

**VALIDUS RE**

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**Validus Reinsurance  
(Switzerland) Ltd**

**Financial Condition Report  
2019**

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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 effective 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 2019 audited financial statements (“statutory financial statements”) and *ii)* the Company’s 2020 reporting on the Swiss Solvency Test (“SST”) as submitted to FINMA in April 2020, which is still subject to FINMA’s regulatory review. The information contained in this report is consistent with information reported to FINMA in accordance with art. 25 of the Insurance Supervision Act and art. 53 of the Insurance Supervision Ordinance. Appendix I contains the report of the statutory auditor to the General Meeting on the 2019 financial statements, 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 2019 to 31 December 2019, with the exception of Section 9 – Solvency, which contains certain forward-looking information. 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 are 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 24 April 2020.

## 2. Management Summary

From a business perspective, 2019 was a successful year for the Company as business grew in all lines of business while each line delivered an underwriting profit for the year.

Overall, 2019 saw insured industry losses of USD 56 billion worldwide, which is below the 10-year annual average. The main natural catastrophes during 2019 were Hurricane Dorian and Japanese typhoons Hagibis and Faxai, which did not lead to significant losses in VRS. As a result of this lower loss experience in 2019 coupled with favourable prior period development of loss reserves, the Company delivered an underwriting income of USD 26.3 million (2018: underwriting loss of USD 7.5 million) and a combined ratio of 95% (2018: 102%). In addition, the interest rate development during the year as well as favourable market conditions in general led to a significantly improved investment result of USD 58.5 million (2018: USD 0.4 million).

Gross premiums written increased by USD 208.1 million to USD 683.8 million and premiums earned after retrocession increased by USD 120.6 million to USD 506.1 million. VRS increased its business volume in 2019 across all lines of business, making the business mix in the Company's portfolio more diversified than ever. The main drivers for growth were Casualty, Agriculture and U.S. Property, where the Company either entered into new sub-lines or took advantage of an improved rate environment.

The total investment return in 2019 was USD 58.5 million compared to a return of USD 0.4 million in 2018. This is related to favourable market returns in 2019 and a larger investment portfolio, as well as gains on investments in Insurance-Linked Securities funds as a result of benign natural catastrophe events impacting the funds.

Claims after reinsurance recoveries were USD 333.6 million, an increase of USD 70.4 million compared to last year. The increase in claims from 2018 to 2019 is a result of the higher business volume, which led to overall increased claims. The loss ratio, however, decreased from 68.3% in 2018 to 65.9% in 2019 due to an improved loss experience and positive prior period development, whereas 2018 saw some large loss events for the Company.

Total expenses increased by USD 16.4 million to USD 146.2 million primarily driven by higher acquisition costs and increased administrative expenses given the increased business volume. The expense ratio of the Company improved from 33.7% in 2018 to 28.9% in 2019 mostly due to a change in business mix where most business was written in lines with a lower level of acquisition costs.

From a capital and solvency perspective, the Company increased its capitalisation from 2018 to 2019 by USD 489.4 million to USD 1,309.8 million as a result of strong earnings and a capital contribution by its shareholder of USD 401.9 million. The Risk-bearing Capital as per the 2020 SST amounts to USD 1,286 million with a Target Capital of USD 454 million, resulting in an SST ratio of 305% taking into account a dividend of USD 100 million, 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 2019 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 2019 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 2020 SST report as submitted to FINMA.

## 3. Business Activities

### 3.1. Shareholding, strategy, objectives and key business segments

The Company is part of the American International Group (“AIG”), a leading global insurance organisation. Its top parent company American International Group, Inc. is listed on the New York Stock Exchange. VRS is a direct subsidiary of Validus Holdings (UK) Ltd, which is a wholly-owned subsidiary of Validus Reinsurance, Ltd., a Bermuda based reinsurance company (together with VRS referred to as “Validus Re”).

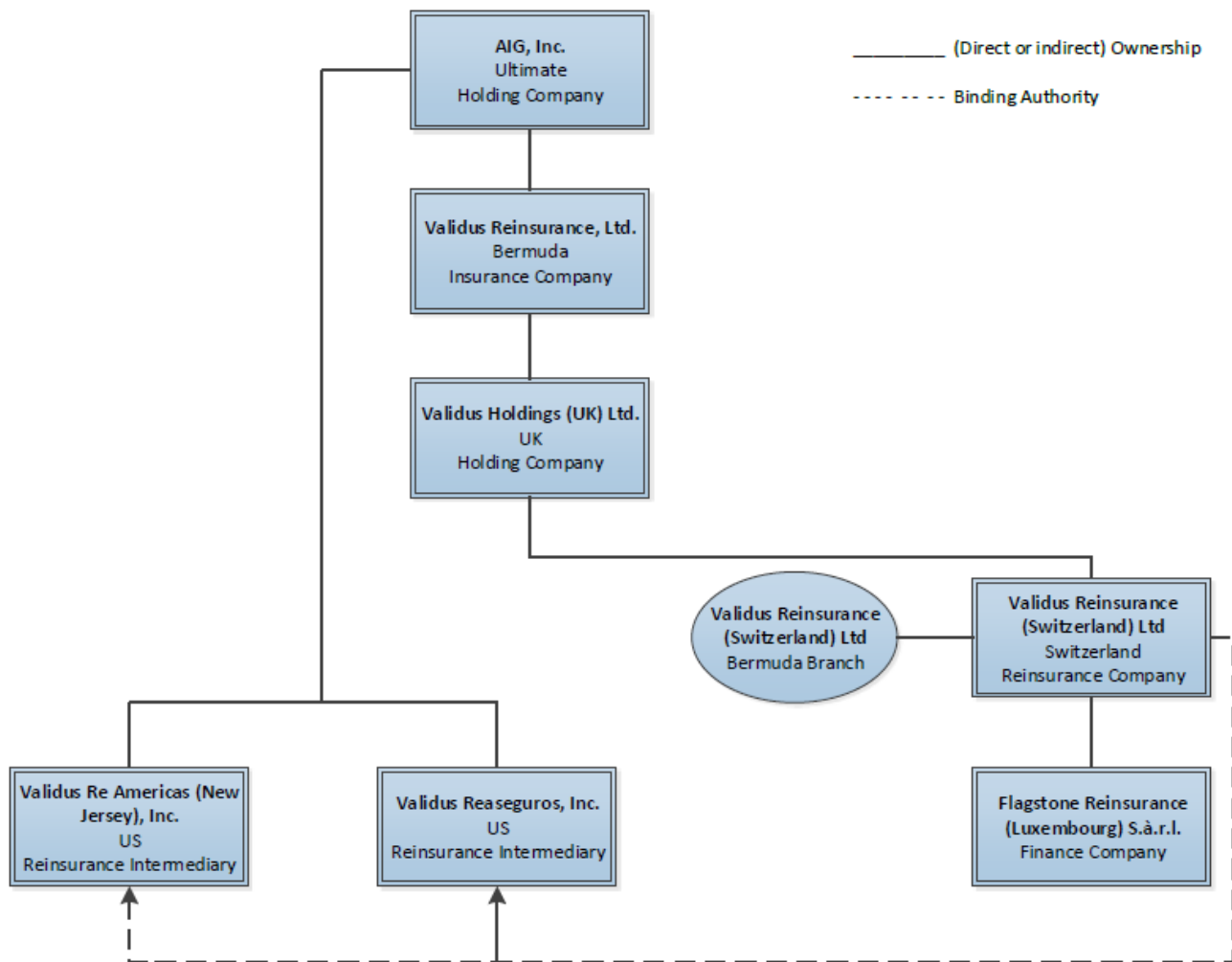
The Company is located at Talstrasse 83, 8001 Zurich, Switzerland. It is licensed as a reinsurer by FINMA in Switzerland. The Company is also a licensed permit company through its Bermuda branch, registered as a Class 4 insurer under the Bermuda Insurance Act.

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

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

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

The following shows a simplified group structure chart:



### 3.2. Group structure and group transactions

As noted above, the Company together with its indirect parent company Validus Reinsurance, Ltd., is part of the reinsurance unit within AIG. The reinsurance unit operates globally and is primarily focused on excess of loss and treaty reinsurance as well as offering of Insurance-Linked Securities.

The operational setup involves affiliated MGAs as described under 3.1. Since 1 January 2020, the Company provides a 75% whole account quota share protection to the Canadian Branch of Validus Reinsurance, Ltd.

### 3.3. Major shareholders

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

### **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.

Since December 2019, the Company holds a 100% stake in Flagstone Reinsurance (Luxembourg) Sàrl ("FRL"). FRL was contributed in kind by the Company's parent company Validus Holdings (UK) Ltd. FRL is mainly engaged in intra-group finance activities and to a lesser extent in the holding of investments in subsidiaries.

### **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**

Beginning in January 2020, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on global and local economies, financial markets and sectors and specific industries in which the Company operates is uncertain at this point and has the potential to adversely affect the Company's business, results of operations or financial condition. Although no material claims have been reported at this stage, the Company is closely monitoring the potential exposure to the areas mentioned above.



## 4. Performance

### 4.1. Underwriting performance

The Company's primary lines of business are Property, Marine, Agriculture, Casualty and Other Specialty, which includes financial lines, terrorism, trade credit and composite lines. Premiums written by line of business for financial years 2019 and 2018, respectively, were as follows (in USD millions):

Gross written premiums	2019			2018		
	Gross	Ceded	Net	Gross	Ceded	Net
Property	140.6	(26.4)	114.2	113.8	(33.4)	80.5
Marine	43.2	(0.9)	42.4	35.6	(0.5)	35.0
Agriculture	165.3	(1.8)	163.5	106.3	(1.2)	105.1
Casualty	229.1	3.1	232.2	144.8	(35.6)	109.3
Specialty	105.6	(2.5)	103.2	75.2	(0.6)	74.6
<b>Total</b>	<b>683.9</b>	<b>(28.5)</b>	<b>655.4</b>	<b>475.7</b>	<b>(71.3)</b>	<b>404.4</b>

Premiums are written by underwriters in Switzerland and Bermuda, and through dedicated MGAs in Miami and New Jersey. Despite a continuously challenging reinsurance market environment in 2019, the Company managed to significantly grow its premium volume across all lines of business, with Casualty, Agriculture, regional U.S. Property and Specialty being the main growth drivers. The business growth is spread over all underwriting locations of the Company.

Following the large natural and manmade catastrophe event losses in 2018, the Company's 2019 loss experience improved significantly due to no large loss events impacting VRS in 2019 and due to prior period losses developing positively, resulting in a decrease of the loss ratio from 68.3% in 2018 to 65.9% in 2019. The expense ratio decreased from 33.7% in 2018 to 28.9% in 2019 driven by a lower acquisition cost ratio due to a changed business mix as well as lower administrative expenses in proportion of premiums earned than in 2018.

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

## 4.2. Financial performance

in USD millions	2019	2018
Gross premiums written	683.9	475.7
Net premiums written	655.4	404.4
Net premiums earned	506.1	385.5
Net claims incurred	(333.6)	(263.2)
Net acquisition costs	(129.0)	(115.3)
Administrative expenses	(17.2)	(14.5)
<b>Underwriting result</b>	<b>26.3</b>	<b>(7.5)</b>
Investment result	58.5	0.4
Other income / (expenses), net	2.7	(0.2)
<b>Net income / (loss) for the year</b>	<b>87.5</b>	<b>(7.3)</b>

### Key Performance indicators

Loss ratio %	65.9	68.3
Expense ratio %	28.9	33.7
<b>Combined ratio %</b>	<b>94.8</b>	<b>102.0</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 87.5 million compared to a net loss of USD 7.3 million in 2018. The 2018 result was mainly driven by natural and man-made catastrophe event losses as well as realised and unrealised losses on investments, whereas the 2019 income is a result of a benign loss experience as well as positive market conditions leading to a favourable investment return.

Gross premiums written increased by USD 208.1 million to USD 683.9 million and premiums earned after retrocession increased by USD 120.6 million to USD 506.1 million. The increase in premium volume compared to 2018 primarily reflects the writing of additional business across all lines of business in 2019.

Claims after reinsurance recoveries were USD 333.6 million, an increase of USD 70.4 million compared to last year. The increase in claims from 2018 to 2019 is a result of the higher business volume, which led to overall increased claims. The loss ratio, however, decreased from 68.3% in 2018 to 65.9% in 2019 due to an improved loss experience and positive prior period development, whereas 2018 saw some large loss events for the Company.

Total expenses increased by USD 16.4 million to USD 146.2 million primarily driven by higher acquisition costs and increased administrative expenses given the increased business volume. The expense ratio of the Company improved from 2018 mostly due to a change in business mix where most business was written in lines with a lower level of acquisition costs.

Overall, the combined ratio for the year was 94.8% compared to 102.0% in 2018, due to a lower loss experience, the favourable impact of change in business mix on acquisition costs and because administrative expenses did not increase at the same proportion of revenues in 2019.

The total investment return in 2019 was USD 58.5 million compared to a return of USD 0.4 million in 2018. This is related to favourable market returns in 2019 and a larger investment portfolio, as well as gains on investments in Insurance-Linked Securities funds as a result of benign natural catastrophe events impacting the funds.

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

Other income, net of USD 2.7 million in 2019 is mainly related to the release of an over-accrual of liabilities, partially offset by tax expenses.

## 5. Corporate Governance and Risk Management

### 5.1. Corporate governance

#### 5.1.1. Board of Directors

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

- Peter Gujer is an independent, non-executive Board member and the Chairman of the Board of Directors;
- Michael Carpenter is an independent and non-executive member of the Board of Directors;
- Simon Biggs is a member of the Board of Directors since October 2018; he also serves as Chief Executive Officer of Validus Research;
- Alexander Nagler is a member of the Board of Directors since October 2018; he also serves as Managing Director of the DACH region at AIG;
- Christopher Schaper is the Vice-Chairman of the Board of Directors, to which he was appointed in November 2019; he also serves as Chief Executive Officer of AIG Re and is a member of the AIG General Insurance Executive Leadership Team.

Previous Board member Kean Driscoll stepped down from the Board of Directors in November 2019.

In 2019, the Company's Board of Directors established a combined Audit and Risk Committee and delegated the preparation, implementation and supervision of the Board of Directors' resolutions with regard to audit and risk matters to this Committee. Michael Carpenter chairs the Committee, with Peter Gujer and Christopher Schaper being members of the Committee.

#### 5.1.2. Executive Management

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

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

There were no changes to the Company's Executive Management in 2019.

### 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"). At the end of 2019, the Company's Board of Directors established a combined Audit and Risk Committee composed of three of its members and delegated the preparation, implementation and supervision of its resolutions with regard to audit and risk matters to this Committee. Management is responsible for ensuring that appropriate risk management structures and procedures, including the ICS, are implemented with the decision-making persons having the requisite seniority, knowledge and experience. Management also formulates the Company's risk appetite for approval by the Board of Directors. Management has established the Validus Re Risk Management Committee headed by the Company's Chief Risk Officer to ensure that proper standards for risk management are established in respect of all material risks faced by the Company. The Chief Risk Officer of VRS reports to the Company's Chief Actuary, who reports directly to the VRS Chief Executive Officer.

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

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

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

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

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

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

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

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

VRS has in place an ICS that is governed by its Internal Control Policy. The ICS of the Company is built on three lines of defence, with the control owners being the 1<sup>st</sup> Line of Defence, Compliance and Risk Management being the 2<sup>nd</sup> Line of Defence, and Internal 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 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 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 independent actuarial reviews from both our independent Responsible Actuary, as well as an external consulting firm.

### 6.2. Market Risk

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

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

### **6.3. Credit Risk**

The Validus Re Security Committee oversees control activities relating to counterparty Credit Risk. This Committee approves of retrocessional arrangements where either the limit is fully collateralized, and the collateral is invested in cash, cash equivalents or U.S. backed securities, or with counterparties that have a minimum of \$1 billion in total capital and a minimum rating of A from A.M. Best or A+ from S&P. Counterparties not meeting the minimum standard for normal approval can be approved with limitations at the discretion of the Committee. For 2019, all retrocessional arrangements of VRS are either fully collateralized, backed by counterparties with at least an A rating from A.M. Best or A+ rating from S&P or have been approved by the Security Committee.

### **6.4. Operational Risk**

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

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

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

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

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

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

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

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

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

## 6.5. Top Operational Risk

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

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

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

## 6.6. Other material risks

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

## 6.7. Pledged assets

USD 195.4 million of fixed maturities were pledged as part of the Company's participation in a Multi-Beneficiary Reinsurance Trust during the normal course of business as at 31 December 2019 (2018: USD 198.4 million).



## 7. Valuation for solvency purposes

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

### 7.1. Valuation of assets

#### 7.1.1. Value of investments by investment class

The following table summarises the investments by investment class held by the Company as at 31 December 2019 and 2018, 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 2019	Market Value 2018	Amortized Cost 2019	Amortized Cost 2018	Variance (MV)	Variance (MV) %
<b>Fixed Income Securities</b>						
Agency RMBS	145.1	151.1	143.5	154.6	(6.0)	-4.0%
Non-Agency RMBS	60.6	21.1	60.0	21.4	39.6	187.7%
CMBS	123.6	103.9	123.0	105.5	19.7	19.0%
Asset-Backed Securities	222.5	284.1	223.0	287.3	(61.6)	-21.7%
Non-US Corporate	97.4	54.4	94.4	55.3	43.0	79.0%
Non-US Government & Government Agency	62.8	16.6	61.4	16.8	46.2	277.5%
States and Municipalities	13.4	16.7	13.3	16.9	(3.3)	-20.0%
US Corporate	230.6	221.2	224.6	225.2	9.3	4.2%
US Government & Government Agency	116.3	125.3	114.5	125.8	(9.0)	-7.2%
	<b>1,072.3</b>	<b>994.5</b>	<b>1,057.7</b>	<b>1,008.8</b>	<b>77.8</b>	<b>7.8%</b>
<b>Other Investments</b>						
Investment Funds	159.8	150.8	157.0	140.2	9.0	6.0%
Investment in subsidiary	405.0	0.0	401.9	0.0	405.0	-
<b>Total Investments</b>	<b>1,637.1</b>	<b>1,145.3</b>	<b>1,616.6</b>	<b>1,149.0</b>	<b>491.8</b>	<b>42.7%</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 2019, this leads to a lower statutory valuation of USD 19.4 million (2018: USD 5.1 million) compared to the valuation used for solvency purposes. Since the valuation for Swiss statutory purposes is performed on an individual security level, the total of amortised cost values as per the table above differs from the amount recorded in the statutory financial statements.

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

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

### 7.1.4. Other assets

As noted above, other assets as per Appendix II contain cash and cash equivalents, funds withheld, reinsurance receivables, other receivables and deferred acquisition costs, all of which are recorded 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 2019 and 2018 (in USD millions):

	31.12.2019	31.12.2019	31.12.2018	31.12.2018
	Undiscounted	Discounted	Undiscounted	Discounted
Gross reserves for losses and loss expenses	690	657	588	550
Ceded reserves for losses and loss expenses	(73)	(70)	(69)	(64)
<b>Net loss reserves for losses and loss expenses</b>	<b>616</b>	<b>587</b>	<b>519</b>	<b>486</b>
Risk Margin	-	49	-	39
<b>Total</b>	<b>616</b>	<b>636</b>	<b>519</b>	<b>525</b>

As at 31 December 2019, the reserves for losses and loss expenses (“loss reserves”) based on the Company’s best estimate, net of retrocession, are USD 616 million on an undiscounted and USD 587 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 657 million on a discounted basis and the gross unearned premium reserves amount to USD 358 million, providing for a total gross best estimate liability of USD 1,015 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 2019 and 2018, respectively, were as follows as per the Company’s statutory financial statements (in USD millions):

<b>2019</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net Reserve</b>
Unearned premium reserves	358.0	(3.5)	354.5
Reserves for losses and loss expenses	709.7	(73.2)	636.5
<b>Total</b>	<b>1,067.7</b>	<b>(76.7)</b>	<b>991.0</b>

<b>2018</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net Reserve</b>
Unearned premium reserves	229.4	(24.2)	205.2
Reserves for losses and loss expenses	594.1	(69.1)	525.0
<b>Total</b>	<b>823.5</b>	<b>(93.3)</b>	<b>730.2</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 2019, the risk margin also referred to as the market value margin (MVM) is USD 49 million (2018: USD 39 million). For the computation of the Company's target capital including the risk margin and other effects on target capital as per the 2020 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 2020 SST process. 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 2019.

### **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 2019, the net loss reserves in the Company's statutory financial statements amount to USD 636 million and represent the discounted best estimate liabilities of USD 587 million plus the risk margin of USD 49 million, i.e. the market consistent loss reserves. The market consistent loss reserves as at 31 December 2019 are USD 20 million higher than the undiscounted best estimate 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 in reserves for losses and loss expenses between the statutory and solvency view is the risk margin of USD 49 million.

There is no difference between the statutory and solvency values of reserves for unearned premiums of USD 358 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 66 million as at 31 December 2019 (2018: USD 116 million). Other liabilities are recorded at nominal value, i.e. the net payable as at 31 December 2019. The position mainly 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 2019 and 2018, respectively, is structured as follows:

Shareholder's equity (in USD millions)	2019	2018
Statutory share capital	71.6	71.6
Statutory capital reserves		
Legal reserves from capital contributions	35.8	35.8
Other reserves from capital contributions	989.1	587.2
Organisation fund from capital contributions	7.4	7.4
Accumulated income	206.0	118.5
<b>Total</b>	<b>1,309.9</b>	<b>820.5</b>

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

As noted in 3.4. of this report, the Company received a contribution in kind of Flagstone Reinsurance (Luxembourg) Sàrl in December 2019 from its shareholder Validus Holdings (UK) Ltd. As part of this capital contribution, the Company issued one new share with a nominal share capital of USD 1 / CHF 1 and allocated the remainder of the contribution of USD 401.9 million to other reserves from capital contributions.

There were no other changes in the shareholder's equity of the Company during 2019 other than in accumulated income 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 2019, 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 1,286 million. The difference of USD 24 million to the Company's statutory shareholder's equity of USD 1,310 million can be explained as follows:

in USD millions	2019	2018
<b>Risk-bearing capital</b>	<b>1,286</b>	<b>870</b>
Adjustment for planned dividend	100	-
Adjustment for investments as per section 7.1.3 above	(19)	(5)
Adjustments for loss reserves as per section 7.2.3 above	(49)	(39)
Other adjustments for statutory purposes, net	(8)	(5)
<b>Statutory shareholder's equity</b>	<b>1,310</b>	<b>821</b>

On 24 April 2020, the Annual General Meeting of Shareholders of the Company decided to pay an ordinary dividend of USD 100 million, in accordance with the Company's capital management objectives as detailed in section 8.1. This dividend is already deducted from the Risk-bearing Capital in the SST.

The adjustment for investments of USD 19 million is discussed in section 7.1.3 and relates to the valuation of the investments at the lower of amortised cost or market values.

The adjustment for loss reserves of USD 49 million is discussed in section 7.2.3 and relates to the different valuation methods of loss reserves for statutory and SST purposes, respectively.

Other adjustments, net of USD 8 million include a number of legally required adjustments from the market consistent solvency values to the Swiss statutory values.

## 9. Solvency

### 9.1. Solvency model

As in prior years, the Company used the Standard Model for Reinsurers ("StandRe"), as prescribed by FINMA, in order to perform the 2020 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 StandRe as prescribed by FINMA, Market Risk is assessed using the Market Risk Model as prescribed by FINMA, Credit Risk is modelled using the Basel III approach and the Risk Margin, Standard Scenarios and adjustments for expected financial performance are evaluated using FINMA prescribed templates and methodologies.

The modelling of natural catastrophe perils is undertaken using the Company's internal model for Natural Catastrophe risks, as 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 2020 SST is determined to be USD 454 million (2019 SST: USD 324 million), an increase of USD 130 million from last year's Target Capital requirement.

Insurance Risk increased by USD 86 million from the previous evaluation and continues to be the most significant risk for the Company. Within the Insurance Risk component, there were several material changes relating to a combination of changes in the underlying portfolio. The increase of both Underwriting Risk and Reserving Risk was mainly driven by increased writing of casualty, property, agriculture and specialty business as well as the growth in loss reserves held as per 31 December 2019.

Underwriting Risk is the main driver of the increase of Target Capital contributing USD 90 million of increase. This was mainly driven by a budgeted increase of net earned premiums in 2020, primarily in casualty, property and agriculture lines.

The Reserving Risk increase of USD 22 million is linked to increased reserves held mainly for North American casualty business, where the Company has grown its book over recent years, as well as increased property reserves related to portfolio growth and the Insurance-Linked Securities funds that the Company invests in since October 2018. This was partially offset by reduced reserves held for intra-group quota share business, which was not renewed in 2018 and commuted in December 2019.

Market Risk showed a moderate increase of USD 3 million as a result of the growth in underlying investments held by the Company. The Company also invests in affiliated Insurance-Linked Securities funds, however, their primary underlying risk is natural catastrophe exposure and the cash underlying the funds is held in AAA-rated money market funds, which do not add to Market Risk charge.

Credit Risk increased by USD 46 million from prior year's assessment, of which USD 32 million was due to the Company's investment in subsidiary Flagstone Reinsurance (Luxembourg) Sàrl, which is a new subsidiary of VRS since December 2019 (as detailed above under section 3.4). In addition, unrated securities as well as increased premium receivables resulting from a higher business volume led to the remainder of the increase.

The scenario line item in the 2020 SST reflects the FINMA prescribed counterparty risk concentration scenario, which is related to the Company's investment in subsidiary Flagstone Reinsurance (Luxembourg) Sàrl.

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 2020 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)	2020	2019	Variance
<b>Model based Results (Expected Shortfall)</b>			
<b>Insurance Risk</b>	<b>370</b>	<b>284</b>	<b>86</b>
Underwriting Risk	336	246	90
Reserving Risk	183	161	22
Diversification benefits	(149)	(123)	(26)
<b>Market Risk</b>	<b>51</b>	<b>48</b>	<b>3</b>
Asset prices valuation term	12	13	(1)
Liability cash flows valuation term	51	37	14
Fixed income cash flows valuation term	63	57	6
Delta-normal valuation term	9	9	-
Interest Rate Risk	35	40	(5)
Spread Risk	50	44	6
Private Equity Risk	12	13	(1)
Foreign exchange Risk	35	40	(5)
Diversification benefits	(217)	(205)	(12)
Diversification benefits (Insurance & Market Risk)	(40)	(37)	(3)
<b>Insurance &amp; Market Risk</b>	<b>381</b>	<b>295</b>	<b>86</b>
<b>Model based Results</b>			
Credit Risk	97	51	46
Scenarios	21	-	21
<b>Aggregation with Insurance &amp; Market Risk</b>	<b>499</b>	<b>346</b>	<b>153</b>
<b>Allowance for Expected Results</b>			
Expected Insurance Result	(82)	(50)	(32)
Expected Financial Performance over 1 year risk free	(12)	(12)	-
<b>Capital for Insurance &amp; Market &amp; Credit Risks</b>	<b>405</b>	<b>285</b>	<b>120</b>
<b>Risk Margin</b>	<b>49</b>	<b>39</b>	<b>10</b>
<b>Target Capital</b>	<b>454</b>	<b>324</b>	<b>130</b>



### 9.3. Risk-bearing Capital

For solvency purpose, the Risk-bearing Capital is the Company's total market-consistent value of assets less discounted 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 2020 SST as at 31 December 2019 is USD 1,286 million compared to USD 870 million in 2018. The breakdown of this figure is given below:

<b>Risk-bearing Capital Composition (in USD millions)</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Investments	1,637	1,145
Cash and cash equivalents	182	157
Premiums Receivables	331	203
Other assets	235	196
<b>Total assets</b>	<b>2,385</b>	<b>1,700</b>
<b>Liabilities</b>		
Gross discounted reserves	657	550
Gross unearned premium reserves	346	229
Less: ceded discounted reserves	(70)	(65)
Reinsurance balances payable and accrued expenses	66	116
<b>Total liabilities</b>	<b>999</b>	<b>830</b>
<b>Risk-bearing Capital (pre dividends)</b>	<b>1,386</b>	<b>870</b>
Less ordinary dividend	(100)	-
<b>Risk-bearing Capital</b>	<b>1,286</b>	<b>870</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 2020 amounts to 305% (2019 SST: 292%) in accordance with the FINMA calculation formula deducting the risk margin of USD 49 million (2019 SST: USD 39 million) from both the Company's Risk-bearing Capital and Target Capital (i.e. USD 1,237 million adjusted Risk-bearing Capital divided by USD 405 million adjusted Target Capital). This includes the ordinary dividend of USD 100 million as approved by the Annual General Meeting of Shareholders and is well above the Company's minimum capital expectations. It demonstrates that the Company remains in a strong solvency position. The increase of the SST ratio compared to prior year is driven by a significant increase of Risk-bearing Capital, which in proportion was higher than the increase in Target Capital as a result of increased underwriting, credit and reserving risk as noted in section 9.2 above.

The solvency information contained in this section is consistent with the information provided to FINMA as part of the Company's 2020 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 2019 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 2019**

Validus Reinsurance  
(Switzerland) Ltd.  
Zurich

Report of the statutory auditor  
to the General Meeting

on the financial statements 2019



# Report of the statutory auditor

## to the General Meeting of Validus Reinsurance (Switzerland) Ltd.

### Zurich

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

As statutory auditor, we have audited the accompanying financial statements of Validus Reinsurance (Switzerland) Ltd (the 'Company'), which comprise the balance sheet, income statement and notes, for the year ended 31 December 2019.

#### Board of Directors' responsibility

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

#### Auditor's responsibility

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

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

#### Opinion

In our opinion, the financial statements for the year ended 31 December 2019 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



Martin Schwörer  
Audit expert  
Auditor in charge



Aliz Dobay-Szlavik  
Audit expert

Zürich, 24 April 2020

Enclosures:

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

**BALANCE SHEET**

in USD '000

		<b>31 December 2019</b>	<b>31 December 2018</b>
<b>ASSETS</b>			
Fixed income securities	4	1,055,625	993,121
Other investments	4	156,966	147,013
Investments in subsidiaries	4	401,913	-
		<hr/>	<hr/>
<b>Total investments</b>		<b>1,614,504</b>	<b>1,140,134</b>
		<hr/>	<hr/>
Cash and cash equivalents	4	181,531	156,587
Funds withheld		41,664	27,243
Reinsurance recoveries		76,688	93,290
Deferred acquisition costs		99,893	49,483
Receivables from reinsurance operations	6	345,830	204,911
Other receivables	7	26,106	31,948
Prepayments and accruals		6,543	4,943
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>2,392,761</b>	<b>1,708,539</b>
		<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
<b>Liabilities</b>			
Reserves for losses and loss expenses	5	709,648	594,051
Unearned premium reserves	5	358,003	229,423
Liabilities from reinsurance operations	8	-	33,587
Other liabilities	9	9,509	15,560
Accrued liabilities		5,775	15,459
		<hr/>	<hr/>
<b>Total liabilities</b>		<b>1,082,935</b>	<b>888,079</b>
		<hr/>	<hr/>
<b>Shareholder's Equity</b>			
Share capital	11	71,565	71,565
Statutory capital reserves:			
Legal reserves from capital contributions	11	35,782	35,782
Other reserves from capital contributions	11	989,077	587,164
Organisation fund from capital contributions	11	7,407	7,407
Accumulated income		205,995	118,542
		<hr/>	<hr/>
<b>Total shareholder's equity</b>		<b>1,309,826</b>	<b>820,460</b>
		<hr/>	<hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>2,392,761</b>	<b>1,708,539</b>
		<hr/>	<hr/>

**INCOME STATEMENT**

<b>For the years ended</b>		<b>31 December 2019</b>	<b>31 December 2018</b>
in USD '000			
Gross premiums written	12	683,837	475,700
Reinsurer's share of gross premiums written	12	(28,453)	(71,295)
Net premiums written	12	655,384	404,405
Change in unearned premiums		(135,395)	(24,308)
Reinsurer's share of change in unearned premiums		(13,892)	5,417
<b>Net premiums earned</b>		<b>506,098</b>	<b>385,514</b>
Gross paid losses		(250,506)	(260,716)
Reinsurer's share of paid losses		18,538	14,801
Change in reinsurance reserves		(105,734)	(25,435)
Reinsurer's share of change in reinsurance reserves		4,075	8,171
<b>Claims incurred, net of reinsurance</b>		<b>(333,626)</b>	<b>(263,179)</b>
Acquisition expenses		(134,691)	(108,475)
Reinsurer's share of acquisition expenses		5,688	(6,786)
Administrative expenses	13	(17,185)	(14,533)
<b>Acquisition and administrative expenses, net of reinsurance</b>		<b>(146,188)</b>	<b>(129,793)</b>
<b>Underwriting result</b>		<b>26,283</b>	<b>(7,458)</b>
Investment income	4	36,969	31,085
Realised gains / (losses)	4	569	(3,587)
Unrealised gains / (losses)	4	23,369	(25,223)
Asset management costs		(2,455)	(1,849)
<b>Investment result</b>		<b>58,452</b>	<b>427</b>
Other financial expenses		(114)	(119)
<b>Operating result</b>		<b>84,621</b>	<b>(7,151)</b>
Other income	10	4,465	210
<b>Net income / (loss) before tax</b>		<b>89,086</b>	<b>(6,941)</b>
Tax expenses		(1,633)	(322)
<b>NET INCOME / (LOSS) FOR THE YEAR</b>		<b>87,453</b>	<b>(7,262)</b>



## NOTES TO THE FINANCIAL STATEMENTS

### 1. General

Validus Reinsurance (Switzerland) Ltd (“VRS” or the “Company”) is part of the American International Group (“AIG”), a leading global insurance organisation. Its top parent company American International Group, Inc. is listed on the New York Stock Exchange. VRS is a direct subsidiary of Validus Holdings (UK) Ltd, which is a wholly-owned subsidiary of Validus Reinsurance, Ltd., a Bermuda based reinsurance company.

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

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

- *Property:* Property catastrophe reinsurance, property per risk reinsurance and property pro rata reinsurance.
- *Marine:* Reinsurance on excess of loss or pro rata basis for damage to or loss of marine vessels or cargo, marine accidents and offshore energy properties.
- *Agriculture:* Multiple Peril Crop Insurance (“MPCI”), Crop Hail and Livestock. MPCI and Livestock 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 technical lines, financial lines, terrorism, trade credit and composite lines. Trade credit is generally written on a pro rata basis while other lines are written on both pro rata and excess of loss basis.

### 2. Summary of significant accounting policies

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

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

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

**(b) Unearned premiums**

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

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

**(c) Deferred acquisition costs**

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

**(d) Loss reserves and loss adjustment expenses**

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

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

**(e) Investments in subsidiaries**

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

**(f) Investments in fixed income securities**

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

**(g) Other investments**

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

**(h) Foreign currency translation**

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

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

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

Swiss law requires companies presenting their statutory financial statements in a currency other than CHF to present the foreign currency values also in CHF for illustrative purposes. The corresponding CHF values are presented in the notes to these financial statements under Note 16, applying the 2019 year-end spot rate of USD/CHF 1.032659 (as published by the Swiss Federal Tax Authority) for balance sheet positions and the 2019 average rate of USD/CHF 1.007123 (as published by the Swiss Federal Tax Authority) for income statement positions. Share capital and capital contribution reserves as at the end of the financial year 2016 are translated using the historic exchange rate of USD/CHF 0.980681 applicable at the time of transition to the new reporting currency. For any subsequent changes in share capital and capital contribution reserves, the spot rate at the transaction date is used. Any translation gain or loss from the translation is directly recorded in equity.

### 3. *Contingent obligations*

The Company has no material contingent obligations as at 31 December 2019 and 2018, respectively.

### 4. *Investments*

The total amortised cost and estimated fair value of investments in fixed income securities as at 31 December 2019 and 2018, respectively, were as follows. Amounts recorded in the balance sheet as at 31 December 2019 and 2018, respectively, differ from the below as the fixed income securities are valued at the lower of amortised cost or fair value on an individual security basis.

in USD '000	2019	2018
<b>Amortised cost</b>	<b>1,057,737</b>	<b>1,008,804</b>
Difference	14,537	(14,329)
<b>Estimated fair value</b>	<b>1,072,274</b>	<b>994,475</b>

#### Pledged investments

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.

USD 195.4 million of the Company's fixed maturities were pledged during the normal course of business as at 31 December 2019 (2018: USD 198.4 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.

#### Net investment result

The following tables show the income and expenses on investments by investment category:

in USD '000	Income		Realised gains/losses		Unrealised gains/losses / Write ups/downs		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Fixed income securities	30,238	29,350	569	(2,274)	14,078	(10,211)	<b>44,885</b>	<b>16,865</b>
Other investments	4,826	1,222	-	-	9,291	(15,012)	<b>14,117</b>	<b>(13,790)</b>
Cash and cash equivalents	1,904	513	-	-	-	-	<b>1,904</b>	<b>513</b>
Investments in subsidiaries	-	-	-	(1,313)	-	-	-	<b>(1,313)</b>
<b>Total</b>	<b>36,969</b>	<b>31,085</b>	<b>569</b>	<b>(3,587)</b>	<b>23,369</b>	<b>(25,223)</b>	<b>60,907</b>	<b>2,275</b>

The unrealised gains of USD 23.4 million in 2019 represent write ups of previously recorded unrealised losses in the respective investment category, i.e. the respective investments are still recorded below their original cost value and the unrealised gains are therefore not deferred.

**Investments in subsidiaries**

During the second quarter of 2018, the Company has sold its subsidiary L.P. Holding Limited. As a result of the sale, the Company realised a loss of USD 1.3 million in 2018.

In 2019, the Company received a capital contribution in kind from its parent company in the form of an investment in subsidiary of Flagstone Reinsurance (Luxembourg) Sàrl. The investment in subsidiary was contributed at a value of USD 401.9 million, which is not higher than the estimated fair value of Flagstone Reinsurance (Luxembourg) Sàrl at the time of contribution.

**5. Reinsurance reserves**

The details of gross and ceded insurance reserves by classification as at 31 December 2019 and 2018, respectively, were as follows:

<b>2019</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net</b>
<b>in USD '000</b>			
Unearned premium reserves	358,003	(3,537)	354,466
Reserves for losses and loss expenses	709,648	(73,151)	636,497
<b>Total</b>	<b>1,067,651</b>	<b>(76,688)</b>	<b>990,963</b>

<b>2018</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net</b>
<b>in USD '000</b>			
Unearned premium reserves	229,423	(24,241)	205,182
Reserves for losses and loss expenses	594,051	(69,049)	525,002
<b>Total</b>	<b>823,474</b>	<b>(93,290)</b>	<b>730,184</b>

**6. Receivables from reinsurance operations**

The details of the account as at 31 December 2019 and 2018, respectively, were as follows.

<b>in USD '000</b>	<b>2019</b>	<b>2018</b>
Third parties	344,461	203,681
Related parties	1,370	1,230
<b>Total</b>	<b>345,830</b>	<b>204,911</b>

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

**7. Other receivables**

The details of the account as at 31 December 2019 and 2018, respectively, were as follows:

<b>in USD '000</b>	<b>2019</b>	<b>2018</b>
Third parties	16,480	17,229
Related parties	9,626	14,719
<b>Total</b>	<b>26,106</b>	<b>31,948</b>

**8. Liabilities from reinsurance operations**

Liabilities from reinsurance operations as at 31 December 2019 and 2018, respectively, were as follows:

<b>in USD '000</b>	<b>2019</b>	<b>2018</b>
Third parties	-	31,124
Related parties	-	2,462
<b>Total</b>	<b>-</b>	<b>33,587</b>

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

**9. Other liabilities**

The details of the account as at 31 December 2019 and 2018, respectively, were as follows:

<b>in USD '000</b>	<b>2019</b>	<b>2018</b>
Other liabilities – Third parties	40	4,282
Other liabilities – Related parties	9,469	11,278
<b>Total</b>	<b>9,509</b>	<b>15,560</b>

**10. Other income**

The other income in 2019 of USD 4.5 million (2018: USD 0.2 million) mainly relates to the release of an over-accrual of other liabilities of USD 4.3 million, which the Company concluded were no longer required and released accordingly.

**11. Shareholder's equity**

in USD '000	Share capital and Statutory Capital Reserves	Accumulated Income	Total
<b>Balances as at 1 January 2018</b>	<b>701,918</b>	<b>125,803</b>	<b>827,721</b>
Dividends paid	-	-	-
Loss for the year	-	(7,262)	<b>(7,262)</b>
<b>Balances as at 31 December 2018</b>	<b>701,918</b>	<b>118,542</b>	<b>820,460</b>
Dividends paid	-	-	-
Capital contributions	401,913	-	<b>401,913</b>
Profit for the year	-	87,453	<b>87,453</b>
<b>Balances as at 31 December 2019</b>	<b>1,103,831</b>	<b>205,995</b>	<b>1,309,826</b>

The details of statutory share capital and capital reserves as at 31 December 2019 and 2018 were as follows:

in USD	2019	2018
Share capital	71,564,626	71,564,625
Statutory capital reserves		
Legal reserves from capital contributions	35,782,313	35,782,313
Other reserves from capital contributions	989,077,154	587,164,155
Organisation fund from capital contributions	7,407,215	7,407,215
<b>Total</b>	<b>1,103,831,308</b>	<b>701,918,308</b>

During 2019, the Company received a contribution in kind of Flagstone Reinsurance (Luxembourg) Sàrl from its shareholder Validus Holdings (UK) Ltd. As part of this capital contribution, the Company issued one new share with a nominal share capital of USD 1 / CHF 1 and allocated the remainder of the contribution of USD 401,912,999 to other reserves from capital contributions.

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 1,024.9 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.

**12. Premiums written**

The details of gross and ceded premiums written for the years ended 31 December 2019 and 2018, respectively, were as follows:

in USD '000	2019			2018		
	Gross	Ceded	Net	Gross	Ceded	Net
Property	140,570	(26,393)	114,177	113,822	(33,352)	80,470
Marine	43,240	(878)	42,362	35,525	(513)	35,011
Agriculture	165,287	(1,763)	163,523	106,309	(1,208)	105,100
Casualty	229,120	3,033	232,153	144,823	(35,574)	109,249
Specialty	105,620	(2,451)	103,169	75,222	(648)	74,574
<b>Total</b>	<b>683,837</b>	<b>(28,453)</b>	<b>655,384</b>	<b>475,700</b>	<b>(71,295)</b>	<b>404,405</b>

**13. Administrative expenses**

The Company's administrative expenses for the years ended 31 December 2019 and 2018, respectively, are as follows:

in USD '000	2019	2018
Staff, office and service costs	17,101	14,463
Depreciation expenses	3	4
Information Technology expenses	80	65
<b>Total</b>	<b>17,185</b>	<b>14,533</b>

Audit fees during the year 2019 amounted to USD 321,668 (2018: USD 247,060).

**14. Subsequent events**

Beginning in January 2020, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on global and local economies, financial markets and sectors and specific industries in which the Company operates is uncertain at this point and has the potential to adversely affect the Company's business, results of operations or financial condition. Although no material claims have been reported at this stage, the Company is closely monitoring the potential exposure to the areas mentioned above.

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

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

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

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

in CHF '000	31 December 2019	31 December 2018
<b>ASSETS</b>		
Fixed income securities	1,022,240	979,003
Other investments	152,002	144,923
Investments in subsidiaries	389,202	-
<b>Total investments</b>	<b>1,563,444</b>	<b>1,123,926</b>
Cash and cash equivalents	175,790	154,361
Funds withheld	40,346	26,856
Reinsurance recoveries	74,263	91,964
Deferred acquisition costs	96,734	48,780
Receivables from reinsurance operations	334,893	201,998
Other receivables	25,280	31,494
Prepayments and accruals	6,336	4,873
<b>TOTAL ASSETS</b>	<b>2,317,088</b>	<b>1,684,250</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
<b>Liabilities</b>		
Reserves for losses and loss expenses	687,205	585,606
Unearned premium reserves	346,681	226,162
Liabilities from reinsurance operations	-	33,110
Other liabilities	9,208	15,339
Accrued liabilities	5,592	15,239
<b>Total liabilities</b>	<b>1,048,686</b>	<b>875,454</b>
<b>Shareholder's Equity</b>		
Share capital	72,975	72,974
Statutory capital reserves		
Legal reserves from capital contributions	36,487	36,487
Other reserves from capital contributions	995,960	598,731
Organisation fund from capital contributions	7,553	7,553
Accumulated income	155,427	93,051
<b>Total shareholder's equity</b>	<b>1,268,401</b>	<b>808,796</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>2,317,088</b>	<b>1,684,250</b>



**INCOME STATEMENT**

<b>For the years ended</b>	<b>31 December 2019</b>	<b>31 December 2018</b>
in CHF '000		
Gross premiums written	679,000	468,937
Reinsurer's share of gross premiums written	(28,252)	(70,281)
Net premiums written	650,749	398,656
Change in unearned premiums	(134,437)	(23,962)
Reinsurer's share of change in unearned premiums	(13,794)	5,340
<b>Net premiums earned</b>	<b>502,519</b>	<b>380,034</b>
Gross paid losses	(248,734)	(257,010)
Reinsurer's share of paid losses	18,407	14,591
Change in reinsurance reserves	(104,986)	(25,073)
Reinsurer's share of change in reinsurance reserves	4,046	8,055
<b>Claims incurred, net of reinsurance</b>	<b>(331,266)</b>	<b>(259,438)</b>
Acquisition expenses	(133,738)	(106,933)
Reinsurer's share of acquisition expenses	5,648	(6,690)
Administrative expenses	(17,063)	(14,326)
<b>Acquisition and administrative expenses, net of reinsurance</b>	<b>(145,154)</b>	<b>(127,948)</b>
<b>Underwriting result</b>	<b>26,097</b>	<b>(7,352)</b>
Interest income	36,708	30,643
Realised gains / (losses)	565	(3,536)
Unrealised gains / (losses)	23,204	(24,864)
Asset management costs	(2,438)	(1,823)
<b>Investment result</b>	<b>58,039</b>	<b>421</b>
Other financial expenses	(113)	(117)
<b>Operating result</b>	<b>84,023</b>	<b>(7,049)</b>
Other income	4,433	207
<b>Net income / (loss) before tax</b>	<b>88,456</b>	<b>(6,842)</b>
Tax expenses	(1,621)	(317)
<b>NET INCOME / (LOSS) FOR THE YEAR</b>	<b>86,834</b>	<b>(7,159)</b>

<b>Fixed income securities in CHF '000</b>	<b>2019</b>	<b>2018</b>
Amortized cost	<b>1,024,285</b>	<b>994,463</b>
Difference	14,077	(14,125)
<b>Estimated fair value</b>	<b>1,038,362</b>	<b>980,338</b>

<b>in CHF '000</b>	<b>Income</b>		<b>Realised gains/losses</b>		<b>Unrealised gains/losses / write ups/downs</b>		<b>Total</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Fixed income securities	30,024	28,933	565	(2,242)	13,978	(10,066)	<b>44,568</b>	<b>16,625</b>
Other investments	4,792	1,205	-	-	9,225	(14,799)	<b>14,017</b>	<b>(13,594)</b>
Cash and cash equivalents	1,891	506	-	-	-	-	<b>1,891</b>	<b>506</b>
Investments in subsidiaries	-	-	-	(1,294)	-	-	-	<b>(1,294)</b>
<b>Total</b>	<b>36,708</b>	<b>30,643</b>	<b>565</b>	<b>(3,536)</b>	<b>23,204</b>	<b>(24,864)</b>	<b>60,476</b>	<b>2,243</b>

CHF 189.2 million of fixed maturities were pledged as at 31 December 2019 (2018: CHF 195.6 million).

<b>Reinsurance Reserves in CHF '000</b>			
<b>2019</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net Reserve</b>
Unearned premium reserves	346,681	(3,425)	343,256
Reserves for losses and loss expenses	687,205	(70,838)	616,367
<b>Total</b>	<b>1,033,885</b>	<b>(74,263)</b>	<b>959,623</b>
<b>2018</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net Reserve</b>
Unearned premium reserves	226,162	(23,896)	202,265
Reserves for losses and loss expenses	585,606	(68,067)	517,539
<b>Total</b>	<b>811,767</b>	<b>(91,964)</b>	<b>719,804</b>

<b>Receivables from reinsurance operations in CHF '000</b>	<b>2019</b>	<b>2018</b>
Third parties	333,567	200,785
Related parties	1,327	1,213
<b>Total</b>	<b>334,893</b>	<b>201,998</b>

<b>Other receivables in CHF '000</b>	<b>2019</b>	<b>2018</b>
Third parties	15,959	16,984
Related parties	9,322	14,510
<b>Total</b>	<b>25,280</b>	<b>31,494</b>

<b>Liabilities from reinsurance operations in CHF '000</b>	<b>2019</b>	<b>2018</b>
Third parties	-	30,682
Related parties	-	2,427
<b>Total</b>	<b>-</b>	<b>33,110</b>

<b>Other liabilities in CHF '000</b>	<b>2019</b>	<b>2018</b>
Third parties	39	4,221
Related parties	9,170	11,118
<b>Total</b>	<b>9,208</b>	<b>15,339</b>

<b>Shareholder's equity in CHF '000</b>	<b>Share Capital and Statutory Capital Reserves</b>	<b>Accumulated Income</b>	<b>Total</b>
<b>Balances as at 1 January 2018</b>	<b>715,745</b>	<b>102,259</b>	<b>818,004</b>
Dividends paid	-	-	-
Loss for the year	-	(7,159)	<b>(7,159)</b>
Loss from translation recorded directly in equity	-	(2,049)	<b>(2,049)</b>
<b>Balances as at 31 December 2018</b>	<b>715,745</b>	<b>93,051</b>	<b>808,796</b>
Dividends paid	-	-	-
Profit for the year	-	86,834	<b>86,834</b>
Capital contributions	397,229	-	<b>397,229</b>
Loss from translation recorded directly in equity	-	(24,458)	<b>(24,458)</b>
<b>Balances as at 31 December 2019</b>	<b>1,112,975</b>	<b>155,427</b>	<b>1,268,401</b>

<b>Shareholder's equity in CHF</b>	<b>2019</b>	<b>2018</b>
Share capital	72,974,418	72,974,417
Statutory capital reserves		
Legal reserves from capital contributions	36,487,209	36,487,209
Other reserves from capital contributions	995,960,146	598,731,040
Organisation fund from capital contributions	7,553,134	7,553,134
<b>Total</b>	<b>1,112,974,907</b>	<b>715,745,800</b>

<b>Premiums written in CHF '000</b>	<b>2019</b>			<b>2018</b>		
	<b>Gross</b>	<b>Ceded</b>	<b>Net</b>	<b>Gross</b>	<b>Ceded</b>	<b>Net</b>
Property	139,576	(26,206)	113,369	112,204	(32,878)	79,326
Marine	42,934	(872)	42,062	35,020	(506)	34,513
Agriculture	164,118	(1,751)	162,366	104,798	(1,191)	103,606
Casualty	227,500	3,012	230,511	142,764	(35,068)	107,696
Specialty	104,873	(2,434)	102,439	74,153	(639)	73,514
<b>Total</b>	<b>679,000</b>	<b>(28,252)</b>	<b>650,749</b>	<b>468,937</b>	<b>(70,281)</b>	<b>398,656</b>

<b>Administrative expenses in CHF '000</b>	<b>2019</b>	<b>2018</b>
Staff, office and service costs	16,980	14,257
Depreciation expenses	3	4
Information Technology expenses	79	64
<b>Total</b>	<b>17,063</b>	<b>14,326</b>

Audit fees during the year 2019 amounted to CHF 319,393 (2018: CHF 243,548).

## PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

The Company's Board of Directors proposes that the available earnings as at 31 December 2019 of USD 205,994,738 (CHF 155,426,850) be carried forward to the succeeding financial year.

The Company's Board of Directors proposes further to pay an ordinary dividend, to be paid from other reserves from capital contributions, in the amount of USD 100,000,000 but not exceeding CHF 105,000,000. The maximum amount of CHF 105,000,000 will be converted into USD at the time of payment, at the exchange rate applicable on that date as published by the Swiss Federal Tax Authority. If the resulting amount is lower than the USD 100,000,000 proposed for distribution, the distribution will only be made in the amount of this lower amount.

Since the Company's legal reserves from capital contributions 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**



Currency: USD  
Amounts stated in  
millions

		2018	Adjustments previous period	2019
<b>Market-consistent value of investments</b>	Real estate	-	-	-
	Participations	-	-	405
	Fixed-income securities	994	-	1,072
	Loans	-	-	-
	Mortgages	-	-	-
	Equities	-	-	-
	Other investments	-	-	-
	Collective investment schemes	-	-	-
	Alternative investments	-	-	-
	Structured products	-	-	-
	Other investments	151	-	160
	<b>Total investments</b>	<b>1,145</b>	<b>-</b>	<b>1,637</b>
<b>Market-consistent value of other assets</b>	Financial investments from unit-linked life insurance	-	-	-
	Receivables from derivative financial instruments	-	-	-
	Deposits made under assumed reinsurance contracts	-	-	-
	Cash and cash equivalents	157	-	182
	Reinsurers' share of best estimate of provisions for insurance liabilities	-	-	-
	Direct insurance: life insurance business (excluding unit linked life insurance)	-	-	-
	Reinsurance: life insurance business (excluding unit linked life insurance)	-	-	-
	Direct insurance: non-life insurance business	-	-	-
	Direct insurance: health insurance business	-	-	-
	Reinsurance: non-life insurance business	-	-	-
	Reinsurance: health insurance business	-	-	-
	Direct insurance: other business	-	-	-
	Reinsurance: other business	-	-	-
	Direct insurance: unit-linked life insurance business	-	-	-
	Reinsurance: unit-linked life insurance business	-	-	-
	Fixed assets	-	-	-
	Deferred acquisition costs	-	-	-
	Intangible assets	-	-	-
	Receivables from insurance business	203	-	331
	Other receivables	17	-	-
Other assets	178	-	235	
Unpaid share capital	-	-	-	
Accrued assets	-	-	-	
<b>Total other assets</b>	<b>555</b>	<b>-</b>	<b>748</b>	
<b>Total market-consistent value of assets</b>	<b>Total market-consistent value of assets</b>	<b>1,700</b>	<b>-</b>	<b>2,385</b>
<b>BEL: Best estimate of liabilities (including unit linked life insurance)</b>	Best estimate of provisions for insurance liabilities	-	-	-
	Direct insurance: life insurance business (excluding unit linked life insurance)	-	-	-
	Reinsurance: life insurance business (excluding unit linked life insurance)	-	-	-
	Direct insurance: non-life insurance business	-	-	-
	Direct insurance: health insurance business	-	-	-
	Reinsurance: non-life insurance business	714	-	933
	Reinsurance: health insurance business	-	-	-
	Direct insurance: other business	-	-	-
	Reinsurance: other business	-	-	-
	Best estimate of provisions for unit-linked life insurance liabilities	-	-	-
Direct insurance: unit-linked life insurance business	-	-	-	
Reinsurance: unit-linked life insurance 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	116	-	66
	Accrued liabilities	-	-	-
Subordinated debts	-	-	-	
<b>Total BEL plus market-consistent value of other liabilities</b>	<b>Total BEL plus market-consistent value of other liabilities</b>	<b>830</b>	<b>-</b>	<b>999</b>
	<b>Market-consistent value of assets minus total from BEL plus market-consistent value of other liabilities</b>	<b>870</b>	<b>-</b>	<b>1,386</b>



Currency: USD  
Amounts stated in  
millions

		2018	Adjustments previous period	2019
<b>Derivation of RBC</b>	Market-consistent value of assets minus total from best estimate liabilities plus market-consistent value of other liabilities	870		1,386
	Deductions	-		(100)
	<b>Core capital</b>	870		1,286
	Supplementary capital	-		-
	<b>RBC</b>	870		1,386

		2018	Adjustments previous period	2019
<b>Derivation of target capital</b>	Insurance risk	284		370
	Market risk	48		51
	Diversification effects	(37)		(40)
	Credit risk	51		97
	Risk margin and other effects on target capital	(22)		(24)
	<b>Target capital</b>	324		454

	2018	Adjustments previous period	2019
	in %	in %	in %
<b>SST ratio</b>	292%	-	305%

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