix I contains the report of the statutory auditor to the General Meeting on the financial statements 2018, including the statutory financial statements prepared in accordance with Swiss law. Appendix II contains further quantitative information as prescribed by FINMA, including the performance of the Company with line of business specific information, the solvency balance sheet as well as details on the Company’s risk bearing capital, target capital and resulting SST ratio.

This report has been prepared for the period from 1 January 2018 to 31 December 2018. Figures are presented in U.S. Dollars (“USD”), in line with the Company’s SST reporting and the statutory financial statements, which are also prepared in USD. Amounts were rounded to USD millions. Certain amounts may not sum to their total due to rounding.

The Company’s Board of Directors approved this report on 29 April 2019.

2. Management Summary

2018 was an important milestone in the history of the Company due to the acquisition of Validus Holdings, Ltd., the Company's ultimate parent, by American International Group, Inc. ("AIG"). AIG is a leading global insurance organisation listed on the New York Stock Exchange and serving customers in more than 80 countries and jurisdictions. As a result of this acquisition, the Company together with its parent company Validus Reinsurance, Ltd. forms the reinsurance unit within AIG expanding its new owner's product offerings worldwide.

From a business perspective, 2018 was a heavy year in terms of natural and man-made catastrophes with approximately \$75 billion of insured losses worldwide according to industry's estimate. VRS was affected by those loss events, which resulted in losses for the Company and in an overall underwriting loss. In addition, an increase in interest rates and higher market volatility led to lower investment total returns which, combined with the underwriting loss, led to an overall net loss for the Company of USD 7.3 million. The combined ratio for 2018 was 102.0% (2017: 98.7%).

VRS reduced its premium volume in 2018 mainly as a result of the non-renewal of intra-group quota share contracts. The non-renewal of those contracts was primarily due to changes to the legal environment in the United States. The business mix in the Company's portfolio (excluding the intra-group quota share contracts in 2017) is more diversified than ever due to reduced agriculture premiums and a growth in casualty premiums.

Total gross written premiums for 2018 amount to USD 475.7 million, a decrease of USD 287.7 million or 38% from 2017. The non-renewal of the intra-group quota shares led to a total reduction of USD 310 million, with USD 225 million of agriculture premiums, USD 61 million of casualty and USD 24 million of property not renewed in 2018. This was partially compensated by increased premium writing of third party casualty, marine, U.S. regional property and specialty lines. The total investment return in 2018 was USD 0.4 million compared to a return of USD 37.9 million in 2017. This is related to interest rate increases in the United States and more volatile markets in 2018, resulting in realised and unrealised losses, as well as to losses on investments in Insurance-Linked Securities funds as a result of fourth quarter 2018 natural catastrophe events.

Claims after reinsurance recoveries were USD 263.2 million, a decrease of USD 244.0 million compared to last year. The decrease in claims from 2017 to 2018 is mainly a result of the lower business volume, which led to overall decreased claims. The overall loss ratio decrease from 73.7% in 2017 to 68.3% in 2018 is related to a changed business mix and due to higher 2017 loss experience caused by the third quarter 2017 events including hurricanes Harvey, Irma and Maria as well as the Mexican earthquakes. The expense ratio increased from 24.9% in 2017 to 33.7% in 2018 compared to 2017 due to changes in the Company's business mix, reduced business volume, increased administrative expenses as well as profit commissions paid in 2018 for agriculture business written in prior years that developed positively. Overall, the combined ratio for the year was 102.0% compared to 98.7% in 2017.

The Company's statutory shareholder's equity amounts to USD 821 million as at 31 December 2018. The Risk-bearing Capital as per the 2018 Swiss Solvency Test amounts to USD 870 million with a Target Capital of USD 324 million, resulting in an SST ratio of 292%, supporting VRS' strong capital position also reflected in the Company's current A.M. Best and S&P ratings of A.

This report provides hereafter a detailed review of VRS' business activities including its lines of business and corporate strategy in Section 3. Section 4 summarises the performance of the Company during the financial year 2018 in context of the preceding financial year. Sections 5 and 6 of the report elaborate on the Company's Corporate Governance and Risk Management framework as well as on its risk profile.

The quantitative information contained in the report and its appendix is complemented by Section 7, providing details on valuation methods used and differences between solvency and statutory views. Section 8 describes VRS' capital management strategy and capital position, including the statutory shareholder's equity of the Company as at 31 December 2018 and significant valuation differences between solvency and statutory views. The solvency information provided in Section 9 is based on information provided in the Company's 2018 SST report as submitted to FINMA.

3. Business Activities

3.1. Shareholding, strategy, objectives and key business segments

The Company is a direct subsidiary of Validus Holdings (UK) Ltd, which is a wholly-owned subsidiary of Validus Reinsurance, Ltd., a Bermuda based reinsurance company.

On July 18, 2018, AIG, a company listed on the New York Stock Exchange, completed its previously announced acquisition of Validus Holdings, Ltd., the ultimate parent of the Company. Together with Validus Reinsurance, Ltd., VRS now forms the reinsurance unit within AIG ("Validus Re").

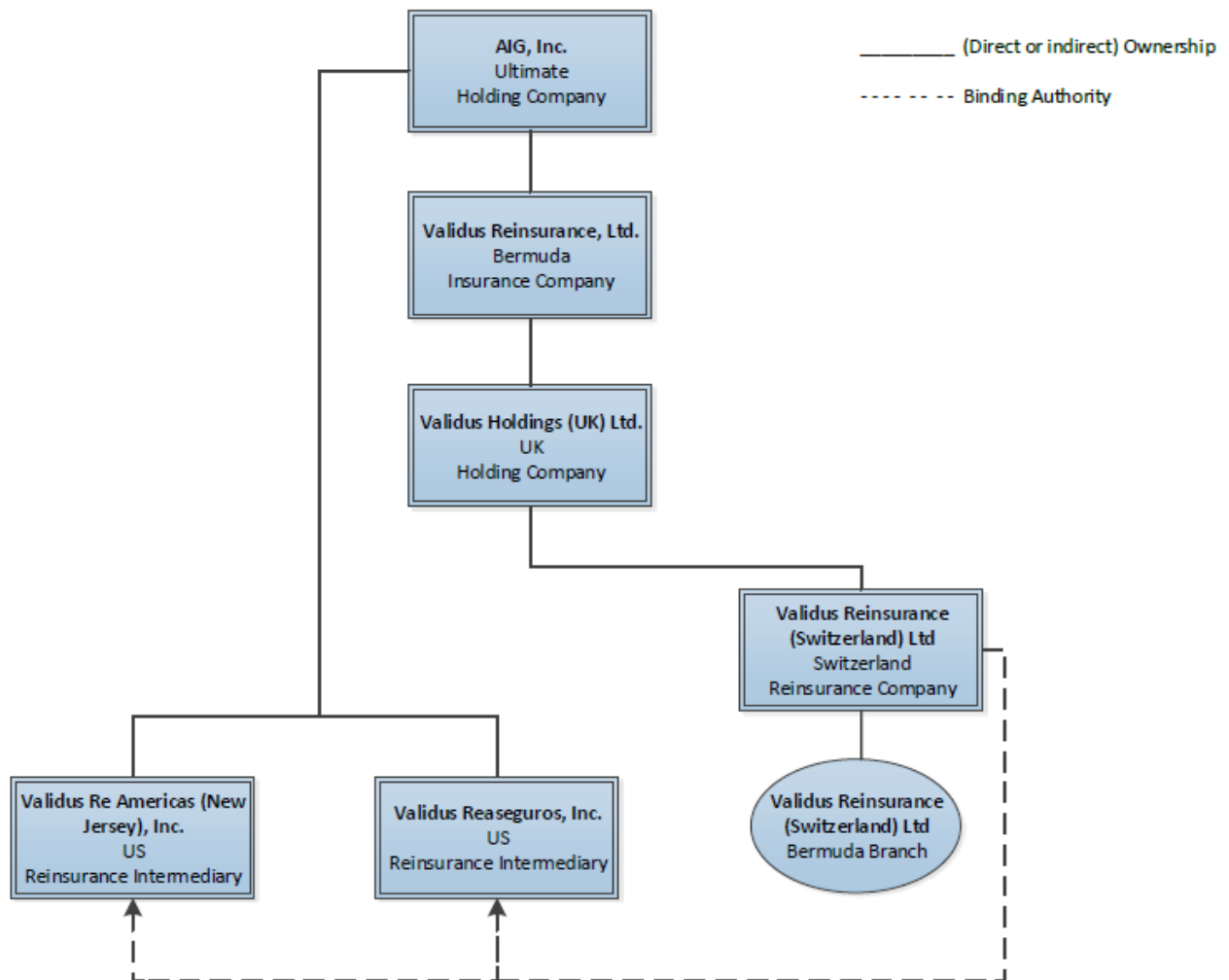
The Company is located at Talstrasse 83, 8001 Zurich, Switzerland. It is licensed as a reinsurer by FINMA in Switzerland. The Company is also a licensed permit company through its Bermuda branch, registered as a Class 4 insurer under the Bermuda Insurance Act.

The Validus Re strategy is to be a leader in the global reinsurance markets. The principal objective is to use the capital efficiently by underwriting a portfolio of reinsurance contracts that maximises the return on equity subject to prudent risk constraints on the amount of capital that it exposes to any single event. Validus Re manages underwriting risks through a variety of means, including contract terms, portfolio selection, diversification by lines of business and by geographies, and by using proprietary and commercially available third-party vendor catastrophe models. The Company's strategy is closely aligned with the Validus Re strategy and focuses on efficient capital use and the underwriting of reinsurance contracts with superior risk and return characteristics while ensuring risks, and corresponding solvency requirements, are assessed appropriately.

