



As of April 30, 2018, there were 79,329,028 outstanding Common Shares, \$0.175 par value per share, of the registrant.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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Validus Holdings, Ltd.

Consolidated Balance Sheets

As at March 31, 2018 (unaudited) and December 31, 2017

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

|   | March 31,<br>2018<br>(unaudited) | December 31,<br>2017 |
|---|----------------------------------|----------------------|
| Assets  |                                  |                      |
| Fixed maturity investments trading, at fair value (amortized cost: 2018—\$5,874,140; 2017—\$5,876,261)    | \$5,803,022                      | \$5,858,348          |
| Short-term investments trading, at fair value (amortized cost: 2018—\$3,638,995; 2017—\$3,381,714)        | 3,638,940                        | 3,381,757            |
| Other investments, at fair value (cost: 2018—\$331,950; 2017—\$330,416)                                   | 357,246                          | 355,218              |
| Investments in investment affiliates, equity method (cost: 2018—\$75,302; 2017—\$61,944)                  | 13,471                           | 100,137              |
| Cash and cash equivalents   | 672,173                          | 754,990              |
| Restricted cash   | 302,277                          | 394,663              |
| Total investments and cash  | 10,887,129                       | 10,845,113           |
| Premiums receivable   | 1,865,460                        | 939,487              |
| Deferred acquisition costs  | 309,825                          | 213,816              |
| Prepaid reinsurance premiums  | 390,900                          | 132,938              |
| Securities lending collateral   | 4,210                            | 2,717                |
| Loss reserves recoverable   | 979,944                          | 1,233,997            |
| Paid losses recoverable   | 59,892                           | 46,873               |
| Income taxes recoverable  | 7,705                            | 9,044                |
| Deferred tax asset  | 56,739                           | 52,467               |
| Receivable for investments sold   | 31,512                           | 12,182               |
| Intangible assets   | 169,168                          | 171,411              |
| Goodwill  | 229,573                          | 229,573              |
| Accrued investment income   | 29,621                           | 29,096               |
| Other assets  | 578,964                          | 508,165              |
| Total assets  | \$15,600,642                     | \$14,426,879         |
| Liabilities   |                                  |                      |
| Reserve for losses and loss expenses  | \$4,632,629                      | \$4,831,390          |
| Unearned premiums   | 2,242,368                        | 1,147,186            |
| Reinsurance balances payable  | 398,861                          | 331,645              |
| Securities lending payable  | 4,210                            | 2,717                |
| Deferred tax liability  | 3,633                            | 4,600                |
| Payable for investments purchased   | 85,946                           | 74,496               |
| Accounts payable and accrued expenses   | 520,916                          | 1,225,875            |
| Notes payable to AlphaCat investors   | 1,268,194                        | 1,108,364            |
| Senior notes payable  | 245,614                          | 245,564              |
| Debentures payable  | 539,572                          | 539,158              |
| Total liabilities   | 9,941,943                        | 9,510,995            |
| Commitments and contingent liabilities  |                                  |                      |
| Redeemable noncontrolling interests   | 1,423,110                        | 1,004,094            |
| Shareholders' equity  |                                  |                      |
| Preferred shares (Issued and Outstanding: 2018—16,000; 2017—16,000)                                       | 400,000                          | 400,000              |
| Common shares (Issued: 2018—162,003,969; 2017—161,994,491; Outstanding: 2018—79,329,028; 2017—79,319,550) | 28,351                           | 28,349               |

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|  |               |               |   |
|--|---------------|---------------|---|
| Treasury shares (2018—82,674,941; 2017—82,674,941)                   | (14,468       | ) (14,468     | ) |
| Additional paid-in capital   | 824,356       | 814,641       |   |
| Accumulated other comprehensive income (loss)                        | 9,405         | (22,192       | ) |
| Retained earnings  | 2,653,588     | 2,688,742     |   |
| Total shareholders' equity available to Validus                      | 3,901,232     | 3,895,072     |   |
| Noncontrolling interests   | 334,357       | 16,718        |   |
| Total shareholders' equity   | 4,235,589     | 3,911,790     |   |
| Total liabilities, noncontrolling interests and shareholders' equity | \$ 15,600,642 | \$ 14,426,879 |   |

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

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Validus Holdings, Ltd.

Consolidated Statements of (Loss) Income and Comprehensive Income

For the Three Months Ended March 31, 2018 and 2017 (unaudited)

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

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2018                            | 2017        |
|   | (unaudited)                     |             |
| Revenues  |                                 |             |
| Gross premiums written  | \$1,832,456                     | \$1,190,857 |
| Reinsurance premiums ceded  | (376,294 )                      | (200,106 )  |
| Net premiums written  | 1,456,162                       | 990,751     |
| Change in unearned premiums   | (837,220 )                      | (415,375 )  |
| Net premiums earned   | 618,942                         | 575,376     |
| Net investment income   | 52,072                          | 40,214      |
| Net realized gains (losses) on investments                                | 2,200                           | (1,164 )    |
| Change in net unrealized (losses) gains on investments                    | (57,381 )                       | 13,348      |
| Income from investment affiliates   | 13,068                          | 5,188       |
| Other insurance related income and other income                           | 25,540                          | 1,330       |
| Foreign exchange gains  | 525                             | 1,569       |
| Total revenues  | 654,966                         | 635,861     |
| Expenses  |                                 |             |
| Losses and loss expenses  | 321,545                         | 269,585     |
| Policy acquisition costs  | 116,456                         | 111,628     |
| General and administrative expenses                                       | 114,726                         | 87,924      |
| Share compensation expenses   | 9,729                           | 9,491       |
| Finance expenses  | 14,263                          | 13,943      |
| Transaction expenses  | 7,756                           | —           |
| Total expenses  | 584,475                         | 492,571     |
| Income before taxes and (income) attributable to AlphaCat investors       | 70,491                          | 143,290     |
| Tax benefit   | 6,833                           | 3,549       |
| (Income) attributable to AlphaCat investors                               | (10,862 )                       | (7,503 )    |
| Net income  | 66,462                          | 139,336     |
| Net (income) attributable to noncontrolling interests                     | (64,712 )                       | (42,572 )   |
| Net income available to Validus   | 1,750                           | 96,764      |
| Dividends on preferred shares   | (5,828 )                        | (2,203 )    |
| Net (loss) income (attributable) available to Validus common shareholders | \$(4,078 )                      | \$94,561    |
| Comprehensive income:   |                                 |             |
| Net income  | \$66,462                        | \$139,336   |
| Other comprehensive income (loss), net of tax:                            |                                 |             |
| Change in foreign currency translation adjustments                        | 1,837                           | 597         |
| Change in minimum pension liability                                       | (38 )                           | 68          |
| Change in fair value of cash flow hedges                                  | 28,763                          | 98          |
| Other comprehensive income, net of tax                                    | 30,562                          | 763         |
| Comprehensive (income) attributable to noncontrolling interests           | (64,712 )                       | (42,572 )   |
| Comprehensive income available to Validus                                 | \$32,312                        | \$97,527    |
| (Loss) earnings per common share  |                                 |             |

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|   |           |   |         |
|---|-----------|---|---------|
| Basic (loss) earnings per share (attributable) available to Validus common shareholders   | \$ (0.05) | ) | \$ 1.19 |
| (Loss) earnings per diluted share (attributable) available to Validus common shareholders | \$ (0.05) | ) | \$ 1.17 |
| Cash dividends declared per common share  | \$ 0.38   |   | \$ 0.38 |

Weighted average number of common shares and common share equivalents outstanding:

|         |            |            |
|---------|------------|------------|
| Basic   | 79,325,688 | 79,133,671 |
| Diluted | 79,325,688 | 80,739,142 |

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



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Validus Holdings, Ltd.  
 Consolidated Statements of Shareholders' Equity  
 For the Three Months Ended March 31, 2018 and 2017 (unaudited)  
 (Expressed in thousands of U.S. dollars)

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2018                            | 2017        |
|   | (unaudited)                     |             |
| Preferred shares  |                                 |             |
| Balance, beginning and end of period                                    | \$400,000                       | \$150,000   |
| Common shares   |                                 |             |
| Balance, beginning of period  | \$28,349                        | \$28,224    |
| Common shares issued, net   | 2                               | 1           |
| Balance, end of period  | \$28,351                        | \$28,225    |
| Treasury shares   |                                 |             |
| Balance, beginning and end of period                                    | \$(14,468 )                     | \$(14,376 ) |
| