Validus Reinsurance, Ltd.

Incorporated in Bermuda

Financial Condition Report

As at and for the years ended
December 31, 2022 and 2021

Expressed in thousands of U.S. dollars, except share amounts

Table of Contents

1. SUMMARY

Validus Reinsurance, Ltd. (the "Insurer" or "Validus Re") was incorporated under the laws of Bermuda on October 19, 2005. The Insurer is 100% owned by Validus Holdings, Ltd. (the "parent company" or "Validus Holdings") which was also incorporated under the laws of Bermuda on October 19, 2005. The Company's ultimate parent company is American International Group, Inc. ("AIG") which is a company registered with the United States Securities and Exchange Commission and is incorporated in the state of Delaware, USA.

Validus Re is registered as a Class 4 insurer under The Insurance Act 1978 of Bermuda, amendments thereto and the Insurance Account Rules 2016 (the "Legislation"). The Insurer primarily offers treaty reinsurance coverage on a global basis in the Property and Specialty (including Casualty) lines markets.

This Financial Condition Report ("FCR") is based on the Insurance (Public Disclosure) Rules 2015, which came into effect on January 1, 2016. These rules specify the requirement for commercial insurers to prepare an FCR and requires the Insurer to make the filing available on its website (https://www.aig.com/home/risk-solutions/aig-re/validus-re). This report provides a discussion on the Insurer's business and performance (section 2), governance structure (section 3), risk profile (section 4), solvency valuation (section 5), capital management (section 6) and significant event (section 7).

This report is primarily based on the Insurer's Economic Balance Sheets ("EBS") as at December 31, 2022 and 2021. In addition, certain sections include information based on the Insurer's consolidated financial statements as at and for the years ended December 31, 2022 and 2021, which have been prepared in accordance with the accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of the Insurer and its subsidiaries.

2. BUSINESS AND PERFORMANCE

a. Name of the insurer

Validus Reinsurance, Ltd.

b. Name and contact details of the insurance supervisor

Bermuda Monetary Authority ("BMA")
BMA House
43 Victoria Street
Hamilton HM12, Bermuda
Telephone: (441) 295-5278
Fax: (441) 292-7471

Expressed in thousands of U.S. dollars, except share amounts

2. BUSINESS AND PERFORMANCE (continued)

c. Name and contact details of the approved auditor

PricewaterhouseCoopers Ltd.
Washington House
16 Church Street
Hamilton HM11, Bermuda
Telephone: (441) 295-2000
Fax: (441) 295-1242

d. A description of ownership details including proportion of ownership interest

As noted in Section 1 above, Validus Re is 100% owned by Validus Holdings and was incorporated on October 19, 2005, and its ultimate parent company is AIG.

e. Group structure chart for the Insurer

Please see Exhibit A for a complete listing of the Insurer's subsidiaries as at December 31, 2022.

f. Insurance business written by business segment and by geographical region during the reporting period

The Insurer has only one business segment. The following table sets forth the gross premiums written allocated to the territory coverage exposure for the years ended December 31, 2022 and 2021:

	2022		2021	
	$	%	$	%
Worldwide excluding United States [(a)]	90,053	2.92	78,580	2.48
Australia and New Zealand	8,149	0.26	7,390	0.23
Europe	72,740	2.36	82,833	2.61
Latin America and Caribbean	55,451	1.80	57,901	1.83
Japan	47,337	1.54	94,765	2.99
Canada	13,161	0.43	30,416	0.96
Rest of the world [(b)]	59,529	1.93	57,777	1.82
Sub-total, non-United States	346,420	11.24	409,662	12.92
United States	550,857	17.88	849,834	26.80
Worldwide including United States	397,314	12.90	560,673	17.68
Other locations non-specific [(c)]	1,785,725	57.98	1,351,205	42.60
Total	**3,080,316**	**100.00**	**3,171,374**	**100.00**

(a) Represents risks in two or more geographic zones.

(b) Represents risks in one geographic zone

(c) The other locations non-specific category refers to business for which an analysis of exposure by geographic zone is not applicable since these exposures can span multiple geographic areas and, in some instances, are not fixed locations.

Expressed in thousands of U.S. dollars, except share amounts

VALIDUS RE

2. BUSINESS AND PERFORMANCE (continued)

g. Performance of investments, by asset class and details of material income and expenses incurred during the reporting period

Performance of investments

The amortized cost and fair value of the Insurer's fixed maturity investments as at December 31, 2022 and 2021 were as follows:

	2022		2021	
	Amortized cost $	Fair value $	Amortized cost $	Fair value $
U.S. government and government agency	696,857	674,824	376,913	377,422
Non-U.S. government and government agency	314,124	289,664	282,348	280,408
U.S. states, municipalities and political subdivisions	164,524	146,103	178,747	177,846
Agency residential mortgage-backed securities	702,000	607,322	839,521	838,522
Non-agency residential mortgage-backed securities	380,011	330,743	350,813	346,952
Corporate	1,322,323	1,237,546	972,929	977,746
Asset-backed securities	456,658	416,559	503,199	497,445
Commercial mortgage-backed securities	574,945	535,116	594,193	595,045
Total fixed maturities	**4,611,442**	**4,237,877**	**4,098,663**	**4,091,386**

During the year ended December 31, 2021, the Company sold all of its other investments in hedge funds, private equity investments and fixed income investment funds to other subsidiaries of AIG that are not subsidiaries of the Company. The Company received $277,456 in cash proceeds in exchange for the fair value of the transferred assets. The fair value of the transferred assets was based on the final net asset valuation (NAV) of the individual investments held by the Company as of the dates the investments were sold.

During the year ended December 31, 2022, net returns of $2,517 (2021: $86,212) were earned on other investments, with realized gains of $2,517 (2021: $138,855) being crystalized as a result of their sale and are included in "Net realized (losses) gains on investments" reported in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income.

Expressed in thousands of U.S. dollars, except share amounts

2. BUSINESS AND PERFORMANCE (continued)

g. Performance of investments, by asset class and details of material income and expenses incurred during the reporting period (continued)

Performance of investments (continued)

A significant portion of reinsurance contracts written by the Insurer provide short-tail reinsurance coverage for losses resulting mainly from natural and man-made catastrophes, which could result in payment of a substantial amount of losses at short notice. Accordingly, the Insurer's investment portfolio is primarily structured to provide liquidity, which means the investment portfolio contains a significant amount of relatively short-term fixed maturity investments. As such, the Insurer structures its managed cash and investment portfolio to support policyholder reserves and contingent risk exposures with a liquid portfolio of high quality fixed-income investments with a comparable duration profile.

The Insurer's Investment Guidelines ("IG") requires the portfolio duration to be +/- 1 year of the target asset duration, which will be communicated by the Insurer to its investment manager at least annually and may be updated from time to time. Target asset duration as at December 31, 2022 is 2.75 years (2021: average duration in the range of 0.75 years to 3.25 years). As at December 31, 2022, the average duration of the Insurer's investment portfolio was 2.54 years (2021: 2.69 years).

Net investment income during the years ended December 31, 2022 and 2021 was derived from the following sources:

	2022 $	2021 $
Fixed maturities and short-term investments	133,609	110,346
Cash and cash equivalents	1,330	(681)
Other investments	-	5,628
Investment income	134,939	115,293
Investment expenses	(6,876)	(4,579)
Total net investment income	**128,063**	**110,714**

Expressed in thousands of U.S. dollars, except share amounts

2. BUSINESS AND PERFORMANCE (continued)

g. Performance of investments, by asset class and details of material income and expenses incurred during the reporting period (continued)

Details of material income and expenses for the years ended December 31, 2022 and 2021

The following table provides summaries of the Insurer's material income and expenses line items for the years ended December 31, 2022 and 2021:

	2022 $	2021 $
Revenues		
Gross premiums written	3,080,316	3,171,374
Net premiums earned	2,234,504	2,113,705
Net investment income	128,063	110,714
Expenses		
Losses and loss expenses		
Current period	1,447,592	1,563,703
Prior years	(30,604)	(32,866)
Total losses and loss expenses	1,416,988	1,530,837
Policy acquisition costs	583,837	487,570
General and administrative expenses	109,628	115,632

Highlights for the Insurer for the years ended December 31, 2022 and 2021 were as follows:

Gross premiums written for the year ended December 31, 2022 amounted to $3,080,316 (2021: $3,171,374). The Insurer underwrites a significant amount of its reinsurance business through three brokers: Marsh & McLennan Companies, Inc. (2022: 48.96%; 2021: 49.75%), Aon Benfield Group Ltd. (2022: 22.55%; 2021: 25.89%) and Willis Towers Watson Plc / Arthur J. Gallagher & Co. (2022: 15.68%; 2021: 14.68%).

Net premiums earned for the year ended December 31, 2022 amounted to $2,234,504 (2021: $2,113,705).

Reinsurance contracts can be written on a risks attaching or losses occurring basis. Under risks attaching reinsurance contracts, all claims from cedants' underlying policies incepting and attaching during the reinsurance contract period are covered, even if they occur after the expiration date of the reinsurance contract and before the expiration date of the attaching policy. In contrast, losses occurring reinsurance contracts cover all claims occurring during the coverage period of the reinsurance contract, regardless of the inception dates of the underlying policies. Any claims occurring after the expiration of the losses occurring contract are not covered.

Reinsurance premiums written are recorded at the inception of the policy. Premiums are estimated based on information received from brokers, ceding companies and reinsureds, and any subsequent differences arising on such estimates are recorded in the periods in which they are determined.

2. BUSINESS AND PERFORMANCE (continued)

g. Performance of investments, by asset class and details of material income and expenses incurred during the reporting period (continued)

Details of material income and expenses for the years ended December 31, 2022 and 2021 (continued)

Premiums written are earned on a pro-rated basis over the term of the related policy or contract. For losses occurring reinsurance contracts, the earnings period is generally the same as the term of the related contract or policy. For reinsurance contracts written on a risks attaching basis, the earnings period is based on the terms of the underlying contracts and policies and is generally 24 months. The portion of the premiums written applicable to the unexpired terms of the underlying contracts and policies in force is recorded as unearned premiums.

Reinstatement premiums are recorded at the time a loss event occurs and coverage limits for the remaining life of the contract are reinstated under predefined contract terms. The accrual of reinstatement premiums is based on our estimate of losses and loss expenses, which reflects management's judgment.

Losses and loss expenses for the year ended December 31, 2022 was $1,416,988 (2021: $1,530,837), a loss ratio of 63.41% (2021: 72.42%). Incurred losses and loss expenses during the year is comprised of gross losses and loss expenses of $1,297,514 (2021: $2,782,914) and reinsurance recoveries of $119,474 (2021: $-1,252,077).

Expressed in thousands of U.S. dollars, except share amounts

2. BUSINESS AND PERFORMANCE (continued)

g. Performance of investments, by asset class and details of material income and expenses incurred during the reporting period (continued)

Details of material income and expenses for the years ended December 31, 2022 and 2021 (continued)

Event/Non-Event losses

Details of the Insurer's losses and loss expenses for the years ended December 31, 2022 and 2021 were as follows:

	2022 $	2021 $
Event		
Current period	210,771	399,148
Prior years	59,100	64,033
Sub-total	269,871	463,181
Non-Event		
Current period	1,236,821	1,161,933
Prior years	(89,704)	(94,277)
Sub-total	1,147,117	1,067,656
Total losses and loss expenses	**1,416,988**	**1,530,837**

Attritional losses for the year ended December 31, 2022 were $1,236,821 (2021: $1,161,933), or 55.35 percentage points (2021: 54.97 percentage points) of the current year loss ratio.

Policy acquisition costs are costs that vary with, and are directly related to, the successful production of new and renewal business, and consist principally of commissions and brokerage expenses. These costs are deferred and amortized over the period in which the related premiums are earned. Acquisition costs are shown net of commissions earned on reinsurance ceded. However, if the sum of a contract's expected losses and loss expenses and deferred acquisition costs exceeds related unearned premiums, a premium deficiency is determined to exist. In this event, deferred acquisition costs are immediately expensed to the extent necessary to eliminate the premium deficiency. If the premium deficiency exceeds deferred acquisition costs then a liability is accrued for the excess deficiency. There were no premium deficiency adjustments recognized during the periods presented herein. Policy acquisition costs also include profit commissions, which are recognized on a basis consistent with our estimate of losses and loss expenses. Policy acquisition cost ratio for the year ended December 31, 2022 was 26.13% (2021: 23.07%).

General and administrative expenses for the year ended December 31, 2022 was $109,628 (2021: $115,632). General and administrative expenses include staff costs, office and infrastructure related expenses, business expenses and management fees.

h. Any other information

None.

3. GOVERNANCE STRUCTURE

a. Board and senior management

Board of Directors

The directors of the Insurer oversee the management of the Insurer's business and affairs and are responsible for the corporate governance framework. The directors are elected annually at the Insurer's annual general meeting and as at date of this report, consisted of the following persons, each of whom is either a senior executive of the Insurer or of AIG:

1. Patrick Boisvert;
2. Catherine Duffy; and
3. Christopher Schaper.

Executive Officers

The Insurer's executive officers are responsible for the development and execution of the Insurer's internal controls, budgets, strategic plans and objectives. As at date of this report, the executive officers consisted of the following persons:

1. Christopher Schaper;
2. Patrick Boisvert;
3. Kevin Downs;
4. Eric Kobrick;
5. Gero Michel;
6. Marc Haushofer;
7. Paul Roberts;
8. Jesse DeCouto;
9. Andrew Tudor-Thomas;
10. Simon Biggs;
11. McKeisha Smith;
12. Xiaonan Sun;
13. Sven Wehmeyer;
14. Angeline Ang;
15. Heather Legg;
16. Joy Manning; and
17. William S. Randolph

i. Description of remuneration policy and practices and performance-based criteria governing the board, and its senior executives and employees

Compensation

Board of Directors
The Directors of the Insurer do not receive any compensation for their services as Directors.

3. GOVERNANCE STRUCTURE (continued)

a. Board and senior management (continued)

i. Description of remuneration policy and practices and performance-based criteria governing the board, and its senior executives and employees (continued)

Executive Officers

The Insurer's compensation program is designed to motivate executives to maximize the creation of shareholder value, therefore aligning, as much as possible, the Insurer's named executive officers' rewards with shareholder's interests. The compensation program is composed of three principal components:

- Salary and benefits;
- Annual incentive compensation (annual incentive award); and
- Long-term incentive compensation typically in the form of time vested and/or performance-based restricted shares or options.

The Insurer's compensation plans are intended to offer opportunities that are competitive with its peer group and consistent with the Insurer's relative performance over time. In addition, the Insurer wants its rewards to accommodate the risk and cyclicality of its business. At the time the Insurer negotiated its employment agreements with the executive officers, it undertook to implement a performance-based compensation strategy. To that end, the compensation packages include a fixed component consisting of salary and benefits and two variable components consisting of annual incentive compensation and long-term incentive compensation. To better implement this strategy, a greater emphasis is placed on the variable elements that relate to performance and less of an emphasis is placed on the fixed elements of compensation that do not.

Employees

The Insurer's compensation package includes a fixed component consisting of salary and benefits and two variable components consisting of annual incentive compensation and long-term incentive compensation, which vary in accordance with the performance of both the Insurer and individual. Each department head makes recommendations to the Chief Executive Officer with respect to the compensation of employees other than themselves. The Chief Executive Officer reviews, and if appropriate, approves the compensation recommendations made for each employee and determines the compensation for the Insurer's department heads.

ii. Description of the supplementary pension or early retirement schemes for members, the board and senior executives

The Insurer does not maintain a defined benefit pension or retirement plan for its named executive officers. The Insurer provides pension benefits to eligible employees through various plans, which are managed externally and sponsored by the Insurer. Contributions are expensed as incurred.

Expressed in thousands of U.S. dollars, except share amounts

3. GOVERNANCE STRUCTURE (continued)

a. Board and senior management (continued)

iii. Material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executives

During the year ended December 31, 2022, the Insurer made capital distributions to AIG via Validus Holdings amounting to $442 (2021: capital contributions from AIG via Validus Holdings amounting to $495) relating to settlement of share-based compensation arrangements.

During the year ended December 31, 2022, the Insurer declared dividends to Validus Holdings amounting to $150,000 (2021: $nil), comprising of $100,000 cash and $50,000 in specie by the cancellation of an intercompany payable owed to the Insurer.

There were no capital distributions made to Validus Holdings during the years ended December 31, 2022 and 2021.

The following significant transactions are classified as related party transactions as principals and/or directors of each counterparty are members of the Insurer's or AIG's board of directors.

Reinsurance Agreements

The Company has various reinsurance agreements with its affiliates. The following tables summarize the significant balances resulting from these reinsurance agreements:

Reinsurance agreements with Talbot Syndicate	2022 $	2021 $
Transactions during the years ended December 31		
Net premiums earned	(860)	1,061
Incurred losses and loss expenses	2,379	2,628
Policy acquisition costs	(509)	255
Balances outstanding as at December 31		
Premiums receivable	20,683	33,174
Deferred acquisition costs	16	39
Reserves for losses and loss expenses	24,882	25,492
Unearned premiums	1,406	2,313
Reinsurance balances payable	12,072	22,203

Expressed in thousands of U.S. dollars, except share amounts

3. GOVERNANCE STRUCTURE (continued)

a. Board and senior management (continued)

iii. Material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executives (continued)

Reinsurance Agreements (continued)

Retroactive reinsurance
Effective January 1, 2022, the Company entered into an adverse development excess of loss reinsurance agreement with a wholly-owned subsidiary of AIG, under which risk was transferred for certain of the Company's ultimate net loss reserves as at December 31, 2021. The Company accounts for this transaction as retroactive reinsurance. The transaction resulted in a loss of $27,450, which was recognized during the year ended December 31, 2022.

The effects of reinsurance, including the retroactive reinsurance described above, with the affiliated subsidiaries of AIG are as follows:

Reinsurance agreements with affiliated subsidiaries of AIG	2022 $	2021 $
Transactions during the years ended December 31		
Net premiums earned	(33,878)	1,906
Recoveries of losses and loss expenses	1,776	61,695
Policy acquisition costs	106	137
Balances outstanding as at December 31		
Premiums receivable	871	1,183
Deferred acquisition costs	-	50
Prepaid reinsurance	6,805	-
Funds withheld	4	13
Reserves for losses and loss expenses	24,660	27,346
Unearned premiums	-	420
Reinsurance balances payable	6,868	48

Derivatives, investments and loans

Derivative agreement
The Insurer has a derivative agreement in place with an affiliated AIG entity. Commencing in 2019, the Insurer engaged in foreign exchange contracts with an affiliated AIG entity under International Swaps and Derivatives Association, Inc. Master Agreements, which establish terms that apply to all transactions. As part of the agreements, collateral is provided as security for the foreign exchange contracts. On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash on a net basis.

Expressed in thousands of U.S. dollars, except share amounts

3. GOVERNANCE STRUCTURE (continued)

a. Board and senior management (continued)

iii. Material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executives (continued)

Derivatives, investments and loans (continued)

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Insurer's Consolidated Balance Sheets as at December 31, 2022 and 2021:

	2022			
	Asset notional exposure $	Asset derivative at fair value $	Liability notional exposure $	Liability derivative at fair value $
Foreign exchange contracts	295,085	17,405	83,598	5,312
Commodity derivative contracts	211,791	9,167	20,015	34
Total	506,876	26,572	103,613	5,346

	2021			
	Asset notional exposure $	Asset derivative at fair value $	Liability notional exposure $	Liability derivative at fair value $
Foreign exchange contracts	38,935	611	224,046	2,278
Commodity derivative contracts	302,687	3,961	218,858	287
Total	341,622	4,572	442,904	2,565

The following table summarizes information on the classification and net impact on earnings, recognized in the Company's Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income relating to derivatives that were not designated as hedging instruments during the years ended December 31, 2022 and 2021:

Derivatives not designated as hedging instruments	Classification of gains (losses) recognized in earnings	2022 $	2021 $
Foreign exchange contracts	Foreign exchange gains	14,035	2,787
Commodity derivative contracts	Losses and loss expenses	(13,107)	(9,694)

Investments

On January 1, 2019, the Insurer entered into an investment management agreement with AIG, whereby AIG would assume overall management of the Insurer's investment portfolio. As part of this agreement, the Insurer paid $4,062 of investment management expenses to AIG during the year ended December 31, 2022 (2021: $3,711).

During 2022, AIG entered into investment management agreements with BlackRock, Inc. ("BlackRock"), a third party investment manager. Effective October 17, 2022, the Insurer likewise entered into investment management agreements with BlackRock. The Insurer has since transferred the management of its investments under such investment management agreements as of December 31, 2022. The Insurer continues to be responsible for the overall investment portfolio, including investment strategy and developing and monitoring of investment guidelines.

3. GOVERNANCE STRUCTURE (continued)

a. Board and senior management (continued)

iii. Material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executives (continued)

Derivatives, investments and loans (continued)

Investments (continued)
During the year ended December 31, 2021, the Insurer sold its ownership interest in other investments and its ownership interest in and notes receivable from certain AlphaCat ILS Funds to other subsidiaries of AIG. These subsidiaries are not consolidated by Validus Re and are not subsidiaries of Validus Re. The Insurer surrendered control over the financial assets during the year and has no continuing involvement with the transferred investments.

Loan receivables
On September 26, 2014, Validus Specialty, Inc., an affiliate, obtained a loan from Flagstone Reinsurance (Luxembourg), SARL, a subsidiary of the Insurer, with a principal amount of $400,000 bearing an annual interest rate of 5.80% and maturing on September 23, 2024. On April 1, 2019, the Insurer settled this loan with Validus Specialty, Inc. and entered into a new loan agreement with AIG. The new loan receivable has a principal amount of $400,000 bearing an annual interest rate of 5.09% and maturing on April 1, 2033. The outstanding balance as at December 31, 2022 was $401,664 (December 31, 2021: $401,664). The related interest income earned during the year ended December 31, 2022 amounted to $20,360 (2021: $20,360).

On September 1, 2018, the Insurer acquired a note receivable from AIG International Holdings GmbH with a principal amount of $327,729 bearing an annual interest rate of 3.60% and matured on August 31, 2022. Upon maturity, the Insurer entered into a new loan agreement with AIG. The new loan receivable has a rolled principal amount of $339,691 bearing an annual interest rate of 4.60% and maturing on September 1, 2027. The outstanding balance as at December 31, 2022 was $345,030 (December 31, 2021: $331,760). The related interest income earned during the year ended December 31, 2021 amounted to $5,339 (2021: $11,962).

On April 1, 2019, the Insurer acquired an additional AIG loan receivable from Validus Holdings with a principal amount of $250,000 in exchange for a capital contribution of $73,441 and the settlement of intercompany receivables from Validus Holdings of $176,559. This loan bears an annual interest rate of 3.90% and matured on August 31, 2022. Upon maturity, the Insurer entered into a new loan agreement with AIG. The new loan receivable has a rolled principal amount of $259,885 bearing an annual interest rate of 5.02% and maturing on August 31, 2027. The outstanding balance as at December 31, 2022 was $264,343 (December 31, 2021: $253,331). The related interest income earned during the year ended December 31, 2022 amounted to $4,457 (2021: $9,885).

3. GOVERNANCE STRUCTURE (continued)

a. Board and senior management (continued)

iii. Material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executives (continued)

Service level agreements

In accordance with service level agreements, the Company participates in centralized services wherein expenses are incurred by service and other affiliated entities and allocated to, or recharged from, the Validus Holdings group of companies. Services provided across the group include managerial services, underwriting services, actuarial services, claims services, accounting services, information technology services and others. The following table summarizes the revenue and expenses incurred by the Company for services provided to or received from the Validus Holdings group of companies during the years ended December 31, 2022 and 2021:

	2022	2021
	$	$
Other insurance-related income and other income	8,659	10,377
General and administrative expenses	73,087	79,848

Other

Certain shareholders of AIG and their affiliates, as well as employees of entities associated with directors and officers may have purchased insurance and/or reinsurance from the Insurer in the ordinary course of business. The Insurer does not believe these transactions to be material.

3. GOVERNANCE STRUCTURE (continued)

b. Fitness and propriety requirements

i. Description of the fit and proper process in assessing the board and senior executives

The Insurer recognizes the importance of having competent executive officers and directors, including their capacity and suitability to fulfil the responsibilities for their positions. As such, the Insurer ensures that:

- Directors have an appropriate mix and/or level of experience and expertise;
- There is adequate number of directors to ensure comprehensive discussion and debate of matters while optimizing operational efficiency and cost effectiveness;
- Executive Officers have the necessary experience and qualifications to meet any regular "fit and proper" standards as applicable;
- There is a sufficient and appropriate number of executive officers to carry out business as determined by the Shareholder; and
- Executive Officers are employees of the Insurer.

ii. Description of professional qualifications, skills and expertise of the board and senior executives to carry out their functions

The Insurer's Directors and officers are as follows:

<u>Current Directors</u>

Patrick Boisvert

Pat Boisvert is the Chief Financial Officer and Chief Operating Officer of AIG Re. Pat joined the company in 2012 and has 27 years of experience, including 22 years in the financial services industry. Prior to this role, Patrick was the Chief Financial Officer of Flagstone Reinsurance Holdings SA. He was previously Chief Financial Officer of West End Capital Management and Vice President Fund Administration at Bisys Hedge Funds Services. He started his career with Ernst & Young and is a member of the CPA Institute of Québec.

Catherine Duffy

Catherine Duffy serves as AIG's Country Manager in Bermuda. She leads local operations, including a cross-functional team, and drives the achievement of AIG's strategic objectives in Bermuda. Cathy is the "face of AIG" within Bermuda for customers, brokers, reinsurers, and others. She also coordinates with North American product leaders to provide direction to local underwriting teams. Cathy is a veteran of the Bermuda International Insurance Industry with experience across many aspects of the industry. She was the first Bermudian woman to gain her CPCU and the author of the first comprehensive book tracing the historical development of the International Insurance Industry, Held Captive - A History of International Insurance in Bermuda. Cathy earned a Bachelor Business Administration in Insurance from Howard University. She has completed executive management programs through MIT as well as Wharton. Recently Cathy was chosen to be a Fellow in the Women's International Forum.

3. GOVERNANCE STRUCTURE (continued)

b. Fitness and propriety requirements (continued)

ii. Description of professional qualifications, skills and expertise of the board and senior executives to carry out their functions (continued)

Current Directors (continued)

Christopher Schaper

Chris Schaper is the group CEO for AIG Re, the global reinsurance business of American International Group, which brings together the organizations of Validus Re, AlphaCat, Talbot Treaty and Validus Research under one entity. In addition to his role as CEO of AIG Re, he is CEO of Validus Re, CEO of AlphaCat, and is also a member of the AIG General Insurance Executive Committee. Chris joined AIG in 2019 and has over 30 years of insurance and reinsurance industry experience. He is based in Bermuda.

Current Officers

Christopher Schaper – President & Chief Executive Officer

Chris also serves as a director. Please refer to "Current Directors" section of Item 3(b)(ii) for details of his experience and qualifications.

Patrick Boisvert – Executive Vice President & Chief Financial Officer

Patrick also serves as a director. Please refer to "Current Directors" section of Item 3(b)(ii) for details of his experience and qualifications.

Kevin Downs – Executive Vice President & Chief Actuary

Kevin Downs is the Chief Actuary of Validus Re. He is responsible for the management and oversight of the actuarial pricing, reserving, capital modeling and functions within Validus Re. He has been in this role since 2013. Prior to that he served as the Reserving Actuary for Validus Re, since joining the firm in 2009. Kevin has over 25 years of experience in the insurance and reinsurance industry in both in-house and consultancy capacities. Kevin holds a Bachelor of Science degree in Mathematics from the University of Notre Dame. He is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries.

3. GOVERNANCE STRUCTURE (continued)

b. Fitness and propriety requirements (continued)

ii. Description of professional qualifications, skills and expertise of the board and senior executives to carry out their functions (continued)

Current Officers (continued)

Eric Kobrick – Executive Vice President & General Counsel

Eric Kobrick joined AIG in 1997 and has held a variety of senior legal positions during his 24+ years at the company, including General Counsel of AIG's General Insurance business. He is currently an AIG Senior Vice President and Deputy General Counsel and General Counsel, AIG Re and Reinsurance. His duties include serving as the head lawyer for AIG Re and overseeing the reinsurance lawyers supporting AIG's General Insurance business. Eric also Chairs the AIG Pro Bono Program.

Among Eric's various activities outside of AIG, Eric serves as an ARIAS•U.S. Certified Umpire and Arbitrator, and he is a former President of ARIAS•U.S. and Chairman of the ARIAS•U.S. Board of Directors. Eric received a B.A. in Government from Cornell University and a J.D. from Columbia Law School. Prior to joining AIG, Eric was a litigation associate at Simpson Thacher & Bartlett LLP and a law clerk to the Honorable Miriam Goldman Cedarbaum in the United States District Court for the Southern District of New York.

William S. Randolph – Senior Vice President & Chief Risk Officer

William S. Randolph is Senior Vice President & Chief Risk Officer for Validus Re. He joined the firm in February 2021 as Senior Vice President & Head of Reserving before moving to the Chief Risk Officer ("CRO") role in March 2022. William has over 15 years of experience in the insurance and reinsurance industry having previously served as Senior Vice President, Reserving at Renaissance Re Europe AG and Senior Vice President Enterprise Risk Management & Head of Reserving at Tokio Millennium Re AG. Before moving to Bermuda, William has worked as Pricing and Reserving Actuary in Canada and in the UK.

William holds a bachelor degree in Mathematics from the University of Montreal in Canada and is a Fellow of the Casualty Actuarial Society.

3. GOVERNANCE STRUCTURE (continued)

b. Fitness and propriety requirements (continued)

ii. Description of professional qualifications, skills and expertise of the board and senior executives to carry out their functions (continued)

Current Officers (continued)

Gero Michel – Executive Vice President

Dr. Gero Michel is the Group Chief Risk Officer at AIG Re responsible for the reinsurance ERM, risk and pricing strategy for Validus Re, AlphaCat, and Talbot Treaty. Gero is also chairman of the Underwriting Committee at AlphaCat. Gero joined AIG Re in 2020 and has over 30 years of experience in risk management, risk modelling, underwriting and risk analytics. Previously, Gero served in senior roles at AON Reinsurance EMEA/UK; Chaucer Underwriting A/S in Copenhagen, DK; and Montpelier Re. Gero has a PhD and masters in geo-science and is an Alumni of the Harvard Business School.

Marc Haushofer – Executive Vice President

Marc Haushofer is Executive Vice President and Chief Executive Officer, Asia Pacific. He joined Validus Re in 2008 to head the Singapore Branch Office which underwrites general reinsurance business in Asia. He also leads the Singapore Reinsurers' Association (SRA) as its Chairman since January 2017. Marc has over 35 years of experience in the (re)insurance industry. Prior to Validus Re, he was the Chief Executive Officer & Principal Officer of Munich Reinsurance Company, Singapore Branch, heading Munich Re's South-East-Asian Hub. Before that he was a Deputy Member of the Executive Management at Munich Reinsurance Company, Munich. Marc is a certified Versicherungskaufmann which is the German equivalent to Associate of The Chartered Insurance Institute (ACII). He also holds a Certificate in both Strategic Management and Financials for Executives from the St. Gallen Management School. In addition, he successfully accomplished an Executive Management stint with the London Business School.

Paul Roberts – Executive Vice President

Paul Roberts is Executive Vice President and Head of Marine & Energy for Validus Re. Paul started his career at Willis Faber and Dumas in 1985 and worked in both the Marine Excess of Loss Treaty Department in London and New York as a Divisional Director with responsibilities for the London Market and International clients. In 1996 Paul moved to Allianz Cornhill where he assumed responsibility for the Marine Excess of Loss Account, a worldwide portfolio. In 2002 Paul moved to Bermuda with Rosemont Reinsurance as a SVP with responsibility for the Marine Reinsurance portfolio. This was followed by a move in December 2005 to be one of the founding members of Validus Re, SVP Underwriting for the Marine Treaty Portfolio. Since then Paul has held various roles within the broader group including Talbot Treaty and SVP in Zurich with Validus Re (Switzerland) with responsibility for the Marine, Energy and Specialty Portfolio written by the Swiss company.

3. GOVERNANCE STRUCTURE (continued)

b. Fitness and propriety requirements (continued)

ii. Description of professional qualifications, skills and expertise of the board and senior executives to carry out their functions (continued)

<u>**Current Officers (continued)**</u>

Jesse DeCouto – Executive Vice President & Chief Underwriting Officer

Jesse DeCouto is the Chief Underwriting Office at for Validus Re, based in Bermuda. Jesse joined Validus Re in 2007 as a Vice President and Specialty Line Underwriter and was then a Senior Vice President for the Marine and Energy and Specialty Lines Underwriting. Prior to joining Validus Re, Jesse worked at Partner Re for a total of 8 years as a US Property Cat Underwriter in Bermuda and as a Pricing Actuary for Partner Re in Greenwich, CT. Jesse earned his MBA at the College of Insurance, NY in Financial Risk Management and his B.S. in Biomedical Engineering from the University of Miami, FL. Jesse is an Associate of the Casualty Actuarial Society.

Andrew Tudor-Thomas – Executive Vice President

Andrew Tudor-Thomas is Executive Vice President, Head of U.S. Property for Validus Re based in Bermuda. He is responsible for developing and executing the U.S. Property department business plan and strategy, incorporating platforms in Bermuda, London and New York. Andrew has worked at Validus Re since January 2013 where he joined as Vice President. Andrew previously worked as a U.S. Treaty underwriter for Beazley Syndicate at Lloyd's and started his career at Guy Carpenter in London working in the U.S. Wholesale Treaty team. Andrew is an Associate of The Chartered Insurance Institute (ACII).

Simon Biggs – Executive Vice President

Simon Biggs is the Global Head of Data, Digital and Technology of AIG Re. He oversees Information Technology, Research Technology and Data Sciences, with the responsibility of developing strategy and overseeing execution as well as integration for all businesses across AIG Re. Previously Simon served as Director of Analytics at Validus Re/Flagstone Re. Prior to Flagstone Re, Simon acted as a Fixed Income Strategist for West End Capital Management. Simon has over 25 years of experience in analytical tool and model development relating to both Capital and Insurance Markets. Simon holds a B.S. in Computer Science from the University of Warwick (UK).

McKeisha ("Keisha") Smith – Executive Vice President

McKeisha Smith joined AIG in September 2019 as Human Resources Leader, Bermuda, where she has dual responsibility for leading the AIG and AIG Re HR teams in Bermuda. Previously, Keisha spent 14+ years in human resources at Butterfield Bank, most recently as SVP Human Resources. As Head of Bermuda HR at Butterfield, she led a team of HR professionals; served as a strategic HR business partner; and served as HR lead on the Bank's acquisitions. Keisha holds a B.S. in Accounting and an M.B.A. in Human Resources from Alabama A & M University.

3. GOVERNANCE STRUCTURE (continued)

b. Fitness and propriety requirements (continued)

ii. Description of professional qualifications, skills and expertise of the board and senior executives to carry out their functions (continued)

<u>Current Officers (continued)</u>

Xiaonan ("Shannon") Sun – Senior Vice President

Shannon Sun is the Head of Corporate Development and Chair of the Innovation Committee of AIG Re. She is responsible for AIG Re's corporate development-related initiatives, innovation strategy, as well as Validus Re's retrocession needs for non-property lines of business.

Shannon joined Validus in 2017 and has 15 years of corporate development and strategy experience in both London and Bermuda. She holds a M.A. in Mathematics from Oxford University and is a Chartered Property and Casualty Underwriter (CPCU) and an Associate in Reinsurance.

Sven Wehmeyer – Executive Vice President

Sven Wehmeyer is Executive Vice President & Head of International for Validus Re and CEO of Validus Re Switzerland. He is responsible for all International Property Business and also oversees the Validus Re International Offices. As CEO of Validus Re Switzerland, Sven is leading the Group's risk carrier in Zurich. He joined the firm in October 2006 and has held progressively senior positions. From December 1996 to September 2006, Sven held reinsurance broking positions at Aon Jauch & Hubener in Germany. He holds a Diplom-Volkswirt and Diplom-Kaufmann from Christian Albrechts University in Kiel, Germany.

Angeline Ang – Senior Vice President

Angeline Ang is the Financial Controller & Senior Vice President for the Validus Re Singapore Branch. She joined the Insurer in 2009 and is responsible for all financial accounting & regulatory requirements of the Branch office.

3. GOVERNANCE STRUCTURE (continued)

b. Fitness and propriety requirements (continued)

ii. Description of professional qualifications, skills and expertise of the board and senior executives to carry out their functions (continued)

Current Officers (continued)

Heather Legg – Senior Vice President

Heather Legg is the Chief Agent for the Canadian Branch of Validus Re Bermuda. She has over 25 years of experience in the Canadian reinsurance industry including roles at Aon and Guy Carpenter. Upon joining Validus Re in 2019, Heather worked with various stakeholders to establish the new Canadian operation and ultimately received the Order to Insure in December 2019. Heather earned a Master in Business Administration from McGill University and is a Fellow, Certified Insurance Professional. Heather is also the President of the Reinsurance Research Council of Canada, and Past Chair of the Board of Directors of Against the Grain Theatre.

Joy Manning – Secretary

Joy Manning is the Corporate Secretary of Validus Re. Joy joined Validus Re in September 2021 and she is responsible for providing corporate secretarial and related administrative support to Validus in Bermuda.

Joy has over 27 years of experience in the field of Secretarial Administration, including 13 years of experience in Corporate Administration. Her most recent role prior to joining Validus Re was that of Senior Corporate Administrator with Conyers Corporate Services (Bermuda) Limited. She possesses a Bachelor of Science Degree in Professional Management (BPM), Certificate in Supervisory Management, Certified Professional Secretary Designation (CPS), Secretarial Studies certification, and Certificates in Corporate Procedures I and II. She is also currently working toward achieving the Chartered Governance Professional and Secretaries qualification.

3. GOVERNANCE STRUCTURE (continued)

c. Risk management and solvency self-assessment

i. Description of the risk management processes and procedures to effectively identify, measure, manage and report on risk exposures

Risk Management Framework: The Insurer promotes sound risk management practices at all levels of the organization, and has implemented an Enterprise Risk Management ("ERM") framework (the "Framework") that is aligned with the Insurer's corporate culture and responds to the needs of the business. The Framework establishes, identifies, assesses, quantifies and manages risks and opportunities. The Framework is designed to:

- Establish the principles by which the Insurer can evaluate the risk/reward trade-offs associated with key strategic and tactical decisions.
- Establish a risk governance structure that, in respect of all activities related to ERM, operates with clearly defined roles and responsibilities.
- Identify and assess all risks and causes of risks arising out of the Insurer's strategic initiatives, internal processes and external environment.
- Establish a set of responses to manage the Insurer's risks within its stated risk appetite and risk tolerances.
- Establish procedures through which near-miss and actual incidents, that either have the potential to impact or have impacted the Insurer, are reported and reviewed in order to inform the risk identification and assessment process.

Risk Governance: Our risk governance philosophy reflects the overall governance of the Insurer while adhering to the overall strategy of the Insurer.

The Insurer's Board of Directors provides broad oversight of risk management for Validus Re and is responsible for, among other things, approving the Framework, working with management to ensure ongoing, effective implementation of the Framework and reviewing the Insurer's specific risk limits as defined in the Framework, including limits related to major categories of risk. The implementation of risk policies and oversight of risk management is the responsibility of the Validus Re Risk Management Committee ("VRMC"). The VRMC reports to the Insurer's Board of Directors and is governed by a charter that is reviewed and approved annually. The VRMC also has a subcommittee, the Model Validation Subcommittee ("MVS"), which is also governed by a charter that is reviewed and approved annually. Various risk policies are in place to facilitate consistent risk assessment across the Insurer and to ensure that strategic business decisions are supported by effective modeling and analysis.

3. GOVERNANCE STRUCTURE (continued)

c. Risk management and solvency self-assessment (continued)

i. Description of the risk management processes and procedures to effectively identify, measure, manage and report on risk exposures (continued)

Risk Appetite: The Insurer's risk appetite is expressed through a series of qualitative and quantitative statements, principles, limits, and tolerances that, in the aggregate, convey the Insurer's risk and reward preferences and set the risk parameters within which the Insurer operates. The risk appetite is proposed by management and approved by the Board of Directors.

The significant quantitative measures include meeting minimum returns on capital and risk-adjusted capital over a full insurance industry cycle, managing the probability of break-even net income or better, meeting or exceeding budgeted net income over a calendar year, and managing the probability of losing specified percentages of shareholders' equity in a calendar year. The measures also include probability thresholds in respect of maintaining a buffer above regulatory and other capital levels.

The Insurer also sets levels of concentration risks within its risk appetite, including those related to probable maximum losses, zonal aggregates and the contribution of various risk categories to the overall assessment of the Insurer's risk capital.

Risk Classification: Risks are broadly divided into those that the Insurer assumes explicitly and from which it derives income and those that are a by-product of the operating and business environment, from which the Insurer does not earn income.

The risks assumed are categorized as catastrophe, reserve and premium risks (also together referred to as insurance risk), market (or investment) risk and credit risk. The Insurer's goal is to get adequately compensated for these risks, while creating optimal insurance and investment portfolios subject to the constraints of the Insurer's risk appetite. The remaining risks are categorized as Operational, Strategic & Group and Business & Emerging risks, all of which the Insurer's goal is to identify, assess and mitigate to the extent considered appropriate.

Risk Ownership: The Insurer's risk management philosophy is to entrust risk identification and control activities with the employees who have the responsibility for and expertise in the areas giving rise to each risk. This approach not only creates workflow efficiencies, it also promotes awareness of and accountability for risks at all levels of the Insurer. As such, primary risk ownership is assigned to the leaders of functional areas. The risk identification and control activities are embedded in the job descriptions of risk owners and control operators and monitored by the VRMC.

3. GOVERNANCE STRUCTURE (continued)

c. Risk management and solvency self-assessment (continued)

i. Description of the risk management processes and procedures to effectively identify, measure, manage and report on risk exposures (continued)

Risk Assessment, Control and Mitigation: The Insurer performs a regular risk assessment process 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. We have established controls 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. We may also design new controls in response to the incident reporting process.

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

Exposure Management: In order to manage the assumption of insurance risk, the Insurer 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 established by the Insurer's Board of Directors. In addition, an exposure management policy is in place to ensure appropriate and consistent risk assessment and aggregation of exposures that accumulate.

Three tools are used to measure and manage exposures:

- Absolute maximum limits - these are defined based on the underlying peril or coverage and include measures such as zonal aggregates, which convey the maximum contractual loss exposure.

- Probable maximum loss - these are defined where probabilistic event sets exist for underlying perils and are established for most natural catastrophe, aviation and upstream energy coverage, and convey an extreme but likely loss exposure.

- Realistic disaster scenarios ("RDSs") - these are either prescribed by third parties or developed internally and convey a more intuitive view of potential loss outcomes.

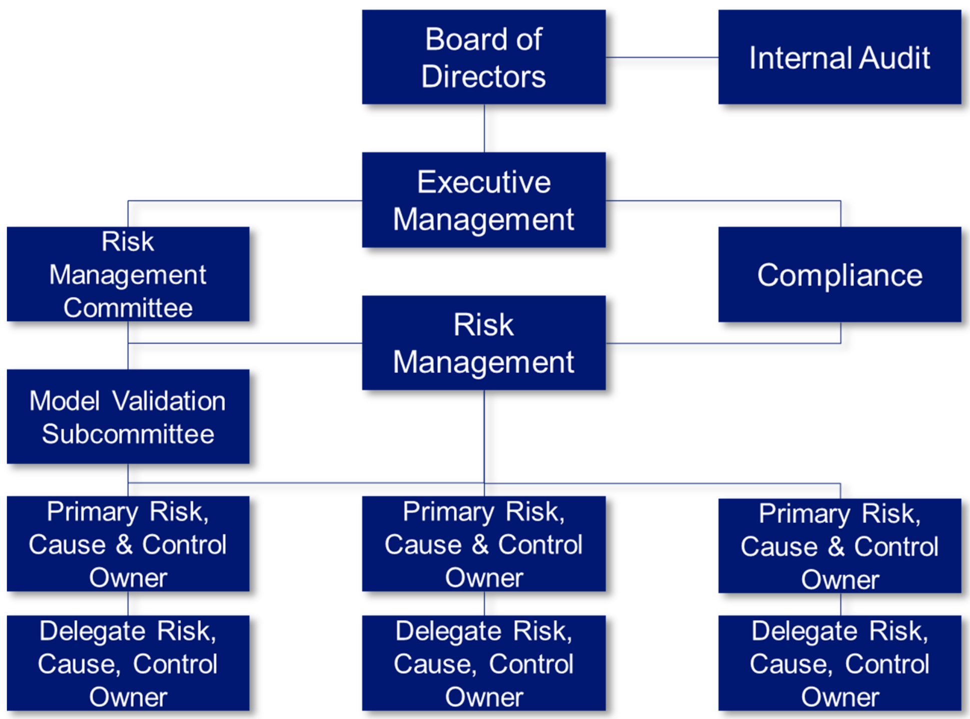
The Insurer will often use multiple tools to validate its exposure measurement and ensures that at least one of these tools is available for each class of business.

3. GOVERNANCE STRUCTURE (continued)

c. Risk management and solvency self-assessment (continued)

ii. Description of how the risk management and solvency self-assessment systems are implemented and integrated into the Insurer's operations; including strategic planning and organizational and decision making process

The chart below outlines the structure of Risk Governance throughout Validus Re. The Risk Governance structure is designed to establish clear lines of responsibility and oversight duties for the Insurer and operating companies. The Risk Framework sets out the responsibilities and duties for each committee.



The Insurer's Board of Directors approve the Risk Management framework, the Risk Appetite Statement and the regulatory filings (including the Solvency Self-Assessment) and disclosures.

The VRMC are responsible for the oversight of the key risk management and solvency self-assessment systems, with some items delegated to its subcommittee.

3. GOVERNANCE STRUCTURE (continued)

c. Risk management and solvency self-assessment (continued)

iii. Description of the relationship between the solvency self-assessment, solvency needs, and capital and risk management systems

The solvency self-assessment, utilizing the Validus Re Capital Model, is the primary tool for monitoring ongoing compliance with the quantitative measures set out in our Risk Appetite Statement. These measures include requirements for the level of capital buffers to maintain above requirements set by regulators, rating agencies and our own internal view of our economic capital requirement - Risk Capital measured at a 1 in 100 TVAR level from the Validus Re Capital Model. In each case, we require that sufficient capital resources are maintained to ensure the probability of exhausting any of our capital buffers is below a desired threshold (set out in the Risk Appetite Statement).

Additionally, the solvency self-assessment provides a variety of information and risk measures that are used in informing business strategy, such as decisions on risk transfer through reinsurance/retrocession and optimizing our underwriting portfolio from a risk vs return viewpoint.

The risk management systems feed up into the calibration of the solvency self-assessment in various ways. For example, internal loss data is used in calibration of the insurance risk distributions and assessments of operational risks and controls are used in calibrating the operational risk distributions.

iv. Description of the solvency self-assessment approval process including the level of oversight and independent verification by the board and senior executives

Solvency self-assessment is prepared by the VP, Capital Modeling. This is reviewed by the CRO, followed by the VRMC. The VRMC consists of the Insurer’s CEO, CRO, Chief Actuary and CFO, among other members. A special meeting is organized for the Insurer’s Board of Directors to allow sufficient time for a review of the solvency self-assessment and to answer any questions they may have.

The solvency self-assessment is provided to the Board for approval with emphasis upon the Insurer’s internal capital modeling, significant changes during the year, current and emerging risk exposures, and how the exposures are mitigated in the risk management framework. Via the solvency self-assessment, the Board also reviews how exposures are in compliance with the Insurer’s risk appetite statement, risk tolerance levels and limits. The process respects the ‘Three Lines of Defense’ in that it is managed by the Second Line (rather than First), and is subject to periodic review by the Third Line (Internal Audit), and occasionally validated by third party consultants.

3. GOVERNANCE STRUCTURE (continued)

d. Internal controls

i. Description of the internal control system

On an annual basis, the Insurer performs risk assessments that consider and score the likelihood and impact of causes of risk, both before and after the existence of relevant controls. The Risk team works with the business to ensure that the scoring is consistent across various areas and that the appropriate key controls are in place. The key controls that have been established are designed to appropriately manage the likelihood and impact of risks. New controls may be designed as a result of the incident reporting process or where there are changes in the risk profile or underlying processes. To further strengthen the Insurer's control framework, the performance of key controls is monitored with the results being fed back to the business.

A management level committee reviews the risk framework and respective components ensuring that material elements have been identified and are being mitigated and monitored on a regular basis. The resulting output is integrated with the Validus Re Capital Model for the purpose of quantifying Operational Risk.

Various Risk Policies are in place that apply to various functions of the Insurer. Compliance with these policies is monitored on a regular basis and reported to a Management level committee.

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

ii. Description of how the compliance function is executed

The Validus Re Compliance Officer ("CO") is responsible for formulation and implementation of an effective Compliance Program. In order to assure the independence of the CO, and the integrity of the Program, the CO reports directly to the Board of Directors on a periodic basis on matters relating to the Insurer's material compliance with applicable legal/jurisdictional requirements and the Insurer's Code of Conduct. Further, any material changes to the CO's authority or status shall be made with the concurrence of the Audit Committee.

The purpose of the Validus Re Compliance Program is to:

- Integrate compliance risk management in day-to-day business activities and strategic planning;
- Help protect the Insurer from financial or reputational harm that arises from non-compliant or unethical conduct;
- Help prevent, detect and remediate compliance failures or risks; and
- Ensure the organization meets its regulatory obligations in each jurisdiction.

3. GOVERNANCE STRUCTURE (continued)

e. Internal audit – description of how the internal audit function is implemented and how it maintains its independence and objectivity when conducting its functions

Internal Audit is established by the AIG's Internal Audit Committee ("AC") pursuant to applicable laws and regulations, customs of corporate governance and best practices. The Chief Internal Auditor is hired, evaluated, retained and terminated by the AC. The AC seeks input from the Insurer's executive management in making its selection. The Chief Internal Auditor is delegated the authority to operate AIG's group internal audit function on behalf of the AC, with scope over all subsidiary operations.

The Chief Internal Auditor is authorized to allocate resources, determine scopes of work, and apply the techniques necessary to accomplish the audit objectives required by the AC. The Chief Internal Auditor and designated internal audit staff, as appropriate, are granted authority for full, free and unrestricted access to all of the organizations' functions, records, files and information systems, personnel, contractors, physical properties, rental locations, and any other item relevant to the function, process or department under review. All of the employees of the organization are required to assist the staff of group internal audit in fulfilling their audit functions and fiduciary duties.

To provide for the independence of the group internal audit function, the Chief Internal Auditor reports functionally to the AC and administratively to the Insurer's executive management. The Chief Internal Auditor shall freely discuss audit policies, audit observations and agreed actions, audit follow-up, guidance issues and other matters as necessary.

The scope of AIG's group internal audit function work encompasses the examination and evaluation of the organization's policies, procedures and data, and key activities include the review of:

- Policies and procedures approved by the Board;
- Governance and oversight structures and processes;
- Risk management procedures and reports;
- Financial and operating information;
- Compliance to procedures and relevant regulations;
- Organizational culture and ethics;
- Business operations and their effectiveness and efficiency in managing risks; and
- Projects and business change initiatives.

AIG's group internal audit function activity shall be conducted at all times in accordance with the mandatory *International Standards for the Professional Practice of Internal Auditing* adopted by the Institute of Internal Auditors ("IIA"). All members of AIG's group internal audit team shall meet or exceed the ethical standards delineated by the IIA in its *Code of Ethics*.

3. GOVERNANCE STRUCTURE (continued)

f. Actuarial function – a description of how the actuarial function is implemented

The Insurer has an established Actuarial function that is responsible for coordinating, planning, consolidating, and reporting on a broad range of actuarial items for the Group. This function reports directly to the Chief Executive Officer and has access to and frequent communication with the Board of Directors. The Chief Actuary is a Fellow of the Casualty Actuarial Society (FCAS) and a Member of the American Academy of Actuaries ("MAAA"). The key responsibilities of the Actuarial Function are to assist in the Insurer's stewardship mission by:

- Evaluating reserving policies and practices at the operating companies;
- Review of overall reserve adequacy for the Insurer;
- Evaluating pricing models utilized at the operating companies; and
- Review of budgeted or planned loss ratios for the operating companies.

g. Outsourcing

i. Description of the outsourcing policy and information on any key or important functions that have been outsourced

The Insurer has an expense and procurement policy in place that outlines the various levels of approval authority for transactions involving contractual obligations, outsourcing arrangements and disbursement of funds for activities. Certain investment management duties have been delegated to third party investment managers. Apart from this, the Insurer has not outsourced any other key operational areas including underwriting, finance, risk management, internal audit and compliance to third parties.

ii. Description of material intra-group outsourcing

The Insurer has service level agreements in place to address material intra-group outsourcing arrangements. The intra-group outsourcing arrangements include the following services:

- Actuarial
- Analytical (catastrophe research)
- Computer programming
- Credit advisory
- Finance
- Human resources
- Internal audit
- Investment management services
- Information technology
- Legal services
- Management advisory
- Operations
- Risk management

The provision of these services are charged to the service recipient at cost plus a markup, which varies based on the service provided. These service arrangements are reviewed and updated on a regular basis, and ultimately approved by the Chief Financial Officers of the relevant entities within the Validus Holdings group.

3. GOVERNANCE STRUCTURE (continued)

h. Any other information

None.

4. RISK PROFILE

a. Material risks that the insurer is exposed to, including how these risks are measured and any material changes that have occurred during the reporting period

The risk of high levels of claims following a severe catastrophe event is assessed to be material risk for the Insurer. Other material risks include the risk that we have underestimated our 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, and the risk of losses on our investment portfolio.

These risks are measured through our holistic Economic Capital Model.

The Insurer’s main risk categories are insurance, market, credit, operational, and strategic risk.

Insurance Risk – this is broken down into 3 sub-categories of risk:

- Premium Risk - the risk of potential losses incurred exceeding premiums earned, associated with the non-catastrophe portion of our insurance and reinsurance policies due to uncertainty around the frequency and severity of future claim events.

- Catastrophe Risk – the risks of potential losses incurred exceeding premiums earned, associated with the catastrophe portion of our reinsurance policies due to uncertainty around the frequency and severity of future claim events.

- Reserving Risk – the risk of deviations around the unpaid loss and expense reserves held by the Company due to the uncertainty around the severity of claim events that have already occurred;

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

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

Operational Risk - the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events; and

Strategic Risk - the risk of loss arising from the adverse effect of management decisions on both business strategies and their execution, as well as from unexpected changes in environmental trends that damage the operating economics of the business. Strategic Risk is combined with Operational Risk and collectively reported as “Operational Risk” in the Capital Model.

4. RISK PROFILE (continued)

a. Material risks that the insurer is exposed to, including how these risks are measured and any material changes that have occurred during the reporting period (continued)

All of these risks are measured using the Validus Re Capital Model. This includes external vendor models for catastrophe and market risks, and internally developed components for other risks and aggregation across risks. The Validus Re Capital Model is a fully stochastic Monte Carlo simulation model that generates 100,000 scenarios for all risk categories along with associated inter-dependencies between them. The Validus Re Capital Model has been in use for several years. Enhancements are continually made and where necessary, risk metrics can be modified as the mix of the portfolio continues to change. Changes to risk metrics are subject to approval by the VRMC and the Board of Directors.

b. How risks are mitigated including the methods used and the process to monitor the effectiveness of these methods

Our most significant risk transfer mechanism is the use of reinsurance/retrocession. Detailed analysis is undertaken each year to support the reinsurance/retrocesssion purchase decisions. This uses the Validus Re Capital Model to measure the effect and extent of risk transfer and the value creation from the options on offer. The VRMC periodically examines outwards reinsurance purchasing via analytical studies to determine effectiveness in reducing volatility and impact on profitability via return on risk metrics. The VRMC will also examine how proposed coverage would respond using an "as if" analysis with respect to specific historical losses applicable to the cover being sought (e.g., Katrina, Deepwater, etc.) and the impact of relevant RDSs are examined.

Where retrocessional protection is not present, economical, or otherwise not available alternative risk mitigation vehicles will be assessed, analysed, and executed upon to attain the Insurer's risk appetite stipulations (e.g., commodity derivatives to mitigate volatility on agricultural lines of business). Risk appetite metrics and risk limits are monitored by each operating company against tolerances on a quarterly basis. Escalation procedures are in place for breaches, involving communication to the VRMC and, if necessary, communication to the Board.

c. Material risks concentration

Material concentrations of risk from natural catastrophes include, but are not restricted to, exposure to windstorms in the United States, Europe and Japan, and exposure to earthquakes in the United States and Japan. The probable maximum loss ("PML") metrics for these peril-regions are disclosed to the Insurer's Board of Directors.

Material concentrations of risk from non-natural catastrophe include, but are not restricted to, terrorist attacks, accidents within the marine, aerospace and energy sectors, and geopolitical and economic unrest. Illustrative RDS's for non-natural catastrophes are disclosed to the Insurer's Board of Directors.

With the increased writings of Casualty, Reserve Risk (as defined in section 4a) has become another material risk for the Company. The Board of Directors has approved a change to the Company's Risk Appetite Statement which allows for additional capital for reserve risk inline with a strategy to grow Casualty in a near future provided that market conditions continue to be favorable.

Risk concentrations from other risk categories are far less material, as required by our risk appetite statement.

4. RISK PROFILE (continued)

d. How assets are invested in accordance with the prudent person principle as stated in paragraph 5.1.2 of the Code

The overriding goal of our investment management is capital preservation, such that the assets of the Insurer are invested to provide for the timely payment of all contractual obligations of policyholders and creditors, ensuring our ability to underwrite future business and to satisfy all regulatory and rating agency requirements. We aim to achieve these objectives through a clearly defined process that is driven by the enterprise-wide risk and capital position of the Insurer to ensure assets are invested in accordance with our defined financial objectives and risk tolerances. Our approach considers the joint impact of underwriting and investment risks to the Insurer, in the context of clear prioritization of underwriting needs and opportunities. As such, we structure our investment portfolio to support policyholder reserves and contingent risk exposures with a liquid portfolio of high quality fixed-income investments with a comparable duration profile.

Our Chief Financial Officer oversees our investment strategy and has established the Insurer's IG, which are approved by our Board of Directors. The purpose of the IG are to:

- Communicate and align the Insurer’s investment philosophy and goals;
- Provide transparency regarding investment policies, procedures and controls;
- Set expectations and priorities of our third party investment managers;
- Establish a framework for integrating investment management into our overall ERM process;
- Mandate our investment parameters, including permissible asset classes and portfolio constraints, and governance structure for portfolio oversight and management;
- Establish formalized criteria to measure, monitor, and evaluate investment performance and risk exposures on a regular basis; and
- Ensure assets are invested in accordance with the overall financial goals and risk tolerances of the Insurer.

The IG are reviewed periodically to reflect changes to the Insurer, the economy, the investment environment, the regulatory environment and/or other factors.

e. Stress testing and sensitivity analysis to assess material risks, including the methods and assumptions used, and the outcomes

The Insurer maintains a Validus Re Capital Model. The model incorporates every material risk to which the Insurer is exposed, including premium, catastrophe, reserving, market, credit and operational. This allows the Insurer to test the adequacy of its capital and liquidity against thousands of potential stress scenarios. A series of sensitivity tests are run on the Validus Re Capital Model to give insight into which parameters and model components are key drivers of the model results.

In addition to the probabilistic testing intrinsic to the Validus Re Capital Model, the Insurer also estimates the financial impact of several deterministic scenarios such as specific natural catastrophe events as well as stress events in the areas of stress events for some lines of business, including scenarios specified by the BMA. Based on the latest results, the Insurer believes it has sufficient capital and liquidity to comply with its contractual and regulatory obligations upon experiencing any of the tested stress scenarios.

f. Any other material information

None.

5. SOLVENCY VALUATION

a. The valuation bases, assumptions and methods used to derive the value of each asset class

The following methods and assumptions were used in estimating the fair value of each class of financial instrument recorded in the Consolidated Balance Sheets.

The carrying values of cash and cash equivalents (including restricted cash), investment income due and accrued, funds withheld, balances receivable on the sale of investments and reinsurance balances receivable approximated their fair values as at December 31, 2021, due to their respective short maturities.

Accounts and premiums receivable

The accounts and premiums receivable balance represents premiums owed from reinsurers, less related acquisition costs. Outstanding premiums are valued at fair value, being the amount recoverable, and due to the short-term nature of the receivable no adjustments to valuation, estimates or judgments are required.

The recognition and valuation basis is consistent with the accounting valuation under U.S. GAAP. However, the balance has been adjusted within the Insurer's Economic Balance Sheet to exclude the amount not yet due on the valuation date.

Derivative instruments

The Insurer enters into various derivative instruments in the form of foreign exchange contracts and commodity derivative instruments. Foreign exchange derivatives (principally foreign exchange forwards) are used to economically mitigate risk associated with exchange rate fluctuations on non-U.S. dollar foreign currency transactions and foreign denominated investments. Commodity derivatives are used to mitigate financial risk associated with certain agricultural insurance liabilities. The Insurer's derivative financial instruments are recorded on a trade-date basis and carried at fair value in the Consolidated Balance Sheets. The effect on earnings from recognizing the fair values of these derivative financial instruments depends on their intended use, their hedge designation, and their effectiveness in offsetting changes in the fair values of the exposures they are hedging.

Deferred tax assets

Deferred tax assets and liabilities are recorded in accordance with ASC Topic 740, *"Income Taxes".* Consistent with ASC 740, the Insurer records deferred income taxes which reflect operating losses and tax credits carried forward and the tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases.

The Insurer and its Bermuda-domiciled subsidiaries are not subject to any income, withholding or capital gains taxes under current Bermuda law. The Insurer has operating subsidiaries and branch offices in various other jurisdictions around the world, including but not limited to Luxembourg, Switzerland, Singapore and Canada that are subject to relevant taxes in those jurisdictions.

5. SOLVENCY VALUATION (continued)

a. The valuation bases, assumptions and methods used to derive the value of each asset class (continued)

Deferred tax assets (continued)

The Insurer recognizes the tax benefits of uncertain tax positions only where the position is more likely than not to be sustained upon examination by tax authorities based upon the technical merits of the position. Based on the more-likely-than-not recognition threshold, the Insurer must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement. The Insurer classifies all interest and penalties related to uncertain tax positions in income tax expenses.

Fixed maturity investments

In general, valuation of the Insurer's fixed maturity investment portfolio is provided by independent third party valuation service providers, such as index providers and pricing vendors, as well as broker quotations. The pricing vendors provide valuations for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services generally utilize market data and other observable inputs in matrix pricing models to determine month end prices. Prices are generally verified using third party data. Index providers generally utilize centralized trade reporting networks, available market makers and statistical techniques.

When independent third party valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either through a broker-dealer price quote or by employing market accepted valuation models. In general, broker-dealers value securities through their trading desks based on observable inputs. The methodologies include mapping securities based on trade data, bids or offers, observed spreads, and performance on newly issued securities. Broker-dealers also determine valuations by observing secondary trading of similar securities. Prices obtained from broker quotations are considered non-binding, however, they are based on observable inputs and by observing secondary trading of similar securities obtained from active, non-distressed markets. The techniques generally used to determine the fair value of the Insurer's fixed maturity investments are detailed below by asset class.

<u>U.S. government and government agency</u>

U.S. government and government agency securities consist primarily of debt securities issued by the U.S. Treasury and certain mortgage pass-through agencies. Fixed maturity investments included in U.S. government and government agency securities are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data. On-the-Run U.S. Treasury issuances are considered Level 1 given the availability of quoted prices in active markets. Off-the-Run and other U.S. Treasuries are classified as Level 2 as the significant inputs used to price these securities are observable.

5. SOLVENCY VALUATION (continued)

a. The valuation bases, assumptions and methods used to derive the value of each asset class (continued)

Fixed maturity investments (continued)

Non-U.S. government and government agency

Non-U.S. government and government agency securities consist of debt securities issued by non-U.S. governments and their agencies along with supranational organizations (also known as sovereign debt securities). Securities held in these sectors are primarily priced by pricing services who employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets. Bills, Bonds and Notes issued from Canada, France, Germany, Italy, Japan, and the United Kingdom within one year of the balance sheet date are considered Level 1 given the availability of quoted prices in active markets. All other instruments are classified as Level 2 as the significant inputs used to price these securities are observable.

U.S. states, municipalities and political subdivisions

The Insurer’s U.S. states, municipalities and political subdivisions portfolio contains debt securities issued by U.S. domiciled state and municipal entities. These securities are generally priced by independent pricing services using available market information such as yields and credit spreads. The availability of observable inputs used to price these securities is contingent on their respective maturity dates. As the significant inputs utilized to determine price are observable, the fair value of these investments are classified as Level 2.

Agency residential mortgage-backed securities

The Insurer’s agency residential mortgage-backed investments consist primarily of debt securities issued by mortgage-pass through agencies. These securities are primarily priced by pricing services using a mortgage pool specific model which utilizes daily inputs from the active to be announced market which is very liquid, as well as the U.S. Treasury market. The model also utilizes additional information, such as the weighted average maturity, weighted average coupon and other available pool level data which is provided by the sponsoring agency. Valuations are also corroborated with daily active market quotes. As securities with investment grade credit ratings utilize significant observable inputs to determine prices, the fair value of these investments are classified as Level 2. Securities below investment grade credit ratings, or where security holdings are backed by certain collateral types or are residual tranches, utilize an element of significant unobservable inputs, including credit spreads, default rates, prepayment rates, and default projections. Accordingly, the fair value of these investments are classified as Level 3.

5. SOLVENCY VALUATION (continued)

a. The valuation bases, assumptions and methods used to derive the value of each asset class (continued)

Fixed maturity investments (continued)

Non-agency residential mortgage-backed securities

The Insurer's non-agency residential mortgage-backed investments include non-agency prime and sub-prime residential mortgage-backed fixed maturity investments. Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or discounted cash flow model, which principally utilize inputs including benchmark yields, available trade information or broker quotes, issuer spreads, prepayment and default projections. The pricing services also review collateral prepayment rates, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable. Where significant inputs used to price the securities are observable, the fair value of these investments are classified as Level 2. Where such information is unavailable, or the security credit rating is below AAA, significant unobservable inputs are used to price these securities, which may include constant prepayment rates, loss severity, default rates and yield, resulting in certain securities being classified as Level 3.

Corporate

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

5. SOLVENCY VALUATION (continued)

a. The valuation bases, assumptions and methods used to derive the value of each asset class (continued)

Fixed maturity investments (continued)

Asset-backed securities

Asset backed securities include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral, including automobile loan receivables, student loans, credit card receivables, and collateralized loan obligations originated by a variety of financial institutions. Securities held in these sectors are primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment rates which may be adjusted for the underlying collateral or current price data, the U.S. Treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. The fair value classification of asset-backed securities is based on a combination of collateral type, tranche type and rating, in addition to observable pricing inputs. As the significant inputs used to price the majority of these securities are observable, the fair value of these investments are classified as Level 2. Where such information is unavailable and pricing is sourced by a broker, or the security meets specific criteria, significant unobservable inputs are used to price these securities, which includes yield, resulting in certain securities classified as Level 3.

Commercial mortgage-backed securities

The Insurer’s commercial mortgage-backed securities consist of primarily investment grade debt securities. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment rates which may be adjusted for the underlying collateral or current price data, the U.S. Treasury curve and swap curve as well as cash settlement. The pricing services determine the expected cash flows for each security held in this sector using historical prepayment and default projections for the underlying collateral and current market data. In addition, a spread is applied to the relevant benchmark and used to discount the cash flows noted above to determine the fair value of the securities held in this sector. As securities with investment grade credit ratings utilize significant observable inputs to determine prices, the fair value of these investments are classified as Level 2.

Short-term investments

Short-term investments consist primarily of highly liquid securities, all with maturities of less than one year from the date of purchase. The fair value of the portfolio is generally determined using amortized cost which approximates fair value. As the highly liquid money market-type funds are actively traded, the fair value of these investments are classified as Level 1.

Other investments

As indicated in Section 2(g), the Insurer has sold all of its Other investments during the year ended December 31, 2021

5. SOLVENCY VALUATION (continued)

b. The valuation bases, assumptions and methods used to derive the value of technical provisions and the amount of the best estimate. The amount of the risk margin as well as the level of uncertainty to determine the value of the technical provisions should be included

We have utilized the technical provision template provided by the BMA (on their website) as part of our process. We rely on the following data for technical provision calculation associated with our operating companies:

- Premium provision data provided by the operating companies: These are provided separately by operating company and are based on expected cash flows related to unearned premium and bound but not incepted contracts. Similar to the claims provision, expected cash flows and other adjustments are included. For intercompany balances with Talbot, this data comes directly from their Solvency II process.

- Claims provision data provided by the Insurer's operating companies: These are provided separately by operating company and are based on their underlying U.S. GAAP reserve process. The operating companies also provide expected reserve cash flows and other adjustments for the claims provision. For intercompany balances with Talbot, this data comes directly from their Solvency II process. Other adjustments made to the claims provision include:

  - Removal of prudency margins;
  - Adjustments for cost of investment income and bad debt;
  - Inclusion of expected cash flows for future reinstatement premiums ("RIP") and other premium receivables related to claims that have already occurred; and
  - Discounting of cash flows.

- The risk margin increases the technical provisions from the best estimate to theoretical level needed to transfer obligations to another risk bearing entity. We use the technical provision template provided by the BMA to calculate the risk margin.

- Discount rates: We use risk-free discount rates provided by the BMA. The BMA provides separate discount rates by currency.

- The operating companies independently map their data to BMA class of business. To allocate business to BMA lines of business, Validus Re used general ledger codes and Talbot uses Lloyd's business codes.

Expressed in thousands of U.S. dollars, except share amounts

5. SOLVENCY VALUATION (continued)

b. The valuation bases, assumptions and methods used to derive the value of technical provisions and the amount of the best estimate. The amount of the risk margin as well as the level of uncertainty to determine the value of the technical provisions should be included (continued)

The technical provisions are made up of the following elements:

	2022	2021
	$	$
Best estimate premium provisions	(671,664)	(338,464)
Best estimate losses and loss expense provisions	2,828,527	2,444,449
Risk margin	230,176	237,206
Total general business insurance technical provisions	**2,387,039**	**2,343,191**

c. Description of recoverables from reinsurance contracts, including special purpose insurers and other risk transfer mechanisms

The Insurer enters into retrocession agreements in order to provide greater diversification of business and to mitigate its accumulation of loss, reduce its liability on individual risks, enable it to underwrite policies with higher limits and increase its aggregate capacity. The cession of reinsurance does not legally discharge the Insurer from its primary liability for the full amount of the reinsurance policies it writes, and the Insurer is required to pay the loss and bear collection risk regarding reinsurers' obligations under reinsurance and retrocession agreements.

Retroactive reinsurance agreements are reinsurance agreements under which the reinsurer agrees to reimburse the Insurer for liabilities incurred as a result of past insurable events. For these agreements, the excess of the amounts collectible under the agreement over the premium paid is recognized as a deferred gain and is amortized into income over the settlement period of the ceded reserves. The amount of the deferred gain is adjusted each period based on loss payments and updated estimates. If the premium paid exceeds the ultimate losses collectible under the agreement, the net loss is recognized immediately in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income.

The Insurer primarily uses ceded reinsurance for risk mitigation purposes. The Insurer primarily purchases reinsurance on either an excess of loss or proportional basis, and also purchases industry loss warranties and a relatively small amount of facultative reinsurance.

Paid losses recoverable and loss reserves recoverable balances include amounts owed to us in respect of paid and unpaid ceded losses and loss expenses, respectively. The balances are presented net of a provision for non-recoverability. In establishing our reinsurance recoverable balances, significant judgment is exercised by management in determining the amount of unpaid losses and loss expenses to be ceded as well as our ability to cede losses and loss expenses under our reinsurance contracts.

5. SOLVENCY VALUATION (continued)

c. Description of recoverables from reinsurance contracts, including special purpose insurers and other risk transfer mechanisms (continued)

The Insurer's ceded unpaid losses and loss expenses consists of two elements: (1) those for reported losses, and (2) those for Incurred But Not Report ("IBNR"). Ceded amounts for IBNR are developed as part of our loss reserving process. Consequently, the estimation of ceded unpaid losses and loss expenses is subject to similar risks and uncertainties in the estimation of gross IBNR.

Although our reinsurance recoverable balances are derived from our determination of contractual provisions, the recoverability of such amounts may ultimately differ due to the potential for a reinsurer to become financially impaired or insolvent or for a contractual dispute over contract language or coverage. Consequently, we review our reinsurance recoverable balances on a regular basis to determine if there is a need to establish a provision for non-recoverability. In performing this review, the Insurer uses judgment in assessing the credit worthiness of our reinsurers and the contractual provisions of our reinsurance agreements. In the event that the credit worthiness of our reinsurers were to deteriorate, actual uncollectible amounts could be significantly greater than our provision for non-recoverability.

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

The use of different assumptions within the model could have an effect on the provision for uncollectible reinsurance reflected in the Insurer's Consolidated Financial Statements. To the extent the creditworthiness of the Insurer's reinsurers was to deteriorate due to an adverse event affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the Insurer's provision.

d. The valuation bases, assumptions and methods used to derive the value of other liabilities

The carrying values of accounts payable and accrued expenses as well as other liabilities approximated their fair values at December 31, 2022, due to their respective short maturities.

e. Any other information

None.

6. CAPITAL MANAGEMENT

a. Eligible capital

i. Description of the capital management policy and process to determine capital needs for business planning, how capital is managed and any material changes during the reporting period

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

1) Ensure sufficient capital to meet and/or exceed all applicable regulatory requirements;
2) Ensure sufficient capital to meet and/or exceeded all applicable internal capital requirements as determined by the Insurer's risk management framework;
3) Maintain some amount of excess capital over and above items 1 and 2; and
4) Return true excess capital above items 1, 2 and 3 to the Insurer's shareholders.

These requirements include, but are not limited to the following:

Regulatory requirements

Minimum capital and/or solvency standards exist for the Insurer and its subsidiaries in many of the jurisdictions in which it operates. These jurisdictions and capital requirements/models include:

- Bermuda – BMA – BSCR model; and
- Switzerland – Swiss Financial Market Supervisory Authority ("FINMA") – Swiss Solvency Test ("SST") model.

Internal capital requirements

The Insurer operates under the guidance of an extensive ERM framework that has been established to identify, assess, quantify and manage risks and opportunities. A key element of the ERM framework is the Insurer's integrated Economic Capital Model ("ECM") framework to facilitate the consistent evaluation of risk and capital.

The Insurer regularly uses both regulatory and internal capital requirements to assess the overall capital position and that of subsidiary companies. To the extent that excess capital exists over and above these requirements, Insurer management can and regularly does find the most effective means to return this additional excess capital to the Insurer's parent. Methods of excess capital return to common shareholders includes but is not limited to: common share open market repurchases, common share tender offers, regular common share dividends and extraordinary common share dividends.

Expressed in thousands of U.S. dollars, except share amounts

6. CAPITAL MANAGEMENT (continued)

a. Eligible capital (continued)

ii. Description of the eligible capital categorized by tiers in accordance with the Eligible Capital Rules

As at December 31, 2022 and 2021, Eligible Capital for the Insurer was categorized as follows:

	2022	2021
	$	$
Tier 1 available capital	2,522,792	2,484,847
Tier 2 available capital	150,000	150,000
Tier 3 available capital	200,000	200,000
Total eligible capital	**2,872,792**	**2,834,847**

The majority of Eligible Capital for the Insurer is Tier 1, the highest quality capital, consisting of capital stock, contributed surplus and statutory surplus. The Insurer also has a modest amount of Tiers 2 and 3 capital consisting of letters of credit approved by the BMA as Other Fixed Capital.

iii. Description pf the eligible capital categorized by Tiers, in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency defined in accordance with section (1)(1) of the Act

As at December 31, 2022 and 2021, the Eligible Capital for the Insurer as applied to its Minimum Margin of Solvency ("MSM") and ECR was categorized as follows:

	2022		2021	
	Applied to MSM	Applied to ECR	Applied to MSM	Applied to ECR
	$	$	$	$
Tier 1 available capital	2,522,792	2,522,792	2,484,847	2,215,200
Tier 2 available capital	150,000	150,000	150,000	150,000
Tier 3 available capital	-	200,000	-	200,000
Total eligible capital	**2,672,792**	**2,872,792**	**2,634,847**	**2,834,847**

iv. Confirmation that the eligible capital is subject to transitional arrangements as required under the Eligible Capital Rules

The $200,000 letter of credit approved as Eligible Capital is subject to transitional arrangements to 2023. The $150,000 letter of credit approved as Eligible Capital is subject to transitional arrangements to 2025.

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6. CAPITAL MANAGEMENT (continued)

a. Eligible capital (continued)

v. Identification of any factors affecting encumbrances affecting the availability and transferability of capital to meet the Eligible Capital Rules

As at December 31, 2022, the Insurer had cash and cash equivalents, restricted cash, short-term investments and fixed maturity investments that were pledged during the normal course of business, of which certain assets were held in trust. Pledged assets are generally for the benefit of the Insurer's cedants and policyholders, to support fully collateralized reinsurance transactions and to facilitate the accreditation of the Insurer by certain regulators. These assets are released to the Insurer upon the payment of the obligations or the expiration of the risk period.

vi. Identification of ancillary capital instruments that have been approved by the Authority

On December 27, 2018, the Insurer secured a non-assignable, non-transferrable unsecured standby letter of credit from Standard Chartered Bank for a sum not exceeding the aggregate amount of $200,000 effective December 31, 2018, with an original expiration date of December 31, 2021. This letter of credit provides for an automatic renewal for one year at each anniversary date, unless at least 60 days prior to each such commencement date anniversary, the bank sends written notice to the Insurer that they elect not to consider this LOC so extended. The Insurer did not receive any such notice, and hence, this letter of credit is considered to be renewed until December 31, 2023. This standby letter of credit is recorded as Other Fixed Capital on the Statutory Statement of Capital and Surplus and as a Tier 3 Ancillary Capital as at December 31, 2022 and 2021, subject to certain conditions.

On May 27, 2020, the Insurer secured a non-assignable, non-transferrable unsecured standby letter of credit from Société Générale for a sum not exceeding the aggregate amount of $150,000 effective May 27, 2020, expiring on May 27, 2025. This standby letter of credit is recorded as Other Fixed Capital on the Statutory Statement of Capital and Surplus and as a Tier 2 Ancillary Capital as at December 31, 2022 and 2021, subject to certain conditions.

vii. Identification of differences in shareholder's equity as stated in the financial statements versus available statutory capital and surplus

Other than the impact of statutory based technical provision valuation techniques, significant differences between U.S. GAAP shareholders' equity and available statutory capital and surplus include an increase in available statutory capital and surplus for letter of credit approved as other fixed capital, and a reduction in available statutory capital for the removal of intercompany loan receivables and prepaid expenses.

Expressed in thousands of U.S. dollars, except share amounts

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6. CAPITAL MANAGEMENT (continued)

b. Regulatory capital requirements

i. Identification of the amount of the ECR and Minimum Margin of Solvency at the end of the reporting period

As at December 31, 2022 and 2021, the regulatory capital requirements for the Insurer were assessed as follows:

	2022	2021
	$	$
ECR	1,227,798	1,210,720
MSM	512,436	591,332

ii. Identification of any non-compliance with the Minimum Margin of Solvency and the ECR

As at December 31, 2022 and 2021, the Insurer was compliant with the MSM and ECR requirement.

iii. Description of the amount and circumstances surrounding the non-compliance, the remedial measures taken and their effectiveness

Not applicable.

iv. Where the non-compliance has not been resolved, a description of the amount of the non-compliance at the end of the reporting period

Not applicable.

c. Approved internal capital model used to derive the ECR

i. A description of the purpose and scope of the business and risk areas where the internal model is used

Not applicable.

ii. Where a partial internal model is used, a description of how it is integrated with the BSCR Model

Not applicable.

iii. A description of methods used in the internal model to calculate the ECR

Not applicable.

iv. A description of aggregation methodologies and diversification effects

Not applicable.

6. CAPITAL MANAGEMENT (continued)

c. Approved internal capital model used to derive the ECR (continued)

v. A description of the main differences in the methods and assumptions used for the risk areas in the internal model versus the BSCR Model

Not applicable.

vi. A description of the nature and suitability of the data used in the internal model

Not applicable.

vii. Any other information

Not applicable.

7. SIGNIFICANT EVENT

a. A description of the significant event

Management has evaluated the need to disclose events that occurred subsequent to the balance sheet date through April 24, 2023, the date of these financial statements were available to be issued. No events have been identified.

7. SIGNIFICANT EVENT (continued)

b. Approximate date(s) or proposed timing of the significant event

See Section 7(a) above.

c. Confirmation of how the significant event has impacted, or will impact, any information provided in the most recent financial condition report filed with the Authority

See Section 7(a) above.

d. Any other material information

Russia/Ukraine conflict

The Russia/Ukraine conflict began in February 2022. The conflict has and may continue to have a significant impact on the global macroeconomic and geopolitical environments, including increased volatility in capital and commodity markets, rapid changes to regulatory conditions around the globe including the use of sanctions, operational challenges for multinational corporations, inflationary pressures and an increased risk of cybersecurity incidents.

The conflict is evolving and has the potential to continue to adversely affect our business and results of operations from an investment, underwriting and operational perspective. While management believes appropriate action has been taken to minimize related risk, the Insurer continues to monitor potential exposure and operational impacts, as well as any actual and potential claims activity. The ultimate impact will depend on future developments that are uncertain and cannot be reasonably predicted, including scope, severity and duration, governmental, legislative and regulatory actions taken (including the application of sanctions), and court decisions, if any, rendered in response to those actions.

Coronavirus (COVID-19) pandemic

While the ultimate impacts from the COVID-19 pandemic are still evolving, it has caused significant societal disruption and has had adverse economic impacts on the Insurer's business, such as volatility in the capital markets, disruptions in the labor market, supply chain disruption and inflationary pressures. The Insurer cannot estimate the full extent to which the COVID-19 pandemic may continue to cause or exacerbate certain risks to our global business, including those discussed herein.

Due to the evolving and disruptive nature of the COVID-19 pandemic, the Insurer could experience other potential impacts, including, but not limited to, increased reserves for losses and loss expenses, net of reinsurance. Further, new and potentially unforeseen risks beyond those described above and in other risk factors herein may arise as a result of the pandemic and the actions taken by governmental and regulatory authorities to mitigate its impact.

EXHIBIT A

List of subsidiaries

SECTION	Jurisdiction	Ownership Interest Held By Immediate Parent is 100%, unless otherwise indicated
Validus Reinsurance, Ltd.	Bermuda	
Validus Reinsurance, Ltd. – Singapore Branch	Singapore	
Validus Reinsurance, Ltd. – Canada Branch	Canada	
Validus Holdings (UK) Ltd	United Kingdom	
Validus Research, Inc.	Canada	
Validus Reinsurance (Switzerland) Ltd	Switzerland	
Validus Reinsurance (Switzerland) Ltd – Bermuda Branch	Bermuda	
Flagstone Reinsurance (Luxembourg), SARL	Luxembourg	
Validus UPS, Ltd.	Bermuda	
Flagstone (Bermuda) Holdings Limited	Bermuda	
Mont Fort Re Ltd.	Bermuda	