The Company primarily writes Property, Marine, Agriculture, Casualty and Other Specialty reinsurance business from its Swiss head office and/or its Bermuda branch. In addition, VRS conducts an important part of its business activities through affiliated U.S. Managing General Agents ("MGAs") writing onto VRS paper. Specifically, these reinsurance intermediaries are Validus Re Americas (New Jersey), Inc. ("VRA") and Validus Reaseguros, Inc., Florida ("VRI").

VRS has engaged VRA to originate and underwrite Agriculture, Casualty and regional U.S. Property business, whereas VRI is engaged to write Latin American business for the benefit of VRS.

The following shows a simplified group structure chart:



3.2. Group structure and group transactions

As noted above, the Company together with its indirect parent company Validus Reinsurance, Ltd., forms the reinsurance unit within AIG. The reinsurance unit operates globally and is primarily focused on excess of loss and treaty reinsurance.

The operational setup involves affiliated MGAs as described above under 3.1. In 2018, VRS did not renew the previously written quota-share reinsurance contracts with U.S. affiliates covering property, casualty and agriculture business.

3.3. Major shareholders

As noted above, the Company is a wholly owned subsidiary of Validus Holdings (UK) Limited, which indirectly is a wholly owned subsidiary of the AIG Group's top holding company American International Group, Inc. since the closing of the acquisition of AIG.

3.4. Major branches and subsidiaries

VRS notably operates through a Bermuda registered branch, which is a Class 4 insurer licensed by the Bermuda Monetary Authority. The Company sold its sole subsidiary L.P. Holding Limited, an investment company based in Limassol, Cyprus, during the first half of 2018.

3.5. External auditors

The Company's external auditors pursuant to art. 28 of the Insurance Supervisory Act are PricewaterhouseCoopers AG, Birchstrasse 160, 8050 Zurich, Switzerland.

3.6. Extraordinary events

On 21 January 2018, Validus Holdings, Ltd. ("VHL"), the Company's then ultimate parent, entered into a definitive agreement and plan of merger (the "Merger Agreement") with American International Group, Inc. The Merger Agreement provided that, subject to the satisfaction or waiver of certain conditions set forth therein, VHL merges with an existing AIG subsidiary in accordance with the Bermuda Companies Act (the "Merger"), with VHL surviving the Merger as a wholly owned subsidiary of AIG.

The Merger closed on 18 July 2018, following the approval of the VHL shareholders, regulatory approvals and other customary closing conditions. Since then, the Company is part of the AIG Group of companies and together with its parent company Validus Reinsurance, Ltd. forms the reinsurance unit within AIG.

4. Performance

4.1. Underwriting performance

The Company's primary lines of business are Property, Marine, Agriculture, Casualty and Other Specialty, which includes financial lines, terrorism, trade credit and composite lines. Premiums written by line of business for financial years 2018 and 2017, respectively, were as follows (as per the statutory financial statements, in USD millions):

Gross written premiums	2018			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Property	113.8	(33.4)	80.5	102.9	(16.9)	86.0
Marine	35.5	(0.5)	35.0	26.8	(0.6)	26.2
Agriculture	106.3	(1.2)	105.1	431.9	(10.4)	421.5
Casualty	144.8	(35.6)	109.3	145.2	(13.6)	131.6
Other Specialty	75.2	(0.6)	74.6	56.6	(0.7)	55.9
Total	475.7	(71.3)	404.4	763.4	(42.2)	721.2

Premiums are written by underwriters in Switzerland and Bermuda, and through dedicated MGAs in Miami and New Jersey. Despite a continuously challenging reinsurance market environment in 2018, the Company managed to grow its premium volume when excluding the non-renewal of intra-group quota shares, which impacted property, casualty and agriculture lines. The reduction in premiums from intra-group quota shares and third party agriculture business was partially compensated by increased writing of regional U.S. property and casualty business written through the New Jersey MGA, as well as marine and specialty business. The non-renewal of the intra-group quota shares led to a total reduction of USD 310 million, with USD 225 million of agriculture premiums, USD 61 million of casualty and USD 24 million of property not renewed in 2018.

The information included in the table above is generally consistent with information contained in Appendix II; Agriculture and Other Specialty lines as per the above table are included under "Miscellaneous" in Appendix II.

4.2. Financial performance

in USD millions	2018	2017
Gross premiums written	475.7	763.4
Net premiums written	404.4	721.2
Net premiums earned	385.5	687.3
Net claims incurred	(263.2)	(507.2)
Net acquisition costs	(115.3)	(159.8)
Administrative expenses	(14.5)	(11.5)
Underwriting result	(7.5)	8.8
Investment result	0.4	37.9
Others, net	(0.2)	107.1
Net income / (loss) for the year	(7.3)	153.8

Key Performance indicators

Loss ratio %	68.3	73.8
Expense ratio %	33.7	24.9
Combined ratio %	102.0	98.7

The loss ratio is the ratio of net claims incurred to net earned premiums. The expense ratio is the ratio of net acquisition costs plus administrative expenses to net earned premiums.

Net loss for the year was USD 7.3 million compared to a net income of USD 153.8 million in 2017. The 2018 result was mainly driven by natural and man-made catastrophe event losses as well as realised and unrealised losses on investments, whereas the 2017 income was mainly a result of an extraordinary income related to the change of presentation currency in the 2017 statutory financial statements as well as positive market conditions leading to a favourable investment return.

Gross premiums written decreased by USD 287.7 million to USD 475.7 million and premiums earned after retrocession decreased by USD 301.7 million to USD 385.5 million. The decrease in premium volume compared to 2017 primarily reflects the non-renewal of intra-group quota share contracts as well as reduced agriculture premiums, offset by increased writing of third party casualty business, as noted in section 4.1 above.

The Company's loss experience in 2018 was predominantly under the influence of large natural and manmade catastrophe events. Despite these event losses, the loss ratio decreased due to a change in business mix as well as lower event losses than the large losses from the third quarter 2017 loss events. Claims after reinsurance recoveries were USD 263.2 million, a decrease of USD 244.0 million compared to last year. The decrease in claims from 2017 to 2018 is mainly a result of the lower business volume, which led to overall decreased claims.

Operating expenses decreased by USD 41.5 million to USD 129.8 million primarily driven by lower acquisition costs given the reduced business volume.

The expense ratio increased in 2018 compared to 2017 due to changes in the Company's business mix, reduced business volume, increased administrative expenses as well as profit commissions paid in 2018 for agriculture business written in prior years that developed positively. Overall, the combined ratio for the year was 102.0% compared to 98.7% in 2017.

The total investment return in 2018 was USD 0.4 million compared to a return of USD 37.9 million in 2017. This is related to interest rate increases in the United States and more volatile markets in 2018, resulting in realised and unrealised losses, as

well as to losses on investments in Insurance-Linked Securities funds as a result of fourth quarter 2018 natural catastrophe events.

The Company did not record any gains or losses directly in equity.

The 2017 income statement contained an extraordinary income of USD 104.2 million, which was related to the change of presentation currency of the statutory financial statements from CHF to USD. No extraordinary income was recorded in 2018.

Other income in 2018 was immaterial. There were no other expenses in 2018.

5. Corporate Governance and Risk Management

5.1. Corporate governance

5.1.1. Board of Directors

The Company's Board of Directors, which is entrusted with the supervision and the ultimate management of the Company as well as with the supervision and control of management, is currently composed of the following members:

- Peter Gujer is an independent, non-executive Board member and the Chairman of the Board of Directors;
- Michael Carpenter is also an independent and non-executive member of the Board of Directors;
- Kean Driscoll is a member of the Board of Directors and its Vice Chairman since October 2018; he also serves as Chief Executive Officer of Validus Re;
- Simon Biggs is a member of the Board of Directors since October 2018; he also serves as Chief Executive Officer of Validus Research;
- Alexander Nagler is a member of the Board of Directors since October 2018; he also serves as Managing Director of the DACH region at AIG.

Following the acquisition by AIG in 2018, previous Board member Robert Kuzloski stepped down in August 2018.

Previous Board members Stéphane Sauthier and Patrick Boisvert stepped down from the Board of Directors in June and September 2018, respectively, to comply with corporate governance rules, which prohibit a dual role as member of the Board of Directors and the Executive Management for a regulated (re)insurance company.

5.1.2. Executive Management

The Executive Management of the Company, which manages the operations and the overall business of the Company and controls all employees of VRS, currently consists of the following individuals:

- Sven Wehmeyer is the Chief Executive Officer;
- Patrick Boisvert is the Chief Financial Officer and Head of Investments;
- Stéphane Sauthier is the Head of Swiss Operations.

During 2018, Patrick Boisvert, previously Chief Accounting Officer of the Validus Group and member of the Company's Board of Directors, became Chief Financial Officer and Head of Investments, replacing Rob Marcotte. There were no further changes to the Company's Executive Management.

5.2. Risk management

The Company's Board of Directors is ultimately responsible for risk management matters and organisation of the Company's internal control system ("ICS"). Management is responsible for ensuring that appropriate risk management structures and procedures, including the ICS, are implemented with the decision-making persons having the requisite seniority, knowledge and experience. Management also formulates the Company's risk appetite for approval by the Board of Directors. Management has established the Validus Re Risk Management Committee headed by the Company's Chief Risk Officer to ensure that proper standards for risk management are established in respect of all material risks faced by the Company. The Chief Risk Officer of VRS reports to the Company's Chief Actuary, who reports directly to the VRS Chief Executive Officer.

