

# **Validus Reinsurance (Switzerland) Ltd**

## **Report on the Financial Condition**

2017



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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 2017 audited financial statements (“statutory financial statements”) and *ii)* the Company’s 2018 reporting on the Swiss Solvency Test (“SST”) as submitted to FINMA in April 2018, 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 for the Insurance Supervision Ordinance. Appendix I contains the report of the statutory auditor to the General Meeting on the financial statements 2017, 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 2017 to 31 December 2017. 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 25 April 2018.

## 2. Management Summary

The Company forms part of the Validus Group's reinsurance segment and is a Zurich based reinsurer with a Bermuda branch, underwriting reinsurance in Property, Marine, Agriculture, Casualty and Other Specialty lines of business. Despite the natural disasters in the second half of the year, 2017 was another successful year for the Company in respect of both headline growth and profitability.

The Company finished the year 2017 with a net income of USD 153.8 million, which includes extraordinary income of USD 104.2 million mainly related to the change in presentation currency from CHF to USD in 2017. Excluding the extraordinary income, the Company's net income for the year amounts to USD 49.6 million, an increase of USD 19.4 million or 64% from prior year.

Total gross written premiums for 2017 amount to USD 763.4 million, an increase of USD 268.6 million or 54% from 2016. The increase is primarily due to increased agriculture and casualty business with smaller increases in property and marine lines. The underwriting result was below prior year with USD 8.8 million, mainly as a result of the third quarter 2017 natural catastrophe events. In particular, hurricanes Harvey, Irma and Maria as well as the two Mexican earthquakes resulted in net losses to the Company of USD 53.6 million. The investment return improved from USD 19.5 million in 2016 to USD 37.8 million in 2017, representing a return on investments of 3.6% (2016: 2.0%). This is mainly due to improved market conditions, an overall increase of the Company's investment portfolio as well as realised gains on sale of investments.

The loss ratio increased from 67.8% in 2016 to 73.8% in 2017 due to the mentioned third quarter event losses. Excluding these event losses, attritional losses relative to the business volume remained on a level similar to 2016 and the attritional loss ratio of 66% for 2017 is 1.8% lower than for the year 2016, in which VRS experienced no event losses. The expense ratio improved from 29.2% in 2016 to 24.9% in 2017, resulting in a combined ratio of 98.7% for 2017 (2016: 97.0%).

The Company's statutory shareholder's equity amounts to USD 828 million as at 31 December 2017. The Risk-bearing Capital as per the 2018 Swiss Solvency Test amounts to USD 867 million with a Target Capital of USD 286 million, resulting in an SST ratio of 324%, 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 2017 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 2017 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

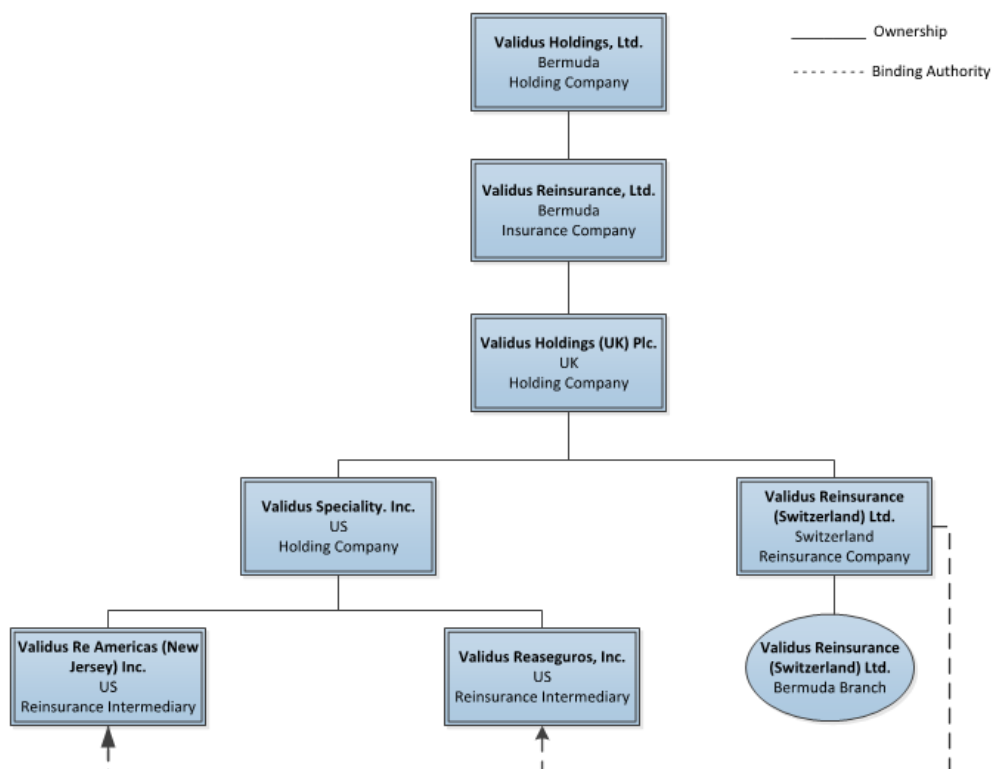
VRS is a direct wholly owned subsidiary of Validus Holdings (UK) Plc, which is ultimately a wholly owned subsidiary of Validus Holdings, Ltd. ("VHL"; together with its subsidiaries referred to as "Validus Group", "Validus" or "Group"). VHL is a Bermuda based corporation listed on the New York Stock Exchange ("NYSE") and subject to the NYSE and U.S. Securities and Exchange Commission's rules and regulations. VRS is domiciled in Zurich, Switzerland. It is licensed as a reinsurer by FINMA in Switzerland under the Swiss Insurance Supervision Act. The Company is also a licensed permit company through its Bermuda branch, registered as a Class 4 insurer under the Bermuda Insurance Act. VRS forms part of the reinsurance segment of the Validus Group and writes reinsurance business worldwide.

The Group's strategy is to be a leader in the global insurance and reinsurance markets. The principal objective is to use the capital efficiently by underwriting a portfolio of insurance and reinsurance contracts that maximises the return on equity subject to prudent risk constraints on the amount of capital that the Group exposes to any single event. Validus manages 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 Group's 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**

Validus Group operates worldwide based on three operating segments: Reinsurance, Insurance and Asset Management.

The Reinsurance segment operates globally and is primarily focused on treaty reinsurance. The Insurance segment operates globally and focuses on specialty insurance within both the Lloyd's and the U.S. commercial insurance markets. The Asset Management segment reports the results of a Bermuda-based investment adviser, managing capital for third parties and Validus through insurance-linked securities and other property catastrophe and specialty reinsurance investments.