The Company has adopted the Validus Re Risk Management Framework, which fits within the Company's overall Internal Control System structure. The framework outlines the risk management governance structure, key roles and responsibilities, various risk management tools, a risk classification system and procedures to identify, assess, control and monitor risks faced by the Company.

The framework is also designed to assist in setting strategic objectives in line with those of Validus Re and promote the use of qualitative and quantitative tools to evaluate the risk/reward trade-offs associated with key strategic decisions.

The Risk Management Framework also provides a risk classification scheme, which yields a consistent and common language for purposes of capturing all material risks and comparing them with each other and across other areas within Validus Re. Risk categories include Insurance Risk (Underwriting, Catastrophe and Reserving), Market Risk, Credit Risk and Operational Risks.

The Company performs a regular risk assessment process for the identification, assessment, control and monitoring of risks that considers the likelihood and impact of causes of risk, both before and after the existence of relevant controls. The approaches used to identify and update causes of risk include scenario building, incident and near miss reporting and market intelligence. Controls have been established to appropriately manage the likelihood and impact of risks, focused on those with the most significance and after considering the tolerance level established for each risk. New controls may also be designed as a result of the incident reporting process.

The Company also has in place policies, including underwriting, investment, and credit policies, to manage the assumption of risk. These policies provide for the Company's risk limits, tolerance levels and other guidelines, as well as the processes for ensuring compliance with the desired risk profile of the Company. The Company has at its disposal a variety of risk mitigation tools, including the purchase of reinsurance and retrocessional coverage, which it uses to ensure that its risk profile stays within prescribed limits and tolerance levels.

In order to manage the assumption of insurance risk, the Company has established risk limits through both qualitative and quantitative considerations, including market share, history of and expertise in a class of business or jurisdiction, transparency and symmetry of available information, reliability of pricing models and availability and cost of reinsurance. These limits are reviewed at least annually and aligned to the overall risk appetite approved by the Company's Board of Directors. Furthermore, an exposure management policy is in place to ensure appropriate and consistent risk assessment and aggregation of exposures that accumulate across the Company.

In addition to the Risk Management function, VRS has a separate Compliance function that is responsible for ensuring compliance with regulatory requirements and other internal policies and procedures. The Compliance function reports breaches and issues directly to Management, and reports to the Board of Directors regularly. Compliance and Risk Management meet quarterly, or more frequently if required, to discuss any potential issues surrounding risks, control performance and incident reporting.

The Internal Audit function is centralised at AIG Group level since 2019 and includes VRS. Part of the Internal Audit function's role is to report to the Board of Directors at least annually on the implementation of the annual audit plan, which forms part of the Company's overall Risk Management Framework.

VRS has in place an ICS that is governed by its Internal Control Policy. The ICS of the Company is built on three lines of defence, with the control owners being the 1st Line of Defence, Compliance and Risk Management being the 2nd Line of Defence, and Internal Audit as well as External Audit being the 3rd Line of Defence. The ICS includes control activities as described in relevant VRS Policies and Procedures, communication within the Company to all relevant functions, and monitoring and reporting on the Company's ICS to the relevant committees and Board of Directors.

There were no material changes to the risk management and compliance functions or processes during the year under report.

6. Risk Profile

The main risks faced by VRS and some of the activities directly associated with controlling such risks are outlined below. Quantitative information in respect of the Company's risks as described below is provided as part of Section 9 on Solvency.

6.1. Insurance Risk

Insurance risk is considered as the risk of loss arising from inadequate pricing or of adverse change in the value of insurance liabilities due to inadequate provisioning assumptions. For VRS, the most significant insurance risk is underwriting risk, which is driven by our exposures to natural catastrophe perils as well as to the casualty and agriculture underwriting classes. Other material risks include the risk that the Company underestimates its reserves for incurred losses, the risk of heightened claims due to emerging claims or coverage issues, the risk posed by competition leading to a loss of market share or a deterioration in business quality.

6.1.1 Underwriting Risk

To help mitigate Underwriting Risk, VRS has established a set of risk tolerances for significant risk classes. These are combined with available equity to determine absolute underwriting limits by product line and geographical area and reflect the maximum loss the Company is willing to incur per category. The scope of the geographical areas over which the limits are aggregated is based on the largest areas likely to be impacted by any one event. Aggregate limits in-force by peril and zone are updated and monitored quarterly, at a minimum, to ensure compliance with key underwriting risk limits and reported to the VRS Board of Directors.

Additionally, the underwriting process for all business is governed by the Validus Re Global Underwriting Guidelines as adopted by VRS. All transactions are entered into the underwriting system, and underwriting authorisation limits are automated within the system in accordance with the Validus Re Global Underwriting Guidelines.

Additional Underwriting Risk mitigation is currently delivered through retrocession purchases covering catastrophe risks at the reinsurance segment level, and is therefore inclusive of VRS risks.

6.1.2 Reserving Risk

Reserves are set at the actuarial best estimate, which is also the basis for the booked reserves. Given the uncertainty of Reserving Risk, our strategy is to book reserves that represent management's best estimate of the likely future claims payments. To that end, the reserve estimation process is subject to an extensive and rigorous process. This includes initial assessment by the reserving actuaries, followed by a Reserve Committee review with annual, independent actuarial reviews from both our independent Responsible Actuary, as well as an external consulting firm.

6.2. Market Risk

Management and oversight procedures relating to the investments of the Company are outlined in the VRS Investment Guidelines and, since 2019, in the Discretionary Investment Management Agreement between VRS and an affiliated Asset Management company. The Investment Guidelines set out appetite related to asset class, type of security, concentrations for issuers and industries and credit quality, the latter of which are designed to manage investment related Credit Risk. The Guidelines also outline duration restrictions for the fixed income portfolio to control liquidity risk. With respect to liquidity risk, the Company produces a Liquidity Report for the Management on an annual basis. The report notably discusses liquidity

risk management, liquidity positions under normal and stressed circumstances, off balance sheet risks and results of the liquidity assessment.

6.3. Credit Risk

Control activities relating to counterparty Credit Risk are overseen by the Validus Re Security Committee. This committee approves of retrocessional arrangements where either the limit is fully collateralised, and the collateral is invested in cash, cash equivalents or U.S. backed securities, or with counterparties that have a minimum of USD 1 billion in total capital and a minimum rating of A from A.M. Best or A+ from S&P. Counterparties not meeting the minimum standard for normal approval can be approved with limitations at the discretion of the Committee.

For 2018, all retrocessional arrangements covering VRS risks are either fully collateralized or backed by counterparties with at least an A rating from A.M. Best with the exception of one counter party rated A- by A.M. Best, which was approved by the Security Committee for a USD 5 million line.

6.4. Operational Risk

Operational Risk is defined as the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

The processes for identifying, assessing, controlling and monitoring Operational Risks, as outlined in detail in the Risk Management Framework, are summarised below.

The identification process starts with an inventory of strategic and internal business processes. The risk management team works with managers of the respective functional or executive areas to document each business process, including its estimated reputational or financial impact, and creates a workflow diagram outlining major steps and interrelations involved in the process where possible. The Validus Re Risk Management Committee selects processes for the risk identification stage based on the estimated financial and/or reputational impact. Risks and related causes are then identified through scenario building, internal incident and near-miss reports and external incident/market intelligence reports.

Business processes for which risks and related causes have been identified include Risk Management, Actuarial Pricing and Reserving, Scientific Research and Capital Modelling, Financial Reporting, Legal and Regulatory, Operations, Underwriting, Claims Management, Compliance Management, Human Resources, Systems and Administration, Outsourcing and Strategic Planning.

Risks relating to fraud, the external business environment, including regulatory, rating agency and political conditions, and risks considered as emerging are also included in identifying Operational Risks.

The assessment process for these risks consists of scoring each identified cause of risk for its likelihood of occurrence and financial/reputational impact given occurrence. The risk management team works with risk owners to calibrate scoring to maintain consistency across functional areas and business processes. All scoring schemes, tolerance levels and scores assigned to risks are approved by the Validus Re Risk Management Committee.

A control framework is established to manage the impact of each cause of risk on the Company. Each cause is prioritised based on its impact and likelihood scoring relative to its tolerance or established limit. Control activities for causes given priority are developed by the risk management team in conjunction with risk owners and require approval by the Validus Re Risk Management Committee.

Risks and controls are documented in the Risk and Control Register. This register includes information about the control owners, mechanisms, objectives and frequency of performance along with scoring for financial impact and likelihood. Risk controls are monitored by risk owners to ensure they are working as intended and the Risk and Control Register is reviewed annually by the risk management team for relevance and adequacy. Changes to the Risk and Control Register, as approved by the Validus Re Risk Management Committee, are presented to the VRS Board of Directors.

Incident and near miss reports, which are prepared by risk owners, are presented to the Validus Re Risk Management Committee, which then escalates significant incidents to the VRS Executive Management and Board of Directors as appropriate.

6.5. Top Operational Risk

The table below provides an overview of all top operational risk and the mitigating measures based on VRS current Risk and Control Register:

VRS Top Operational Risks				
Business Area	Risk	Risk Cause	Tolerance Risk Level	Mitigating Measures
Actuarial	Mispriced accounts	Pricing with inaccurate actuarial parameters	High	- Perform Actual vs. Expected analysis to validate parameters - Pricing Peer Reviews - Profitability Study
Actuarial	Misestimation of event IBNR	Inaccurate loss estimates from broker/client	High	- Client loss estimates are benchmarked against modeled loss - Underwriters confirm that client's ground up estimates are consistent with market shares and are reasonable relative to peer group
Actuarial	Misestimation of non-event IBNR	Incorrect expected loss ratio assumptions	High	- Perform Actual vs. Expected analysis to validate parameters
Research	Mispriced submissions	Analysis based on inaccurate broker data	Medium	- Catastrophe Risk Analyst checks information for reasonableness and accuracy
Research	Mispriced submissions	Inaccurate Catastrophe Models	Very High	- Periodic independent verification and validation of the modeled output
Risk Management	Inaccurate exposure management	Breaching of risk limits or risk tolerances due to improper communication	High	- Risk appetite and tolerance is reviewed annually - Risk appetite and tolerance level is documented in VCAPS; quarterly reports of actual limits vs key UW limits and Actual max modeled loss vs maximum allowed max modeled loss are submitted to management and VRMC and circulated to all underwriter

While these risks are important to monitor and manage, VRS does not consider Operational Risks to be material in terms of capital requirement.

6.6. Other material risks

There are no other material risks that the Company is aware of, which are not already included in the above.

6.7. Pledged assets

USD 198.4 million of fixed maturities were pledged as part of the Company's participation in a Multi-Beneficiary Reinsurance Trust during the normal course of business as at 31 December 2018 (2017: USD 192.9 million).

7. Valuation for solvency purposes

This Section provides details on methods used for the valuation of the Company's assets and liabilities for solvency purposes as part of the SST calculation. It also provides details on methods used for valuation in the statutory financial statements and, where relevant, provides explanations of the differences between solvency and statutory views. In general, market-consistent values are used for SST purposes and further details are provided in Appendix II.

7.1. Valuation of assets

7.1.1. Value of investments by investment class

The following table summarises the investments by investment class held by the Company as at 31 December 2018 and 2017, respectively, including market-consistent values relevant for solvency purposes and amortised cost values. The below amortised cost value of the investment in subsidiary represents cost of acquisition less necessary impairments in line with both solvency and statutory valuation requirements.

As at 31 December (in USD millions)	Market Value 2018	Market Value 2017	Amortised Cost 2018	Amortised Cost 2017	Variance (MV)	Variance (MV) %
Fixed Income Securities						
Agency RMBS	151.1	160.3	154.6	161.4	(9.2)	-5.7%
Non-Agency RMBS	21.1	13.5	21.4	13.5	7.6	55.9%
CMBS	103.9	106.9	105.5	107.4	(3.0)	-2.8%
Asset-Backed Securities	284.1	270.2	287.3	270.4	14.0	5.2%
Non-U.S. Corporate	54.4	61.3	55.3	61.1	(6.9)	-11.3%
Non-U.S. Government & Government Agency	16.6	27.0	16.8	27.2	(10.4)	-38.4%
States, Municipalities	16.7	44.3	16.9	44.5	(27.6)	-62.3%
U.S. Corporate	221.2	195.1	225.2	194.9	26.1	13.4%
U.S. Government & Government Agency	125.3	149.3	125.8	150.2	(24.1)	-16.1%
	994.5	1,028.0	1,008.8	1,030.4	(33.5)	-3.3%
Other Investments						
Investment Funds	150.8	28.8	140.2	17.5	122.0	423.7%
Investment in subsidiary						
L.P. Holdings Ltd.	0.0	14.0	0.0	14.0	(14.0)	-100.0%
Total Investments	1,145.3	1,070.8	1,149.0	1,062.0	74.4	7.0%

7.1.2. Basis and methods used for the valuation of investments

The amortised cost and market-consistent values of both fixed maturities and other investments are determined based on information provided by the Company's independent fund administrators. Amortised cost values are determined based on the scientific amortisation or constant yield method, whereas market-consistent values are generally based on observable market prices, or in the absence thereof, on model valuations. The Company does not adjust the market or amortised cost values as provided by the independent fund administrators.

7.1.3. Explanation of significant differences between the solvency and statutory valuation of investments

For SST purposes, the Company uses market-consistent values for investments except for investments in subsidiaries as noted above. In the statutory financial statements, the Company uses the lower of amortised cost and market-consistent values per individual security to record its fixed income securities and other investment balances. As at 31 December 2018, this leads to a lower statutory valuation of USD 5.1 million (2017: USD 7.1 million) compared to the valuation used for solvency purposes. Since the valuation for Swiss statutory purposes is performed on an individual security level, the total of amortised cost values as per the table above differs from the amount recorded in the statutory financial statements.

Other investments increased due to the Company's investment in affiliated Insurance-Linked Securities funds in 2018. The investment in subsidiary was sold in June 2018.

In addition to the investments in fixed maturities and other investments, the Company holds asset positions in cash and cash equivalents (which includes cash and short-term investments), receivables and other assets. These assets are recorded at their nominal value and there is no difference between their solvency and statutory valuation (except for a gross up of intercompany receivables and payables for statutory purposes, which was recorded net in the market-consistent balance sheet used for SST purposes).

Refer to Appendix II for the market-consistent balance sheet used for SST purposes.

7.1.4. Other assets

As noted above, other assets as per Appendix II contain cash and cash equivalents, funds withheld, reinsurance receivables and other receivables as well as deferred acquisition costs, all which are held at nominal values, and there is no difference between the market-consistent and statutory values.

7.2. Valuation of technical provisions

7.2.1. Gross and net value of technical provisions

The following table provides an overview of the Company's gross and net best estimate of reserves for losses and loss expenses on both an undiscounted and discounted basis as at 31 December 2018 and 2017 (in USD millions):

	31.12.2018	31.12.2018	31.12.2017	31.12.2017
	Undiscounted	Discounted	Undiscounted	Discounted
Gross reserves for losses and loss expenses	588	550	571	548
Ceded reserves for losses and loss expenses	(69)	(64)	(61)	(59)
Net loss reserves for losses and loss expenses	519	486	510	489
Risk Margin	-	39	-	27
Total	519	525	510	516

As at 31 December 2018, the reserves for losses and loss expenses (“loss reserves”) based on the Company’s best estimate, net of retrocession, are USD 519 million on an undiscounted and USD 486 million on a discounted basis as per the table above. Discounting is applied in line with FINMA requirements and prescribed yield curves.

For solvency purposes and as disclosed in the SST balance sheet as per Appendix II, the best estimate loss reserves gross of retrocession amount to USD 550 million on a discounted basis and the gross unearned premium reserves amount to USD 229 million, providing for a total gross best estimate liability of USD 779 million.

For statutory purposes, the value of the loss reserves is the higher of the undiscounted best estimate liabilities and the market value reserves, being the discounted best estimate liabilities plus the market value margin or risk margin (refer to Section 7.2.3). The details of gross and ceded technical provisions by classification as at 31 December 2018 and 2017, respectively, were as follows as per the Company’s statutory financial statements (in USD millions):

2018	Gross	Ceded	Net Reserve
Reserves for unearned premiums	229.4	(24.2)	205.2
Reserves for losses and loss expenses	594.1	(69.1)	525.0
Total	823.5	93.3	730.2

2017	Gross	Ceded	Net Reserve
Reserves for unearned premiums	198.3	(12.0)	186.3
Reserves for losses and loss expenses	577.4	(61.1)	516.3
Total	775.7	73.1	702.6

7.2.1.1. Basis, methods and key assumptions used in the valuation of best estimate liabilities

The loss reserves include reserves for unpaid reported losses (“case reserves”) and for losses incurred but not reported (“IBNR”) as well as unallocated loss adjustment expenses. Case reserves are established by management based on reports from brokers, ceding companies and insureds and represents the estimated ultimate cost of events or conditions that have been reported to, or specifically identified by, the Company. IBNR reserves are established by management based on actuarially determined estimates of ultimate losses and loss expenses using the reported loss development, reported Bornhuetter-Ferguson or Initial Expected Loss methods. Inherent in the estimate of ultimate losses and loss expenses are expected trends in claim severity and frequency and other factors, which may vary significantly as claims are settled. Accordingly, ultimate losses and loss expenses may differ materially from the amounts recorded in the statutory financial statements of the Company. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. Such adjustments, if any, will be recorded in earnings in the period in which they become known. Prior period development arises from changes to these estimates recognised in the current year that relate to reserves for losses and loss expenses established in previous calendar years.

Reserves for unearned premiums represent the portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies in force.

7.2.2. Risk margin

7.2.2.1. Value of the risk margin and other effects on target capital

As at 31 December 2018, the risk margin also referred to as the market value margin (MVM) is USD 39 million (2017: USD 27 million). For the computation of the Company's target capital including the risk margin and other effects on target capital as per the 2019 SST calculation, refer to Section 9.2 and Appendix II of this report.

7.2.2.2. Basis, methods and key assumptions used

The risk margin for VRS is determined as part of the 2019 SST process using the FINMA Standard Model. This assumes a 6% cost of capital and that the capital requirement at each point in the run-off is a constant proportion of the outstanding run-off reserve, where the constant proportion is determined as the ratio of reserving risk to the total net reserves as at 31 December 2018.

7.2.3. Explanation of significant differences between the solvency and statutory valuation

For Swiss statutory purposes and in accordance with regulatory requirements, the loss reserves are the higher of the best estimate loss reserves and the market value loss reserves. Market value loss reserves are determined by discounting the best estimate loss reserves and adding the risk margin as detailed above under section 7.2.2.

As at 31 December 2018, the net loss reserves in the Company's statutory financial statements amount to USD 525 million and represent the discounted best estimate liabilities of USD 486 million plus the risk margin of USD 39 million, i.e. the market value loss reserves. For the market consistent balance sheet used for solvency purposes, the Company's loss reserves are the discounted loss reserves without the risk margin. This means that the difference between statutory and solvency view is the risk margin of USD 39 million.

There is no difference between the statutory and solvency values of reserves for unearned premiums of USD 229 million.

Refer to Appendix II for the SST market consistent balance sheet.

7.3. Valuation of other liabilities

7.3.1. Value of provisions for other liabilities

For solvency purposes, other liabilities according to the SST balance sheet included as Appendix II amount to USD 116 million as at 31 December 2018 (2017: USD 110 million). Other liabilities are recorded at nominal value, i.e. the net payable as at 31 December 2018. The position comprises accrued expenses and accounts payable.

7.3.2. Basis, methods and key assumptions used in the valuation

As noted above, the other liabilities are recorded at nominal value, with no difference between solvency and statutory valuation.

8. Capital Management

8.1. Goals, strategy and time horizon for capital planning

The primary capital management objectives of the Company are as follows:

1. Ensure sufficient capital to meet and/or exceed all relevant solvency requirements;
2. Maintain some amount of excess capital over and above item 1;
3. Return true excess capital above items 1 and 2 to the Company's shareholders.

The Company regularly assesses its overall capital and solvency position, including the SST ratio and A.M. Best Capital Adequacy Ratio. When assessing the level of shareholder's equity in relation to these measures, the Company will also consider recent business development and strategic planning, current and future market conditions, uncertainty around loss reserves development and other relevant factors.

The time horizon management considers for capital planning is highly dependent on the Company's business plan and strategy, asset-liability-management considerations as well as general market trends and conditions. At a minimum, the Company considers a three-year planning horizon, which is linked to the Company's financial planning, Own Risk and Solvency Assessment and rating process; however, a longer-term view is considered as appropriate.

8.2. Structure, level and quality of equity

The statutory shareholder's equity of the Company as at 31 December 2018 and 2017, respectively, is structured as follows:

Shareholder's equity (in USD millions)	2018	2017
Statutory share capital	71.6	71.6
Statutory capital reserves		
Legal reserves from capital contributions	35.8	35.8
Other reserves from capital contributions	587.2	587.2
Organisation fund from capital contributions	7.4	7.4
Accumulated income / (loss)	118.5	125.8
Total	820.5	827.7

8.3. Description of material changes during the period

In 2018, there were no changes in the shareholder's equity of the Company other than in accumulated income / (loss) due to the financial result of the year.

8.4. Explanation of discrepancies between solvency and statutory equity

The Risk-bearing Capital as at 31 December 2018, which represents the difference between market-consistent assets and liabilities used for solvency purposes (refer to Appendix II and Section 9 of this report for further details), amounts to USD 870 million. The difference of USD 49 million to the Company's statutory shareholder's equity of USD 821 million can be explained as follows:

in USD millions	31.12.2018	31.12.2017
Risk-bearing capital	870	867
Adjustment for investments as per section 7.1.3 above	(5)	(7)
Adjustments for loss reserves as per section 7.2.3 above	(39)	(27)
Other adjustments for statutory purposes	(5)	(5)
Statutory shareholder's equity	821	828

The adjustments for investments of USD 5 million and loss reserves of USD 39 million are discussed in sections 7.1.3 and 7.2.3, respectively, and relate to the valuation of the investments at the lower of amortised cost or market values on an individual security basis, and the different valuation methods of loss reserves for statutory and SST purposes, with the difference effectively being the Market Value Margin.

Other adjustments of USD 5 million include a number of legally required adjustments from the market consistent solvency values to the Swiss statutory values.

9. Solvency

9.1. Solvency model

As per the prior year, the Company used the Standard Model for Reinsurers (“StandRe”), as prescribed by FINMA, in order to perform the 2019 SST calculation. This is therefore the second year that the SST is prepared based StandRe. This includes the insurance, market and credit risk, the risk margin, standard scenarios and adjustments for expected financial performance.

Specifically, Attritional Event Premium, Individual Events and Attritional Events Reserves are evaluated using StandRe as prescribed by FINMA, Market Risk is assessed using the new Market Risk Model as prescribed by FINMA, Credit Risk is modelled using the Basel III approach and the Risk Margin, Standard Scenarios and adjustments for expected financial performance are evaluated using FINMA prescribed templates and methodologies.

The modelling of natural catastrophe perils is undertaken using the Company’s internal model, for which preliminary approval for use in the 2019 SST has been obtained from FINMA.

The aggregation of the StandRe components and the Natural Catastrophe modelling is performed using simulation for Insurance Risk, and subsequently aggregated with Market Risk to obtain Insurance and Market Risk. This is combined with Credit Risk using the additive approach set out in the templates by FINMA; no diversification is given between Credit Risk and the combined Insurance and Market Risk.

9.2. Target Capital

For solvency purposes, the minimum Target Capital is determined by the SST calculation taking into account the expected shortfall at the 99% percentile of the overall distribution, expected insurance result, expected financial performance and risk margin.

Target Capital for the 2019 SST is determined to be USD 323 million (2018 SST: USD 286 million). This is USD 37 million above the 2018 Target Capital requirement.

Insurance Risk increased from the previous evaluation and continues to be the most significant risk for the Company. Within the Insurance Risk component, there were several material changes relating to a combination of changes in the underlying portfolio. The increase of both Underwriting Risk and Reserving Risk was partly driven by the modelling of risks arising from the acquired affiliated Insurance-Linked Securities funds as part of Insurance Risk.

Underwriting Risk is the main driver of the increase of Target Capital contributing USD 50 million of increase. This was mainly driven by a budgeted increase of net earned premium by 19% in 2019 and the inclusion of the affiliated Insurance-Linked Securities funds given the primary risks underlying these funds is natural catastrophe exposure.

The Reserving Risk increase of USD 14 million is linked to increased reserves held mainly for North American casualty business, where the Company has grown its book over recent years, as well as increased property reserves related to portfolio growth and the Insurance-Linked Securities funds as noted above. This was partially offset by reduced reserves held for intra-group quota share business, which was not renewed in 2018 and for which a large portion of reserves has already been settled.

Market Risk overall remained generally stable compared to prior year, despite an increase in invested assets. The Company invested in affiliated Insurance-Linked Securities funds during the year, however, their primary underlying risk is natural catastrophe exposure and the cash underlying the funds is held in AAA-rated money market funds, which do not add to market risk charge. The individual components within Market Risk are not directly comparable to prior year due to the change of FINMA’s standard model for Market Risk, which was applied for the first time this year.

Credit Risk increased by USD 6 million, which was mainly driven by an increase of CCC and unrated assets, partially offset by a decrease in premium receivable balances. Increased loss reserve recoverables also led to a smaller increase of Credit Risk, which however was fully compensated by a decreasing charge for future year reinsurance recoveries.

The line item relating to scenarios is no longer reported separately as these are now included as part of Market and Insurance Risk in StandRe.

Lastly, the movements in both expected insurance result and expected financial performance over one year risk free are a direct result of the Company's financial plan 2019 and reflect the budgeted underwriting result and budgeted investment return.

Components of the Target Capital calculation are given below:

Target Capital Composition (in USD millions)	2019	2018	Variance
Model based Results (Expected Shortfall)			
Insurance Risk	284	237	47
Underwriting Risk	246	196	50
Reserving Risk	161	147	14
Diversification benefits	(123)	(105)	(17)
Market Risk	48	52	(4)
Asset prices valuation term	13	-	13
Liability cash flows valuation term	37	-	37
Fixed income cash flows valuation term	57	-	57
Delta-normal valuation term	9	-	9
Interest Rate Risk	40	41	(1)
Spread Risk	44	45	(1)
Private Equity Risk	13	19	(6)
Foreign exchange Risk	40	0	40
Diversification benefits	(205)	(53)	(152)
Diversification benefits (Insurance & Market Risk)	(37)	(48)	11
Insurance & Market Risk	295	242	53
Model based Results			
Credit Risk	51	44	7
Scenarios	0	4	(4)
Aggregation with Insurance & Market Risk	346	289	57
Allowance for Expected Results			
Expected Insurance Result	(50)	(25)	(25)
Expected Financial Performance over 1 year risk free	(12)	(4)	(8)
Capital for Insurance & Market & Credit Risks	285	259	26
Risk Margin	39	27	12
Target Capital	324	286	38

9.3. Risk-bearing Capital

For solvency purpose, the Risk-bearing Capital is the Company's total market-consistent value of assets less best-estimate liabilities and market-consistent value of other liabilities. All of the Company's Risk-bearing Capital is considered core capital, with no supplementary capital in place.

In line with Appendix II, the total Risk-bearing Capital for VRS as per the 2019 SST as at 31 December 2018 is USD 870 million compared to USD 867 million in 2017. The breakdown of this figure is given below:

Risk-bearing Capital Composition (in USD millions)	31.12.2018	31.12.2017
Assets		
Investments	1,145	1,058
Cash and cash equivalents	157	182
Premiums Receivables	203	279
Other assets	196	146
Total assets	1,700	1,665
Liabilities		
Gross discounted reserves	550	548
Gross unearned premium reserves	229	198
Less: ceded discounted reserves	(65)	(59)
Reinsurance balances payable and accrued expenses	116	110
Total liabilities	830	798
Risk-bearing Capital	870	867

Further details are provided in Section 7 of this report regarding valuation of all assets and liabilities.

Based on the information above, the Company's SST ratio for 2019 amounts to 292% (2018 SST: 324%) in accordance with the FINMA calculation formula deducting the risk margin of USD 39 million (2018 SST: USD 27m) from both the Company's Risk-bearing Capital and Target Capital (i.e. USD 831 million adjusted Risk-bearing Capital divided by USD 285 million adjusted Target Capital). This is well above the Company's minimum capital expectations and demonstrates that the Company remains in a strong solvency position. The decrease of the SST ratio compared to prior year is driven by constant Risk-bearing Capital and an increase in the Target Capital, mainly as a result of increased underwriting risk as noted in section 9.2 above.

The solvency information contained in this section is consistent with the information provided to FINMA as part of the Company's 2019 SST reporting, which is subject to regulatory review by FINMA.

10. Appendix

In accordance with the Circular, the report of the statutory auditor to the General Meeting on the financial statements 2018 including the statutory financial statements (Appendix I), as well as the quantitative templates as required by FINMA (Appendix II), respectively, are attached to this report.

10.1. Appendix I – Audited statutory financial statements 2018

***Validus Reinsurance
(Switzerland) Ltd***

Zurich

***Report of the statutory
auditor to the General
Meeting on the financial
statements 2018***





Report of the statutory auditor to the General Meeting of Validus Reinsurance (Switzerland) Ltd Zurich

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Validus Reinsurance (Switzerland) Ltd (the 'Company'), which comprise the balance sheet, income statement and notes for the year ended 31 December 2018.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the Company's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2018 comply with Swiss law and the Company's articles of incorporation.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposal for allocation of retained earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd



Philip Kirkpatrick
Audit expert
Auditor in charge



Tomáš Hrubizna
Audit expert

Zurich, 29 April 2019

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposal for appropriation of retained earnings

BALANCE SHEET

in USD '000		31 December 2018	31 December 2017
ASSETS			
Fixed income securities	4	993,121	1,025,338
Other investments		147,013	24,365
Investments in subsidiaries	5	-	14,022
		<u>1,140,134</u>	<u>1,063,725</u>
Total investments			
Funds withheld		27,243	52,117
Cash and cash equivalents		156,587	179,511
Reinsurance recoveries		93,290	73,117
Property and equipment		-	4
Deferred acquisition costs		49,483	58,292
Receivables from reinsurance operations	7	204,911	287,945
Other receivables	8	31,948	27,743
Prepayments and accruals		4,943	4,054
		<u>1,708,539</u>	<u>1,746,508</u>
TOTAL ASSETS			
LIABILITIES AND SHAREHOLDER'S EQUITY			
Liabilities			
Reserves for losses and loss expenses	6	594,051	577,442
Unearned premium reserves	6	229,423	198,302
Liabilities from reinsurance operations	9	33,587	27,111
Other liabilities	10	15,560	63,080
Accrued liabilities		15,459	52,852
		<u>888,079</u>	<u>918,787</u>
Total liabilities			
Shareholder's Equity			
Share capital	12	71,565	71,565
Statutory capital reserves:			
Legal reserves from capital contributions	12	35,782	35,782
Other reserves from capital contributions	12	587,164	587,164
Organisation fund from capital contributions	12	7,407	7,407
Accumulated income		118,542	125,803
		<u>820,460</u>	<u>827,721</u>
Total shareholder's equity			
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u><u>1,708,539</u></u>	<u><u>1,746,508</u></u>

INCOME STATEMENT

For the years ended		31 December 2018	31 December 2017
in USD '000			
Gross premiums written	13	475,700	763,400
Reinsurer's share of gross premiums written	13	(71,295)	(42,184)
Net premiums written	13	404,405	721,216
Change in unearned premiums		(24,308)	(45,676)
Reinsurer's share of change in unearned premiums		5,417	11,717
Net premiums earned		385,514	687,257
Gross paid losses		(260,716)	(391,373)
Reinsurer's share of paid losses		14,801	49,022
Change in reinsurance reserves		(25,435)	(206,994)
Reinsurer's share of change in reinsurance reserves		8,171	42,182
Claims incurred, net of reinsurance		(263,179)	(507,163)
Acquisition expenses		(108,475)	(161,786)
Reinsurer's share of acquisition expenses		(6,786)	2,009
Administrative expenses	14	(14,533)	(11,481)
Acquisition and administrative expenses, net of reinsurance		(129,793)	(171,259)
<u>Underwriting result</u>		(7,458)	8,835
Investment income: Interest income		31,085	28,561
Investment income: Realised (losses) / gains		(3,587)	10,982
Investment expenses: Asset management costs		(1,849)	(1,487)
Investment expenses: Unrealised losses		(25,223)	(208)
<u>Investment result</u>		427	37,848
Other financial expenses		(119)	(334)
<u>Operating result</u>		(7,151)	46,349
Other income		210	3,508
Extraordinary income	11	-	104,159
Net (loss) / income before tax		(6,941)	154,016
Tax expenses		(322)	(256)
NET (LOSS) / INCOME FOR THE YEAR		(7,262)	153,760

NOTES TO THE FINANCIAL STATEMENTS

1. General

Validus Reinsurance (Switzerland) Ltd (“VRS” or the “Company”) is a direct subsidiary of Validus Holdings (UK) Ltd, which is a wholly-owned subsidiary of Validus Reinsurance, Ltd., a Bermuda based reinsurance company.

On July 18, 2018, American International Group, Inc. (“AIG”), a company listed on the New York Stock Exchange, completed its previously announced acquisition of Validus Holdings, Ltd., the ultimate parent of the Company. Together with Validus Reinsurance, Ltd., VRS now forms the reinsurance unit within AIG.

The Company is located at Talstrasse 83, 8001 Zurich, Switzerland. It is licensed by the Swiss Financial Market Supervisory Authority (“FINMA”) in Switzerland. The Company is also a licensed permit company through its Bermuda branch, registered as a Class 4 insurer under the Bermuda Insurance Act.

The Company’s primary lines of business are Property, Marine, Agriculture, Casualty and Specialty. Those primary lines of business include the following main types of business:

- *Property*: Property catastrophe reinsurance, property per risk reinsurance and property pro rata reinsurance.
- *Marine*: Reinsurance on excess of loss or pro rata basis for damage to or loss of marine vessels or cargo, marine accidents and offshore energy properties.
- *Agriculture*: Multiple Peril Crop Insurance (“MPCI”) and Crop Hail. MPCI is generally written on a pro rata basis and Crop Hail on an excess of loss basis.
- *Casualty*: Directors and Officers liability, Error and Omissions, Medical Malpractice and Casualty.
- *Specialty*: Other specialty lines including financial lines, terrorism, trade credit and composite lines. Trade credit is generally written on a pro rata basis while other lines are written on both pro rata and excess of loss basis.

2. Summary of significant accounting policies

These financial statements have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (art. 957 to 963b Swiss Code of Obligations, effective since 1 January 2013). Up to and including 2016, the Company prepared its financial statements in Swiss Francs (“CHF”). Starting in 2017, the Company has changed its presentation currency to U.S. Dollars (“USD”). Amounts are presented in thousands of USD for both current and prior period. Certain amounts may not sum to their total due to rounding.

The following is a summary of the most significant accounting policies adopted by the Company:

(a) Premiums

Premiums are recognised rateably over the terms of the related contracts and policies. The gross premiums written are based on policy and contract terms and include estimates based on information received from both insured and ceding companies.

Premiums on excess of loss contracts are booked in accordance with the contract terms and earned over the contract period. Since premiums for excess of loss contracts are usually established with some certainty at the outset of the contract and the reporting lag for such premiums is minimal, estimates for premiums written for these contracts are usually not significant. The minimum and deposit premiums on excess of loss contracts are usually set forth in the language of the contract and are used to record premiums on these contracts. Actual premiums are determined in subsequent periods based on actual exposures and any adjustments are recorded in the period in which they are identified.

For pro rata contracts, gross premiums written are normally estimated on a quarterly basis based on discussions with ceding companies, together with historical experience and management’s judgement. Premiums written on pro rata contracts are earned over the risk periods of the underlying policies issued and renewed. As a result, the earning pattern of pro rata contracts may extend up to 24 months. This is generally twice the contract period due to the fact that some of the underlying exposures may attach towards the end of our contracts (i.e. risks attaching basis), and such underlying exposures generally have a one year coverage period.

(b) Unearned premiums

Premiums are earned over a period that is consistent with the risks covered under the terms of the contract, which is generally one to two years. The portion of the premium related to the unexpired portion of the risk period is reflected in unearned premiums reserve.

Provisions for commissions are determined the same way as the corresponding acquisition costs.

(c) Deferred acquisition costs

Cedent reported commissions and other costs that vary with and are primarily related to the production of insurance business are deferred and amortized over the terms of the underlying policies.

(d) Loss reserves and loss adjustment expenses

Loss and loss adjustment expense reserves, including losses incurred but not reported ("IBNR") and provisions for settlement expenses, include amounts determined from loss reports on individual cases, independent actuarial determinations and amounts based on the Company's own historical experience. To the extent that the Company's own historical experience is inadequate for estimating reserves, such estimates may be determined based upon industry data and management estimates.

IBNR reserves are estimated by management using various actuarial methods as well as a combination of the Company's loss experience, insurance industry loss experience, underwriters' experience, general market trends and management's judgement.

(e) Investments in subsidiaries

Investments in subsidiaries are carried at cost less other than temporary impairments, if any.

(f) Investments in fixed income securities

Investments in fixed income securities are carried at the lower of amortised cost or fair value per individual security.

(g) Other investments

Other investments, comprised of investment funds, are carried at the lower of cost or fair value.

(h) Foreign currency translation

As permitted by Swiss law, the Company's accounting records are maintained in USD, which is the currency of the Company's primary business activities and also the Company's functional currency for group consolidation purposes.

Assets and liabilities in foreign currencies are translated into USD at year-end exchange rates, while income and expenses have been translated at the exchange rates at the date the transaction occurred. Both the Company's Swiss head office and its Bermuda branch maintain their books and records in USD.

Up to and including the financial year 2016, the Company presented its statutory financial statements in CHF. In 2017, VRS changed the presentation currency of its statutory financial statements from CHF to USD as permitted by art. 958d para.3 Swiss Code of Obligations.

Swiss law requires companies presenting their statutory financial statements in a currency other than CHF to present the foreign currency values also in CHF for illustrative purposes. The corresponding CHF values are presented in the notes to these financial statements under Note 16, applying the 2018 year-end spot rate of USD/CHF 1.014421 (as published by the Swiss Federal Tax Authority) for both income statement and balance sheet positions. Share capital and capital contribution reserves are translated using the historic exchange rate of USD/CHF 0.980681 applicable at the time of transition to the new reporting currency. Any translation gain or loss from the translation is directly recorded in equity.

3. *Contingent obligations*

The Company has no material contingent obligations as at 31 December 2018 and 2017, respectively.

4. *Investments in fixed-income securities*

The total amortised cost and estimated fair value of investments in fixed-income securities as at 31 December 2018 and 2017, respectively, were as follows. Amounts recorded in the balance sheet as at 31 December 2018 and 2017, respectively, differ from the below as the fixed income securities are valued at the lower of amortised cost or fair value on an individual security basis.

in USD '000	2018	2017
Amortised cost	1,008,804	1,030,435
Difference	(14,329)	(2,442)
Estimated fair value	994,475	1,027,993

The amortised cost and estimated fair value amounts for fixed maturity securities held at 31 December 2018 and 2017, respectively, 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.

in USD '000	31 December 2018		31 December 2017	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value
Due in one year or less	32,637	32,423	51,902	51,977
Due after one year to three years	200,354	198,859	256,894	255,953
Due after three years to five years	209,891	207,913	169,866	169,014
Due after five years to ten years	170,186	168,149	177,295	177,525
Due after ten years	395,736	387,131	374,478	373,524
Total	1,008,804	994,475	1,030,435	1,027,993

Pledged investments

The following table outlines investments pledged as collateral under the Company's credit facilities as at 31 December 2018 and 2017, respectively. During the second half of 2018, the Company's letter of credit facility has rolled into the AIG Group's unsecured credit facility after the closing of the merger.

US\$236 million Flagstone bilateral facility in USD '000	2018	2017
Commitment	-	236,000
Issued and outstanding	-	115,682
Investments pledged as collateral	-	184,569

In addition, USD 198.4 million of the Company's fixed maturities were pledged during the normal course of business as at 31 December 2018 (2017: USD 192.9 million), all of which were held in trusts. Pledged assets are generally for the benefit of the Company's cedents and policyholders, and to facilitate the accreditation of the Company as non-admitted reinsurer by certain regulators.

The Company established a Multi-Beneficiary Reinsurance Trust to collateralize its reinsurance liabilities associated with and for the benefit of U.S. domiciled cedents, and was approved as a trustee reinsurer in the State of New Jersey in December 2015.

5. Investment in subsidiary

During the second quarter of 2018, the Company has sold its subsidiary L.P. Holding Limited. As a result of the sale, the Company realised a loss of USD 1.3 million. The Company has no investments in subsidiaries anymore.

6. Insurance reserves

The details of gross and ceded insurance reserves by classification as at 31 December 2018 and 2017, respectively, were as follows:

2018	Gross	Ceded	Net
in USD '000			
Reserves for unearned premiums	229,423	(24,241)	205,182
Reserves for insurance claims	594,051	(69,049)	525,002
Total	823,474	(93,290)	730,184

2017	Gross	Ceded	Net
in USD '000			
Reserves for unearned premiums	198,302	(12,012)	186,290
Reserves for insurance claims	577,442	(61,105)	516,337
Total	775,744	(73,117)	702,627

7. Receivables relating to insurance operations

The details of the account as at 31 December 2018 and 2017, respectively, were as follows.

in USD '000	2018	2017
Third parties	203,681	139,513
Related parties	1,230	148,432
Total	204,911	287,945

All insurance receivable balances are receivables from insurance companies (rather than individual policyholders or insurance brokers/agents).

8. Other receivables

The details of the account as at 31 December 2018 and 2017, respectively, were as follows:

in USD '000	2018	2017
Third parties	17,229	5,919
Related parties	14,719	21,825
Total	31,948	27,743

9. Liabilities from insurance operations

Liabilities from insurance operations as at 31 December 2018 and 2017, respectively, were as follows:

in USD '000	2018	2017
Third parties	31,124	27,111
Related parties	2,462	-
Total	33,587	27,111

All insurance payable balances are payables to insurance companies (rather than individual policyholders or insurance brokers/agents).

10. Other liabilities

The details of the account as at 31 December 2018 and 2017, respectively, were as follows:

in USD '000	2018	2017
Third parties	4,282	-
Related parties	11,278	63,080
Total	15,560	63,080

11. Non-technical provisions

Non-technical provisions as at 31 December 2018 and 2017, respectively, for unrealised gains on investments amount to zero as the Company recorded unrealised losses on investments during both years. In 2016, non-technical provisions also included a provision for unrealised translation gains of USD 103.8 million, which was released with the transition of the reporting currency from CHF to USD in 2017 resulting in an extraordinary income in the 2017 financial year.

12. Shareholder's equity

in USD '000	Share capital and Statutory Capital Reserves	Accumulated Income / (Loss)	Total
Balances as at 1 January 2017	701,918	(27,957)	673,961
Dividends paid	-	-	-
Profit / (loss) for the year	-	153,760	153,760
Balances as at 31 December 2017	701,918	125,803	827,721
Dividends paid	-	-	-
Profit / (loss) for the year	-	(7,262)	(7,262)
Balances as at 31 December 2018	701,918	118,542	820,460

The details of statutory share capital and capital reserves as at 31 December 2018 and 2017 were as follows:

in USD	2018	2017
Share capital	71,564,625	71,564,625
Statutory capital reserves		
Legal reserves from capital contributions	35,782,313	35,782,313
Other reserves from capital contributions	587,164,155	587,164,155
Organisation fund from capital contributions	7,407,215	7,407,215
Total	701,918,308	701,918,308

Under Swiss tax law, effective 1 January 2011 repayments of capital contribution reserves established since 1997 are no longer subject to withholding tax deduction. Capital contribution reserves of USD 623 million and the organisation fund from capital contributions of USD 7.4 million would not be subject to the withholding tax deduction in case of repayment.

13. Premiums written

The details of gross and ceded premiums written for the years ended 31 December 2018 and 2017, respectively, were as follows:

in USD '000	2018			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Property	113,822	(33,352)	80,470	102,874	(16,921)	85,953
Marine	35,525	(513)	35,011	26,787	(589)	26,198
Agriculture	106,309	(1,208)	105,100	431,930	(10,398)	421,532
Casualty	144,823	(35,574)	109,249	145,243	(13,614)	131,629
Specialty	75,222	(648)	74,574	56,566	(662)	55,904
Total	475,700	(71,295)	404,405	763,400	(42,184)	721,216

14. Administrative expenses

The Company's administrative expenses for the years ended 31 December 2018 and 2017, respectively, are as follows:

in USD '000	2018	2017
Staff, office and service costs	14,463	11,392
Depreciation expenses	4	43
Information Technology expenses	65	46
Total	14,533	11,481

Audit fees during the year 2018 amounted to USD 247,060 (2017: USD 256,009).

15. Other disclosures in accordance with art. 959c of the Swiss Code of Obligations

During the year, the Company employed an average of less than 50 full time employees in Switzerland and Bermuda.

There are no other disclosures required according to art. 959c of the Swiss Code of Obligations and the Insurance Supervisory Ordinance ISO-FINMA, except for the disclosure of CHF amounts according to art. 958d para. 3 as included in Note 16.

16. Translation of USD presentation currency values to CHF in accordance with art. 958d para. 3 Swiss Code of Obligations**BALANCE SHEET**

in CHF '000	31 December 2018	31 December 2017
ASSETS		
Fixed income securities	979,003	1,013,301
Other investments	144,923	24,079
Investments in subsidiaries	-	13,857
Total investments	1,123,926	1,051,237
Funds withheld	26,856	51,505
Cash and cash equivalents	154,361	177,404
Reinsurance recoveries	91,964	72,259
Property and equipment	-	4
Deferred acquisition costs	48,780	57,608
Receivables from reinsurance operations	201,998	284,565
Other receivables	31,494	27,417
Prepayments and accruals	4,873	4,006
TOTAL ASSETS	1,684,250	1,726,004
LIABILITIES AND SHAREHOLDER'S EQUITY		
Liabilities		
Reserves for losses and loss expenses	585,606	570,663
Unearned premium reserves	226,162	195,974
Liabilities from reinsurance operations	33,110	26,793
Other liabilities	15,339	62,339
Accrued liabilities	15,239	52,232
Total liabilities	875,454	908,000
Shareholder's Equity		
Share capital	72,974	72,974
Statutory capital reserves		
Legal reserves from capital contributions	36,487	36,487
Other reserves from capital contributions	598,731	598,731
Organisation fund from capital contributions	7,553	7,553
Accumulated income	93,051	102,259
Total shareholder's equity	808,796	818,004
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	1,684,250	1,726,004

INCOME STATEMENT

For the years ended	31 December 2018	31 December 2017
in CHF '000		
Gross premiums written	468,937	754,438
Reinsurer's share of gross premiums written	(70,281)	(41,689)
Net premiums written	398,656	712,749
Change in unearned premiums	(23,962)	(45,140)
Reinsurer's share of change in unearned premiums	5,340	11,579
Net premiums earned	380,034	679,189
Gross paid losses	(257,010)	(386,778)
Reinsurer's share of paid losses	14,591	48,446
Change in reinsurance reserves	(25,073)	(204,564)
Reinsurer's share of change in reinsurance reserves	8,055	41,687
Claims incurred, net of reinsurance	(259,438)	(501,209)
Acquisition expenses	(106,933)	(159,887)
Reinsurer's share of acquisition expenses	(6,690)	1,985
Administrative expenses	(14,326)	(11,346)
Acquisition and administrative expenses, net of reinsurance	(127,948)	(169,248)
Underwriting result	(7,352)	8,731
Investment income: Interest income	30,643	28,226
Investment income: Realised (losses) / gains	(3,536)	10,853
Investment expenses: Asset management costs	(1,823)	(1,470)
Investment expenses: Unrealised losses	(24,864)	(206)
Investment result	421	37,404
Other financial expenses	(117)	(330)
Operating result	(7,049)	45,805
Other income	207	3,467
Extraordinary income	-	102,936
Net (loss) / income before tax	(6,842)	152,208
Tax expenses	(317)	(253)
NET (LOSS) / INCOME FOR THE YEAR	(7,159)	151,955

Fixed income securities in CHF '000	2018	2017
Amortized cost	994,463	1,018,338
Difference	(14,125)	(2,414)
Estimated fair value	980,338	1,015,924

Fixed income securities in CHF '000	31 December 2018		31 December 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	32,173	31,962	51,293	51,367
Due after one year through three years	197,506	196,032	253,878	252,948
Due after three years through five years	206,907	204,957	167,872	167,030
Due after five years through ten years	167,767	165,759	175,214	175,441
Due after ten years	390,110	381,628	370,082	369,139
Total	994,463	980,338	1,018,338	1,015,924

US\$236 million Flagstone bilateral facility in CHF '000	2018	2017
Commitment	-	233,229
Issued and outstanding	-	114,324
Investments pledged as collateral	-	182,402

CHF 195.6 million of fixed maturities were pledged as at 31 December 2018 (2017: CHF 190.6 million).

Insurance Reserves in CHF '000			
2018	Gross	Ceded	Net Reserve
Reserves for unearned premiums	226,162	(23,896)	202,265
Reserves for insurance claims	585,606	(68,067)	517,539
Total	811,767	(91,964)	719,804
2017	Gross	Ceded	Net Reserve
Reserves for unearned premiums	195,974	(11,871)	184,103
Reserves for insurance claims	570,663	(60,388)	510,275
Total	766,637	(72,259)	694,378

Receivables relating to insurance operations in CHF '000	2018	2017
Third parties	200,785	137,875
Related parties	1,213	146,689
Total	201,998	284,565

Other receivables in CHF '000	2018	2017
Third parties	16,984	5,850
Related parties	14,510	21,569
Total	31,494	27,417

Liabilities from insurance operations in CHF '000	2018	2017
Third parties	30,682	26,793
Related parties	2,427	-
Total	33,110	26,793

Other liabilities in CHF '000	2018	2017
Third parties	4,221	-
Related parties	11,118	62,339
Total	15,339	62,339

Shareholder's equity in CHF '000	Share Capital and Statutory Capital Reserves	Accumulated Income / (Loss)	Total
Balances as at 1 January 2017	715,745	(28,507)	687,239
Dividends paid	-	-	-
Profit / (loss) for the year	-	151,955	151,955
Gains / (losses) from translation recorded directly in equity	-	(21,189)	(21,189)
Balances as at 31 December 2017	715,745	102,259	818,004
Dividends paid	-	-	-
Profit / (loss) for the year	-	(7,159)	(7,159)
Gain / (loss) from translation recorded directly in equity	-	(2,049)	(2,049)
Balances as at 31 December 2018	715,745	93,051	808,796

Shareholder's equity in CHF	2018	2017
Share capital	72,974,418	72,974,418
Statutory capital reserves		
Legal reserves from capital contributions	36,487,209	36,487,209
Other reserves from capital contributions	598,731,040	598,731,040
Organisation fund from capital contributions	7,553,134	7,553,134
Total	715,745,801	715,745,801

Premiums written in CHF '000	2018			2017		
	Gross	Ceded	Net	Gross	Ceded	Net
Property	112,204	(32,878)	79,326	101,666	(16,722)	84,944
Marine	35,020	(506)	34,513	26,473	(582)	25,890
Agriculture	104,798	(1,191)	103,606	426,859	(10,276)	416,583
Casualty	142,764	(35,068)	107,696	143,538	(13,454)	130,084
Specialty	74,153	(639)	73,514	55,902	(654)	55,248
Total	468,937	(70,281)	398,656	754,438	(41,689)	712,749

Administrative expenses in CHF '000	2018	2017
Staff, office and service costs	14,257	11,258
Depreciation expenses	4	42
Information Technology expenses	64	45
Total	14,326	11,346

Audit fees during the year 2018 amounted to CHF 243,548 (2017: CHF 253,003).

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

The Board of Directors proposes the following appropriation of available earnings:

Available earnings as at 31 December	2018	2018	2017	2017
	in USD '000	in CHF '000	in USD '000	in CHF '000
Balance brought forward from previous year	125,803	102,259	(27,957)	(28,507)
Net (loss) / income for the year	(7,262)	(7,159)	153,760	151,955
(Loss) from translation recorded directly in equity for the year	-	(2,049)	-	(21,189)
Accumulated income	118,542	93,051	125,803	102,259
Proposal of the Board of Directors	2018	2018	2017	2017
	in USD '000	in CHF '000	in USD '000	in CHF '000
Dividend payment	-	-	-	-
Balance to be carried forward	118,542	93,051	125,803	102,259
Total	118,542	93,051	125,803	102,259

Since the Company's legal reserves amount to 50% of the share capital, no further allocation to legal reserves is required in accordance with art. 671 Swiss Code of Obligations.

10.2. Appendix II – Quantitative templates

Financial condition report: quantitative template "Market-consistent Balance Sheet Solo"

Currency: USD
Amounts stated in
millions

		2017	Adjustments previous period	2018
Market-consistent value of investments	Real estate	-	-	-
	Shareholdings	15	-	-
	Fixed-income securities	1,028	-	994
	Loans	-	-	-
	Mortgages	-	-	-
	Equities	-	-	-
	Other investments	-	-	-
	Collective investment schemes	-	-	-
	Alternative investments	-	-	-
	Other investments	29	-	151
	Total investments	1,072	-	1,145
	Financial investments from unit-linked life insurance	-	-	-
	Receivables from derivative financial instruments	-	-	-
Market-consistent value of other assets	Cash and cash equivalents	182	-	157
	Receivables from insurance business	276	-	203
	Other receivables	3	-	17
	Other assets	132	-	178
	Total other assets	593	-	555
Total market-consistent value of assets	1,665	-	1,700	
Best estimate liabilities (BEL)	Best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	-	-	-
	Direct insurance: non-life insurance business	-	-	-
	Direct insurance: health insurance business	-	-	-
	Direct insurance: unit-linked life insurance business	-	-	-
	Direct insurance: other business	-	-	-
	Outward reinsurance: life insurance business (excluding ALV)	-	-	-
	Outward reinsurance: non-life insurance business	747	-	779
	Outward reinsurance: health insurance business	-	-	-
	Outward reinsurance: unit-linked life insurance business	-	-	-
	Outward reinsurance: other business	-	-	-
	Reinsurers' share of best estimate of provisions for insurance liabilities			
	Direct insurance: life insurance business (excluding ALV)	-	-	-
	Direct insurance: non-life insurance business	-	-	-
	Direct insurance: health insurance business	-	-	-
	Direct insurance: unit-linked life insurance business	-	-	-
	Direct insurance: other business	-	-	-
	Outward reinsurance: life insurance business (excluding ALV)	-	-	-
	Outward reinsurance: non-life insurance business	(59)	-	(65)
	Outward reinsurance: health insurance business	-	-	-
	Outward reinsurance: unit-linked life insurance business	-	-	-
Outward reinsurance: other business	-	-	-	
Market-consistent value of other liabilities	Non-technical provisions	-	-	-
	Interest-bearing liabilities	-	-	-
	Liabilities from derivative financial instruments	-	-	-
	Deposits retained on ceded reinsurance	-	-	-
	Liabilities from insurance business	-	-	-
	Other liabilities	110	-	116
	Total BEL plus market-consistent value of other liabilities	798	-	830
Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities	867	-	870	

Financial condition report: quantitative template
"Solvency Solo"

Currency: USD
Amounts stated in
millions

		2017	Adjustments previous period	2018
		in USD millions	in USD millions	in USD millions
Derivation of RBC	Market-consistent value of assets minus total from best estimate liabilities plus market- consistent value of other liabilities	867		870
	Deductions	-		-
	Core capital	867		870
	Supplementary capital	-		-
	RBC	867	-	870

		2017	Adjustments previous period	2018
		in USD millions	in USD millions	in USD millions
Derivation of target capital	Insurance Risk	237		284
	Market risk	52		48
	Diversification effects	(47)		(37)
	Credit risk	44		51
	Risk margin and other effects on target capital	0		(22)
	Target capital	286	-	324

	Ref. date previous period	Adjustments previous period	Ref. date reporting year
	in %	in %	in %
SST ratio	324%	-	293%

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