Besides the operational setup involving affiliated MGAs as described above under 3.1, VRS entered into notable group transactions in the form of quota-share reinsurance contracts with U.S. affiliates covering property, casualty and, since 2017, agriculture business.

### **3.3. Major shareholders**

As noted above, the Company is a wholly owned subsidiary of Validus Holdings (UK) Plc, which indirectly is a wholly owned subsidiary of the Group's top holding company Validus Holdings, Ltd.

### **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. Additionally, VRS fully owns LP Holdings Ltd., an investment company based in Limassol, Cyprus. The subsidiary did not have any trading activities during 2017.

### **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, VHL, the Company's ultimate parent, entered into a definitive agreement and plan of merger (the "Merger Agreement") with American International Group, Inc. ("AIG"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, VHL will merge 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 is expected to close in mid-2018, subject to the approval of the VHL shareholders, regulatory approvals and other customary closing conditions, and may have an impact on the way VRS will operate in the future.

Additionally, property, casualty and agriculture quota share contracts with U.S. affiliates were discontinued at the end of 2017, which will lead to a material reduction of premium revenue for the Company in 2018.

## 4. Performance

### 4.1. Underwriting performance

Our 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 2017 and 2016, respectively, were as follows (per VRS statutory financial statements, in USD millions):

Gross written premiums	2017			2016		
	Gross	Ceded	Net	Gross	Ceded	Net
Property	102.9	(16.9)	86.0	79.3	(6.5)	72.8
Marine	26.8	(0.6)	26.2	18.0	(0.3)	17.7
Agriculture	431.9	(10.4)	421.5	245.1	(3.4)	241.7
Casualty	145.2	(13.6)	131.6	97.2	-	97.2
Other Specialty	56.6	(0.7)	55.9	55.2	(2.8)	52.4
<b>Total</b>	<b>763.4</b>	<b>(42.2)</b>	<b>721.2</b>	<b>494.8</b>	<b>(13.0)</b>	<b>481.8</b>

Premiums are written by underwriters in Switzerland and Bermuda, and through MGAs in Miami and New Jersey. Despite a continuously challenging reinsurance market environment in 2017, the Company managed to grow its premium volume significantly from USD 494.8 million gross written premiums in 2016 to USD 763.4 million in 2017.

The main drivers for the growth in premiums from 2016 to 2017 was an agriculture quota share cession to the Company from a U.S. affiliate partially offset by lower agriculture reinsurance premiums written through VRA (USD 186 million net additional gross written premiums), as well as the expansion of the U.S. casualty business written through VRA (additional USD 48 million of gross written premiums). In addition, property premiums growth during 2017 of USD 24 million was mainly driven by U.S. property. Marine increased by USD 9 million due to further expansion of the marine business written out of Zurich and specialty premiums remained on a level consistent with 2016.

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



## 4.2. Financial performance

in USD millions	2017	2016
Gross premiums written	763.4	494.8
Net premiums written	721.2	481.8
Net premiums earned	687.3	401.1
Net claims incurred	(507.2)	(272.0)
Net acquisition costs	(159.8)	(103.1)
Administrative expenses	(11.5)	(13.9)
<b>Underwriting result</b>	<b>8.8</b>	<b>12.1</b>
Investment result	37.8	19.5
Others, net	107.1	(1.4)
<b>Net income for the financial year</b>	<b>153.8</b>	<b>30.2</b>
<b>Key Performance indicators</b>		
Loss ratio %	73.8	67.8
Expense ratio %	24.9	29.2
<b>Combined ratio %</b>	<b>98.7</b>	<b>97.0</b>

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 income for the year was USD 153.8 million compared to USD 30.2 million in 2016, which was driven by an extraordinary income related to the change of presentation currency in 2017 as well as improved market conditions leading to an increased investment return. Excluding the extraordinary income, net income for the year 2017 would be USD 49.6 million, an increase of USD 19.4 million from prior year.

Gross premiums written increased by USD 268.6 million to USD 763.4 million and premiums earned after retrocession increased by USD 286.1 million to USD 687.3 million.

Claims after reinsurance recoveries were USD 507.2 million, an increase of USD 235.2 million compared to last year. The increase in claims from 2016 to 2017 is mainly a result of a higher business volume in 2017, which led to overall increased claims, and large loss events in the third quarter of 2017, whereas the overall loss ratio increase is almost entirely related to these third quarter events including hurricanes Harvey, Irma and Maria as well as the Mexican earthquakes. Net losses to the Company from these events amounted to USD 53.6 million, which were partially offset by favourable loss development in agriculture lines and Flagstone run-off reserves.

Operating expenses increased by USD 54.2 million to USD 171.3 million primarily driven by higher acquisition costs related to the increased business volume.

The expense ratio showed a decrease due to the Company's business mix in 2017 compared to 2016 and a decreased G&A expense ratio due to premium growth with stable costs. Overall, the combined ratio for the year was 98.7% compared to 97.0% in 2016, reflecting the aforementioned increased loss experience in 2017.

The investment return increased to USD 37.8 million in 2017 from USD 19.5 million in 2016, representing a return on investments of 3.6% (2016: 2.0%). This is related to improved market conditions in 2017, an increase in the size of the Company's investment portfolio as well as a realised gain of USD 11 million, mainly from the sale of certain alternative investments.

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

The Company's income statement contains an extraordinary income of USD 104.2 million, which is related to the change of presentation currency of the statutory financial statements from CHF to USD. For further details, refer to note 2 (h) of the statutory financial statements 2017 in Appendix I.

Other income of USD 3.5 million represents insurance-related income from a U.S. affiliate.

There were no other expenses in 2017.

## 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 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;
- Robert Kuzloski is a member and the Secretary of the Board of Directors. He is also General Counsel of the Validus Group;
- Patrick Boisvert is a member of the Board of Directors and Chief Accounting Officer of the Validus Group. He was elected Vice-Chairman of the Board of Directors in June 2017 after the resignation of Jeffrey Sangster;
- Stéphane Sauthier is member of the Board of Directors and Swiss Counsel of VRS.
- Jeffrey Sangster served as a member and Vice-Chairman of the Board of Directors until his resignation in May 2017.

#### 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, consists of the following individuals:

- Sven Wehmeyer is the Chief Executive Officer;
- Robert Marcotte is the Chief Financial Officer and Head of Investments;
- Stéphane Sauthier is the Swiss Counsel.

There were no changes to the Company's Executive Management in 2017.

### 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 Working Group 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 the Validus Group 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 the Validus Group. 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 at least on an annual basis. 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 has been established on a Validus Group level 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 1<sup>st</sup> Line of Defence, Compliance and Risk Management being the 2<sup>nd</sup> Line of Defence, and Internal Audit as well as External Audit being the 3<sup>rd</sup> 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

Market risk is the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of financial instruments. The predominant effect of this is on potential for losses in the Company's investment portfolio.

Management and oversight procedures relating to the investments of the Company are outlined in the Company's Investment Policy. It sets out appetites relating to Market Risk and provides investment guidelines relating 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. It also outlines tools to control liquidity risk by assessing the duration of the asset portfolio in relation to liability

cash flows. With respect to the latter liquidity risk, the Company produces a Liquidity Report for the Board of Directors 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**

Credit risk is the risk of loss or of adverse change in the financial situation, resulting from the deterioration of the credit quality or default of an issuer of a financial instrument, a borrower, or a counterparty in a reinsurance contract. VRS' most significant credit risks are from reinsurance/retrocession counterparties.

Control activities relating to counterparty Credit Risk are overseen by the Validus Re Security Committee. This committee approves 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.

### **6.4. Operational Risk**

The processes for identifying, assessing, controlling and monitoring Operational Risks, as outlined in detail in the Company's Risk Management Framework, are summarised below. The main Operational Risks are losses arising from inadequate or failed internal processes, personnel or systems, or from external events; or the risk of loss arising from the adverse effect of management decisions on both business strategies and their execution, as well as from unexpected changes in environmental trends that damage the operating economics of the business.

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 Risk Working Group 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.

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 Risk Working Group.

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.

Risks and controls are documented in the VRS 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 function for relevance and adequacy. Material changes to the Risk and Control Register are presented to the Company's Board of Directors.

Incident and near miss reports, which are prepared by risk owners, are presented to the Risk Working Group, which then escalates significant incidents to the Validus Group Risk Management Committee, the VRS executive management and Board of Directors, and the Risk Committee of the Validus Group Board.

VRS employs the Validus Capital Model to determine a distribution of outcomes via stochastic modelling for operational risks. Each cause of risk is scored for its likelihood of occurrence and financial impact given occurrence, both gross and net of controls assigned to each risk cause and dependencies are established between causes of risk.

## 6.5. Top Operational Risk

More notable Operational Risks and mitigating measures include the following (in no particular order):

- Risk Identification: the risk of failing to identify all material risks is mitigated by the promulgation of the Risk Management Framework via Group-wide risk management training, the periodic review of the identification process and review of incident reports.
- Exposure Aggregation: the risk that exposures are not aggregated, monitored or managed properly is mitigated by our quarterly aggregation process, which follows our exposure management policy, reporting to executive and the Board of Directors and review and documentation of our Risk Appetite.
- Catastrophe Modelling and Pricing: the risk of systemic mispricing causing adverse risk selection is mitigated through pricing peer reviews and periodic verification and validation of modelled output.
- Non-event Reserving: the risk of making incorrect loss and development factor assumptions is mitigated by undergoing validation exercises, including benchmarking and independent third party reviews.
- Event Reserving: the risk of not accounting for all event related exposures is mitigated by reviewing industry information and verifying exposures with underwriters and risk management.
- Strategic Planning: the risk of not planning for adverse developments in regulatory and political conditions is mitigated by membership in various trade associations and participation in subcommittees.

While these risks are important to monitor and manage, the Company does not consider Operational Risks to be significant 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

The Company has USD 184.6 million of investments pledged as collateral under the Company's credit facilities as at 31 December 2017. In addition, USD 192.9 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 2017.

## 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 2017 and 2016, 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 2017	Market Value 2016	Amortised Cost 2017	Amortised Cost 2016	Variance (MV)	Variance (MV) %
<b>Fixed Income Securities</b>						
Agency RMBS	160.3	95.6	161.4	96.6	64.6	67.6%
Non-Agency RMBS	13.5	5.0	13.5	5.1	8.5	168.8%
CMBS	106.9	149.6	107.4	150.3	(42.7)	-28.5%
Asset-Backed Securities	270.2	318.9	270.4	319.8	(48.8)	-15.3%
Non-U.S. Corporate	61.3	53.2	61.1	53.3	8.1	15.3%
Non-U.S. Government & Government Agency	27.0	17.5	27.2	17.6	9.5	54.5%
States, Municipalities	44.3	46.0	44.5	46.0	(1.7)	-3.6%
U.S. Corporate	195.1	183.7	194.9	183.5	11.5	6.2%
U.S. Government & Government Agency	149.3	77.8	150.2	78.4	71.5	91.9%
	<b>1,028.0</b>	<b>947.4</b>	<b>1,030.4</b>	<b>950.5</b>	<b>80.6</b>	<b>8.5%</b>
<b>Other Investments</b>						
Investment Funds	28.8	31.0	17.5	15.7	(2.2)	-7.1%
<b>Investment in subsidiary</b>						
L.P. Holdings Ltd.	14.0	14.0	14.0	13.7	0.0	0.0%
<b>Total Investments</b>	<b>1,070.8</b>	<b>992.4</b>	<b>1,062.0</b>	<b>980.2</b>	<b>78.4</b>	<b>7.9%</b>

#### 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 2017, this leads to a lower statutory valuation of USD 7.1 million (2016: USD 10 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.

The market value of the investment in subsidiary remained unchanged during 2017, however, due to the change of reporting currency from CHF to USD as described in note 2 (h) to the statutory financial statements, the USD carrying value resulting from the translation of the CHF carrying value resulted in a value below the functional currency USD carrying value. Therefore, the investment in subsidiary had to be appreciated from USD 13.7 million to USD 14.0 million.

In addition to the investments in fixed maturities and other investments, the Company holds asset positions in cash and cash equivalents, 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

Other assets as per Appendix II contain cash and cash equivalents, 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 2017 and 2016 (in USD millions):

	31.12.2017	31.12.2017	31.12.2016	31.12.2016
	Undiscounted	Discounted	Undiscounted	Discounted
Gross reserves for losses and loss expenses	571	548	326	316
Ceded reserves for losses and loss expenses	(61)	(59)	(19)	(19)
<b>Net loss reserves for losses and loss expenses</b>	<b>510</b>	<b>489</b>	<b>307</b>	<b>297</b>
Risk Margin	-	27	-	25
<b>Total</b>	<b>510</b>	<b>516</b>	<b>307</b>	<b>322</b>

As at 31 December 2017, the reserves for losses and loss expenses (“loss reserves”) based on the Company’s best estimate, net of retrocession, are USD 510 million on an undiscounted and USD 489 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 548 million on a discounted basis and the gross unearned premium reserves amount to USD 198 million, providing for a total gross best estimate liability of USD 747 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 2017 and 2016, respectively, were as follows as per the Company’s statutory financial statements (in USD millions):

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

<b>2016</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net Reserve</b>
Reserves for unearned premiums	152.6	(0.3)	152.3
Reserves for losses and loss expenses	341.3	(18.6)	322.7
<b>Total</b>	<b>493.9</b>	<b>(18.9)</b>	<b>475.0</b>

#### **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 2017, the risk margin also referred to as the market value margin (MVM) is 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 2018 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 2018 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 2017.

## **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 2017, the net loss reserves in the Company's statutory financial statements amount to USD 516 million and represent the discounted best estimate liabilities of USD 489 million plus the risk margin of USD 27 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 27 million.

There is no difference between the statutory and solvency values of reserves for unearned premiums of USD 198 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 110 million as at 31 December 2017. Other liabilities are recorded at nominal value, i.e. the net payable as at 31 December 2017. 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 2017 and 2016, respectively, is structured as follows:

Shareholder's equity (in USD millions)	2017	2016
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)	125.8	(28.0)
<b>Total</b>	<b>827.7</b>	<b>674.0</b>

### 8.3. Description of material changes during the period

In 2017, 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 2017, 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 867 million. The difference of USD 41 million to the Company's statutory shareholder's equity of USD 828 million can be explained as follows:

in USD millions	31.12.2017	31.12.2016
Risk-bearing capital	867	785
Potential dividend	-	30
<b>Risk-bearing capital (pre deductions)</b>	<b>867</b>	<b>815</b>
Provision for currency translation gains related to the translation of VRS USD functional currency to CHF reporting currency for statutory purposes	-	(103)
Provision for unrealised gains on investments required for statutory purposes	-	(5)
Adjustment for investments as per section 7.1.3 above	(7)	(10)
Adjustments for loss reserves as per section 7.2.3 above	(27)	(25)
Other adjustments for statutory purposes	(5)	2
<b>Statutory shareholder's equity</b>	<b>828</b>	<b>674</b>

In 2017, the Company changed its presentation currency in the statutory financial statements from CHF to USD, which led to a full release of the previously booked provision for unrealised gains from translation of the USD functional currency values to the CHF reporting currency values.

The provision for unrealised gains on investments was also fully released in 2017 due to net unrealised losses for 2017 being recognised in the income statement according to Swiss law.

The adjustments for investments and loss reserves are discussed in sections 7.1.3 and 7.2.3, respectively.

## 9. Solvency

### 9.1. Solvency model

For the first time this year, the Company used the Standard Model for Reinsurers (“StandRe”), as prescribed by FINMA, to perform the 2018 SST calculation. 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 the SST standard model for reinsurer (StandRe) as prescribed by FINMA, Market Risk is assessed using the Delta Normal approach, 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, which has not yet been approved by 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 2018 SST is determined to be USD 286 million. This is USD 29 million below the 2017 Target Capital requirement.

Although Insurance Risk reduced from the previous evaluation, it 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 and the model. The increase in Reserving Risk is mainly related to increased reserves for agriculture business as well as a further increase of U.S. casualty reserves. This was offset by lower Underwriting Risk, which reduced primarily due to the non-renewal of quota share retrocessions with U.S. affiliates. The increase in Reserving Risk and the reduction in Underwriting Risk has resulted in a more balanced and hence diversified Insurance Risk.

Market Risk also remained stable compared to prior year, despite an increase in invested assets. This was achieved by reducing holdings in lower rated or unrated investments and increasing investments in government bonds as well as short-term investments.

The decrease in Credit Risk was driven by a reduction of lower rated or unrated investments in the Company’s investment portfolio, partly offset by smaller increases in relation to premium receivables, reserve recoverable and future year reinsurance recoveries.

The impact of scenarios decreased as insurance scenarios are now evaluated as part of StandRe, hence included as part of Insurance Risk.

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 2018 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)	2018	2017	Variance
<b>Model based Results (Expected Shortfall)</b>			
<b>Insurance Risk</b>	<b>237</b>	<b>280</b>	<b>(43)</b>
Underwriting Risk	196	256	(60)
Reserving Risk	147	77	70
Diversification benefits	(105)	(53)	(52)
<b>Market Risk</b>	<b>52</b>	<b>54</b>	<b>(2)</b>
Diversification benefits	(48)	(50)	2
<b>Insurance &amp; Market Risk</b>	<b>242</b>	<b>284</b>	<b>(42)</b>
<b>Model based Results</b>			
Credit Risk	44	48	(4)
Scenarios	4	7	(3)
<b>Aggregation with Insurance &amp; Market Risk</b>	<b>289</b>	<b>338</b>	<b>(49)</b>
<b>Allowance for Expected Results</b>			
Expected Insurance Result	(25)	(38)	13
Expected Financial Performance over 1 year risk free	(4)	(10)	6
<b>Capital for Insurance &amp; Market &amp; Credit Risks</b>	<b>259</b>	<b>290</b>	<b>(31)</b>
<b>Risk Margin</b>	<b>27</b>	<b>25</b>	<b>2</b>
<b>Target Capital</b>	<b>286</b>	<b>315</b>	<b>(29)</b>

### 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 2018 SST at 31 December 2017 is USD 867 million compared to USD 785 million in 2016. The breakdown of this figure is given below:

<b>Risk-bearing Capital Composition (in USD millions)</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>Assets</b>		
Investments (excluding investment in subsidiary)	1,058	979
Cash and cash equivalents	182	73
Premiums Receivable	279	119
Other assets (including investment in subsidiary)	146	97
<b>Total assets</b>	<b>1,665</b>	<b>1,268</b>
<b>Liabilities</b>		
Gross discounted reserves	548	315
Gross unearned premium reserves	198	153
Less: ceded discounted reserves	(59)	(19)
Reinsurance balances payable and accrued expenses	110	4
<b>Total liabilities</b>	<b>798</b>	<b>453</b>
<b>Risk-bearing Capital (pre deductions)</b>	<b>867</b>	<b>815</b>
<b>Deductions</b>	<b>-</b>	<b>(30)</b>
<b>Risk-bearing Capital</b>	<b>867</b>	<b>785</b>

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 2018 amounts to 324% (2017 SST: 262%) in accordance with the FINMA calculation formula deducting the risk margin of USD 27 million (2017 SST: USD 25m) from both the Company's Risk-bearing Capital and Target Capital (i.e. USD 840 million adjusted Risk-bearing Capital divided by USD 259 million adjusted Target Capital). This is well above the Company's minimum capital expectations and demonstrates the Company's strong solvency position. The increase of the SST ratio compared to prior year is driven by higher Risk-bearing Capital and by a reduction in the Target Capital required.

The solvency information contained in this section is consistent with the information provided to FINMA as part of the Company's 2018 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 2017 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 2017**

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

***Zurich***

***Report of the  
statutory auditor to the  
General Meeting on the  
financial statements 2017***





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

## ***Report of the statutory auditor on the financial statements***

As statutory auditor, we have audited the accompanying financial statements of Validus Reinsurance (Switzerland) Ltd, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2017.

### ***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 judgment, 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 entity'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 entity'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 2017 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 proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A blue ink signature of Philip Kirkpatrick, consisting of stylized initials and a surname, with a small red cross symbol to its right.

Philip Kirkpatrick  
Audit expert  
Auditor in charge

A blue ink signature of Lee Bellamy, consisting of a stylized first name and a surname, with a small red cross symbol to its right.

Lee Bellamy

Zurich, 25 April 2018

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

**BALANCE SHEET**

<b>ASSETS</b>	<b>31 December 2017</b> in USD '000	<b>31 December 2016</b> in USD '000
Fixed income securities	1,025,338	944,475
Other investments	24,365	23,930
Investments in subsidiaries	14,022	13,673
<b>Total investments</b>	<b>1,063,725</b>	<b>982,078</b>
Deposits made under assumed reinsurance contracts	52,117	58,902
Cash and cash equivalents	179,511	72,805
Share of insurance reserves relating to reinsurance contracts	73,117	18,944
Property and equipment	4	47
Deferred acquisition costs	58,292	46,102
Receivables relating to insurance operations	287,945	126,675
Other receivables	27,743	26,823
Prepayments and accruals	4,054	3,689
<b>TOTAL ASSETS</b>	<b>1,746,508</b>	<b>1,336,066</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b><u>Liabilities</u></b>		
Reserves for losses and loss expenses	577,442	341,295
Unearned premium reserves	198,302	152,627
Liabilities from reinsurance operations	27,111	5,283
Other liabilities	63,080	51,320
Accrued liabilities	52,852	2,855
Non-technical provisions	-	108,725
<b>Total liabilities</b>	<b>918,787</b>	<b>662,105</b>
<b><u>Shareholder's Equity</u></b>		
Share capital	71,565	71,565
Statutory capital reserves:		
Legal reserves from capital contributions	35,782	35,782
Other reserves from capital contributions	587,164	587,164
Organisation fund from capital contributions	7,407	7,407
Accumulated income / (loss)	125,803	(27,957)
<b>Total shareholder's equity</b>	<b>827,721</b>	<b>673,961</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>1,746,508</b>	<b>1,336,066</b>

**INCOME STATEMENT**

<b>For the years ended</b>	<b>31 December 2017</b> in USD '000	<b>31 December 2016</b> in USD '000
Gross premiums written	763,400	494,802
Reinsurer's share of gross premiums written	(42,184)	(13,036)
Net premiums written	<u>721,216</u>	<u>481,766</u>
Change in unearned premiums	(45,676)	(80,243)
Reinsurer's share of change in unearned premiums	11,717	(386)
<b>Net premiums earned</b>	<b>687,257</b>	<b>401,136</b>
Gross paid losses	(391,373)	(300,821)
Reinsurer's share of paid losses	49,022	7,375
Change in reinsurance reserves	(206,994)	24,520
Reinsurer's share of change in reinsurance reserves	42,182	(3,025)
<b>Claims incurred, net of reinsurance</b>	<b>(507,163)</b>	<b>(271,950)</b>
Acquisition expenses	(161,786)	(104,038)
Reinsurer's share of acquisition expenses	2,009	897
Administrative expenses	(11,481)	(13,922)
<b>Acquisition and administrative expenses, net of reinsurance</b>	<b>(171,259)</b>	<b>(117,063)</b>
<b>Underwriting result</b>	<b>8,835</b>	<b>12,124</b>
Investment income: Interest income	28,561	21,390
Investment income: Realised gains / (losses)	10,982	(355)
Investment expenses: Asset management costs	(1,487)	(1,545)
Investment expenses: Unrealised losses	(208)	-
<b>Investment result</b>	<b>37,848</b>	<b>19,490</b>
Other financial expenses	(334)	(913)
<b>Operating result</b>	<b>46,349</b>	<b>30,701</b>
Other income	3,508	1,176
Other expenses	-	(1,594)
Extraordinary income	104,159	-
<b>Net income before tax</b>	<b>154,016</b>	<b>30,283</b>
Tax expenses	(256)	(73)
<b>NET INCOME FOR THE YEAR</b>	<b>153,760</b>	<b>30,211</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General

Validus Reinsurance (Switzerland) Ltd (“VRS” or the “Company”) is a direct subsidiary of Validus Holdings (UK) Plc, which is ultimately a wholly-owned subsidiary of Validus Holdings, Ltd. (“VH”), a Bermuda corporation, which is a quoted company listed on the New York Stock Exchange (“NYSE”) and subject to the NYSE and U.S. Securities and Exchange Commission's rules and regulations.

The Company is based in 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”). Details on the first time application are provided in Note 2 (h). Also as of 2017, amounts are presented in thousands of USD rather than full USD amounts 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**

Investment in subsidiary is 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 Validus 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. Starting 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. The following outlines the process and impact of the first time application of USD as reporting currency:

In a first step, the audited balance sheet as at 31 December 2016 in CHF was translated into USD to determine the 2017 opening balance sheet. Assets and liabilities were converted from CHF into USD using the year-end 2016 exchange rate (USD/CHF 0.980681). This is the same rate that was used for the translation of the accounting records in USD functional currency into CHF reporting currency values. For shareholder's equity positions, this will represent the new historic rate that will be applied in future years when presenting the statutory financial statements in CHF for illustration purposes (refer to Note 17).

In a second step, the year-end 2016 USD carrying values of assets and liabilities that were not previously translated to CHF by using the year-end spot rate but rather a historic exchange rate were adjusted at the beginning of the financial year 2017 to ensure the USD reporting value of these assets and liabilities will reflect the historic carrying value of the USD accounting records, in accordance with Swiss law.

These two steps resulted in the following extraordinary effects with an impact on the 2017 income statement of VRS, due to the first time adoption of USD as reporting currency for the Company's statutory financial statements:

- i. Provision for unrealised gains from translation: As at 31 December 2016, the Company had recorded a provision for unrealised translation gains of CHF 105,855,297, included in non-technical provisions in the 2016 financial statements. This provision represents historical accumulation of unrealised gains in connection with the translation of the Company's accounting records held in USD to the former reporting currency CHF, representing pure translation differences. Since unrealised, a provision for these translation gains was booked in line with Swiss law. The corresponding USD value of USD 103,810,279 (applying the year-end exchange rate of USD/CHF 0.980681) was released at the beginning of the year 2017 through the Company's income statement leading to an extraordinary income of USD 103,810,279 in 2017.
- ii. Investment in subsidiary: The USD value resulting from the above described method of translation from the CHF value using the exchange rate of USD/CHF 0.980681 results in a value below the historical functional currency USD carrying value. Therefore, the investment in subsidiary had to be appreciated to USD 14,021,690. This had an extraordinary impact on the Company's 2017 income statement of USD 348,712.

The 2016 comparative income statement positions in USD were translated from the audited statutory financial statements 2016 in CHF using the 2016 average exchange rate (USD/CHF 0.984844), which is the same that was used in prior year for the translation of income statement amounts in USD functional currency into prior year's reporting currency CHF.

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 17, applying the year-end spot rate of USD/CHF 1.01187946 (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. Any translation gain or loss from the translation of USD to CHF is directly recorded in equity.

### 3. *Contingent obligations*

The Company has no material contingent obligations as at 31 December 2017 and 2016, respectively.

### 4. *Investments in fixed-income securities*

The amortised cost, net unrealised losses and estimated fair value of investments in fixed-income securities as at 31 December 2017 and 2016, respectively, were as follows:

in USD '000	2017	2016
Amortised cost	1,030,435	950,511
Net unrealised losses	(2,442)	(3,124)
<b>Estimated fair value</b>	<b>1,027,993</b>	<b>947,387</b>

The amortised cost and estimated fair value amounts for fixed maturity securities held at 31 December 2017 and 2016, 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	2017		2016	
	Amortised Cost	Estimated Fair Value	Amortised Cost	Estimated Fair Value
Due in one year or less	51,902	51,977	18,602	18,602
Due after one year to three years	256,894	255,953	233,396	233,427
Due after three years to five years	169,866	169,014	171,004	170,663
Due after five years to ten years	177,295	177,525	156,999	156,720
Due after ten years	374,478	373,524	370,510	367,975
<b>Total</b>	<b>1,030,435</b>	<b>1,027,993</b>	<b>950,511</b>	<b>947,387</b>

#### Pledged investments

The following tables outline investments pledged as collateral under the Company's credit facilities as at 31 December 2017 and 2016, respectively.

in USD '000	2017		
	Commitment	Issued and Outstanding	Investments pledged as collateral
US\$236 million Flagstone bi-lateral facility	236,000	115,682	184,569
2016			
	Commitment	Issued and Outstanding	Investments pledged as collateral
US\$236 million Flagstone bi-lateral facility	236,000	144,392	216,458

In addition, USD 192.9 million of fixed maturities were pledged during the normal course of business as at 31 December 2017 (2016: USD 93.7 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**

Subsidiary	Country	Share Capital	2017	2016
			Ownership %	
LP Holdings Ltd.	Cyprus	EUR 170,998	100.00	100.00

LP Holdings Ltd. is based in Limassol, Cyprus. Its activity is that of an investment holding company. This subsidiary did not have any trading activities during the year.

**6. Insurance reserves**

The details of gross and ceded insurance reserves by classification as at 31 December 2017 and 2016, respectively, were as follows:

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

2016	Gross	Ceded	Net Reserve
in USD '000			
Reserves for unearned premiums	152,627	(295)	152,332
Reserves for insurance claims	341,295	(18,650)	322,645
<b>Total</b>	<b>493,922</b>	<b>(18,945)</b>	<b>474,977</b>

**7. Receivables relating to insurance operations**

As at 31 December 2017, USD 140.2m of reinsurance receivables were receivables towards related parties and USD 135.9m relate to amounts due from third parties. As at 31 December 2016, all reinsurance receivables related to amounts due from third party insurance companies.

**8. Other receivables**

The details of the account as at 31 December 2017 and 2016, respectively, were as follows:

in USD '000	2017	2016
Third parties	5,919	(235)
Related parties	21,825	27,058
<b>Total</b>	<b>27,743</b>	<b>26,823</b>

**9. Liabilities from insurance operations**

Liabilities from insurance operations as at 31 December 2017 and 2016, respectively, fully relate to amounts due to third party insurance companies.

**10. Other liabilities**

Other liabilities as at 31 December 2017 and 2016, respectively, fully relate to amounts due to related parties.

**11. Non-technical provisions**

Non-technical provisions as at 31 December 2017 for unrealised gains on investments amount to zero (2016: USD 4,914,390). In 2016, non-technical provisions also included a provision for unrealised translation gains of USD 103,810,279, which were released with the transition of the reporting currency from CHF to USD in 2017 as noted above in Note 2.

**12. Shareholder's equity**

in USD '000	Share capital and Statutory Capital Reserves	Accumulated Income / (Loss)	Total
<b>Balances as at 1 January 2016</b>	<b>701,918</b>	<b>(58,168)</b>	<b>643,750</b>
Dividends paid	-	-	-
Profit for the year	-	30,211	30,211
<b>Balances as at 31 December 2016</b>	<b>701,918</b>	<b>(27,957)</b>	<b>673,961</b>
Dividends paid	-	-	-
Profit for the year	-	153,760	153,760
<b>Balances as at 31 December 2017</b>	<b>701,918</b>	<b>125,803</b>	<b>827,721</b>

The details of statutory share capital and capital reserves as at 31 December 2017 and 2016 were as follows:

in USD	2017	2016
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
<b>Total</b>	<b>701,918,308</b>	<b>701,918,308</b>

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 2017 and 2016, respectively, were as follows:

in USD '000	2017			2016		
	Gross	Ceded	Net	Gross	Ceded	Net
Property	102,874	(16,921)	85,953	79,319	(6,548)	72,771
Marine	26,787	(589)	26,198	17,973	(318)	17,655
Agriculture	431,930	(10,398)	421,532	245,126	(3,362)	241,763
Casualty	145,243	(13,614)	131,629	97,194	-	97,194
Specialty	56,566	(662)	55,904	55,191	(2,807)	52,383
<b>Total</b>	<b>763,400</b>	<b>(42,184)</b>	<b>721,216</b>	<b>494,802</b>	<b>(13,036)</b>	<b>481,766</b>

**14. Administrative expenses**

The Company's administrative expenses for the years ended 31 December 2017 and 2016, respectively, are as follows:

in USD '000	2017	2016
Staff, office and service costs	11,392	13,851
Depreciation expenses	43	52
Information Technology expenses	46	19
<b>Total</b>	<b>11,481</b>	<b>13,922</b>

Audit fees during the year 2017 amounted to USD 256,009 (2016: USD 105,316).

**15. Significant events after the balance sheet date**

On 21 January 2018, Validus Holdings, Ltd. ("VHL"), the Company's ultimate parent, entered into a definitive agreement and plan of merger (the "Merger Agreement") with American International Group, Inc. ("AIG"). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, VHL will merge 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 is expected to close in mid-2018, subject to the approval of the VHL shareholders, regulatory approvals and other customary closing conditions, and may have an impact on the way VRS will operate in the future.

Additionally, property, casualty and agriculture quota share contracts with U.S. affiliates were discontinued at the end of 2017, which will lead to a material reduction of premium revenue for the Company in 2018.

**16. 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, except for the disclosure of CHF amounts according to art. 958d para. 3 as included in Note 17.

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

<b>ASSETS</b>	<b>31 December 2017</b> in CHF '000	<b>31 December 2016</b> in CHF '000
Fixed income securities	1,013,301	963,081
Other investments	24,079	24,402
Investments in subsidiaries	13,857	13,942
<b>Total investments</b>	<b>1,051,237</b>	<b>1,001,425</b>
Deposits made under assumed reinsurance contracts	51,505	60,063
Cash and cash equivalents	177,404	74,239
Share of insurance reserves relating to reinsurance contracts	72,259	19,317
Property and equipment	3,953,04	48
Deferred acquisition costs	57,608	47,010
Receivables relating to insurance operations	284,565	129,171
Other receivables	27,417	27,351
Prepayments and accruals	4,006	3,762
<b>TOTAL ASSETS</b>	<b>1,726,004</b>	<b>1,362,386</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b><u>Liabilities</u></b>		
Reserves for losses and loss expenses	570,663	348,018
Unearned premium reserves	195,974	155,634
Liabilities from reinsurance operations	26,793	5,387
Other liabilities	62,339	52,331
Accrued liabilities	52,232	2,912
Non-technical provisions	-	110,867
<b>Total liabilities</b>	<b>908,000</b>	<b>675,149</b>
<b><u>Shareholder's Equity</u></b>		
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 / (loss)	102,259	(28,508)
<b>Total shareholder's equity</b>	<b>818,004</b>	<b>687,237</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>1,726,004</b>	<b>1,362,386</b>

**INCOME STATEMENT**

<b>For the years ended</b>	<b>31 December 2017</b> in CHF '000	<b>31 December 2016</b> in CHF '000
Gross premiums written	754,438	502,416
Reinsurer's share of gross premiums written	(41,689)	(13,236)
<b>Net premiums written</b>	<b>712,749</b>	<b>489,180</b>
Change in unearned premiums	(45,140)	(81,478)
Reinsurer's share of change in unearned premiums	11,579	(392)
<b>Net premiums earned</b>	<b>679,189</b>	<b>407,310</b>
Gross paid losses	(386,778)	(305,450)
Reinsurer's share of paid losses	48,446	7,489
Change in reinsurance reserves	(204,564)	24,898
Reinsurer's share of change in reinsurance reserves	41,687	(3,072)
<b>Claims incurred, net of reinsurance</b>	<b>(501,209)</b>	<b>(276,135)</b>
Acquisition expenses	(159,887)	(105,639)
Reinsurer's share of acquisition expenses	1,985	911
Administrative expenses	(11,346)	(14,136)
<b>Acquisition and administrative expenses, net of reinsurance</b>	<b>(169,248)</b>	<b>(118,864)</b>
<b>Underwriting result</b>	<b>8,731</b>	<b>12,311</b>
Investment income: Interest income	28,226	21,719
Investment income: Realised gains / (losses)	10,853	(360)
Investment expenses: Asset management costs	(1,470)	(1,569)
Investment expenses: Unrealised losses	(206)	-
<b>Investment result</b>	<b>37,404</b>	<b>19,790</b>
Other financial expenses	(330)	(927)
<b>Operating result</b>	<b>45,805</b>	<b>31,174</b>
Other income	3,467	1,195
Other expenses	-	(1,619)
Extraordinary income	102,936	-
<b>Net income before tax</b>	<b>152,208</b>	<b>30,749</b>
Tax expenses	(253)	(74)
<b>NET INCOME FOR THE YEAR</b>	<b>151,955</b>	<b>30,676</b>



<b>Fixed income securities in CHF '000</b>	<b>2017</b>	<b>2016</b>
Amortized cost	1,018,338	969,236
Net unrealized losses	(2,414)	(3,185)
<b>Estimated fair value</b>	<b>1,015,924</b>	<b>966,051</b>

<b>Fixed income securities in CHF '000</b>	<b>2017</b>		<b>2016</b>	
	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>
Due in one year or less	51,293	51,367	18,969	18,968
Due after one year through three years	253,878	252,948	237,994	238,026
Due after three years through five years	167,872	167,030	174,373	174,025
Due after five years through ten years	175,214	175,441	160,091	159,807
Due after ten years	370,082	369,139	377,809	375,225
<b>Total</b>	<b>1,018,338</b>	<b>1,015,924</b>	<b>969,236</b>	<b>966,051</b>

<b>Pledged investments in CHF '000</b>	<b>2017</b>		
	<b>Commitment</b>	<b>Issued and Outstanding</b>	<b>Investments pledged as collateral</b>
US\$236 million Flagstone bi-lateral facility	233,229	114,324	182,402
<b>Pledged investments in CHF '000</b>	<b>2016</b>		
	<b>Commitment</b>	<b>Issued and Outstanding</b>	<b>Investments pledged as collateral</b>
US\$236 million Flagstone bi-lateral facility	240,649	147,236	220,722

In addition, CHF 190.6m of fixed maturities were pledged as at 31 December 2016 (2016: CHF 95.5m).

<b>Insurance Reserves in CHF '000</b>			
<b>2017</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net Reserve</b>
Reserves for unearned premiums	195,974	(11,871)	184,103
Reserves for insurance claims	570,663	(60,388)	510,275
<b>Total</b>	<b>766,637</b>	<b>(72,259)</b>	<b>694,378</b>
<b>2016</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net Reserve</b>
Reserves for unearned premiums	155,634	(300)	155,333
Reserves for insurance claims	348,018	(19,017)	329,002
<b>Total</b>	<b>503,652</b>	<b>(19,317)</b>	<b>484,335</b>

<b>Other receivables in CHF '000</b>	<b>2017</b>	<b>2016</b>
Third parties	5,850	(240)
Related parties	21,569	27,591
<b>Total</b>	<b>27,417</b>	<b>27,351</b>

<b>Shareholder's equity in CHF '000</b>	<b>Share Capital and Statutory Capital Reserves</b>	<b>Accumulated Income / (Loss)</b>	<b>Total</b>
<b>Balances as at 1 January 2016</b>	<b>715,745</b>	<b>(59,183)</b>	<b>656,563</b>
Dividends paid	-	-	-
Profit for the year	-	30,676	30,676
<b>Balances as at 31 December 2016</b>	<b>715,745</b>	<b>(28,507)</b>	<b>687,239</b>
Dividends paid	-	-	-
Profit for the year	-	151,955	151,955
Gains / (losses) from translation recorded directly in equity	-	(21,189)	(21,189)
<b>Balances as at 31 December 2017</b>	<b>715,745</b>	<b>102,259</b>	<b>818,004</b>

<b>Shareholder's equity in CHF</b>	<b>2017</b>	<b>2016</b>
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
<b>Total</b>	<b>715,745,801</b>	<b>715,745,801</b>

<b>Premiums written in CHF '000</b>	<b>2017</b>			<b>2016</b>		
	<b>Gross</b>	<b>Ceded</b>	<b>Net Premium</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net Premium</b>
Property	101,666	(16,722)	84,944	80,540	(6,649)	73,891
Marine	26,473	(582)	25,890	18,249	(322)	17,927
Agriculture	426,859	(10,276)	416,583	248,898	(3,414)	245,484
Casualty	143,538	(13,454)	130,084	98,689	-	98,689
Specialty	55,902	(654)	55,248	56,040	(2,851)	53,189
<b>Total</b>	<b>754,438</b>	<b>(41,689)</b>	<b>712,749</b>	<b>502,416</b>	<b>(13,236)</b>	<b>489,180</b>

<b>Administrative expenses in CHF '000</b>	<b>2017</b>	<b>2016</b>
Staff, office and service costs	11,258	14,064
Depreciation expenses	42	53
Information Technology expenses	45	19
<b>Total</b>	<b>11,346</b>	<b>14,136</b>

Audit fees during the year 2017 amounted to CHF 253,003 (2016: CHF 104,600).

**PROPOSED APPROPRIATION OF AVAILABLE EARNINGS**

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

<b>Available earnings as at 31 December</b>	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	in USD '000	in CHF '000	in USD '000	in CHF '000
Balance brought forward from previous year	(27,957)	(28,507)	(58,843)	(59,183)
Net income (loss) for the year	153,760	151,955	30,886	30,676
Gain / (loss) from translation recorded directly in equity	-	(21,189)	-	-
<b>Accumulated income / (loss)</b>	<b>125,803</b>	<b>102,259</b>	<b>(27,957)</b>	<b>(28,507)</b>
<b>Proposal of the Board of Directors</b>	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	in USD '000	in CHF '000	in USD '000	in CHF '000
Dividend payment	-	-	-	-
Balance to be carried forward	125,803	102,259	(27,957)	(28,507)
<b>Total</b>	<b>125,803</b>	<b>102,259</b>	<b>(27,957)</b>	<b>(28,507)</b>

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

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
<b>Market-consistent value of investments</b>	Real estate	-	-	-
	Shareholdings	13	-	15
	Fixed-income securities	947	-	1,028
	Loans	-	-	-
	Mortgages	-	-	-
	Equities	-	-	-
	Other investments	-	-	-
	Collective investment schemes	-	-	-
	Alternative investments	-	-	-
	Other investments	31	-	29
	Total investments	991	-	1,072
	Financial investments from unit-linked life insurance	-	-	-
	Receivables from derivative financial instruments	-	-	-
<b>Market-consistent value of other assets</b>	Cash and cash equivalents	73	-	182
	Receivables from insurance business	118	-	276
	Other receivables	4	-	3
	Other assets	109	-	132
	Total other assets	304	-	593
<b>Total market-consistent value of assets</b>	<b>Total market-consistent value of assets</b>	<b>1,295</b>	<b>-</b>	<b>1,665</b>
<b>Best estimate liabilities (BEL)</b>	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	469	-	747
	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	(18)	-	(59)
	Outward reinsurance: health insurance business	-	-	-
	Outward reinsurance: unit-linked life insurance business	-	-	-
	Outward reinsurance: other business	-	-	-
<b>Market-consistent value of other liabilities</b>	Non-technical provisions	-	-	-
	Interest-bearing liabilities	-	-	-
	Liabilities from derivative financial instruments	-	-	-
	Deposits retained on ceded reinsurance	-	-	-
	Liabilities from insurance business	-	-	-
	Other liabilities	29	-	110
	<b>Total BEL plus market-consistent value of other liabilities</b>	<b>Total BEL plus market-consistent value of other liabilities</b>	<b>480</b>	<b>-</b>
	<b>Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities</b>	<b>815</b>	<b>-</b>	<b>867</b>

**Financial condition report: quantitative template  
"Solvency Solo"**

Currency: USD  
Amounts stated in  
millions

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in USD millions	in USD millions	in USD millions
<b>Derivation of RBC</b>	Market-consistent value of assets minus total from best estimate liabilities plus market- consistent value of other liabilities	815		867
	Deductions	(30)		-
	<b>Core capital</b>	785		867
	Supplementary capital	-		-
	<b>RBC</b>	<b>785</b>	-	<b>867</b>

		Ref. date previous period	Adjustments previous period	Ref. date reporting year
		in USD millions	in USD millions	in USD millions
<b>Derivation of target capital</b>	Insurance Risk	280		237
	Market risk	54		52
	Diversification effects	(50)		(47)
	Credit risk	48		44
	Risk margin and other effects on target capital	(17)		0
	<b>Target capital</b>	<b>315</b>	-	<b>286</b>

	Ref. date previous period	Adjustments previous period	Ref. date reporting year
	in %	in %	in %
<b>SST ratio</b>	<b>262%</b>	-	<b>324%</b>



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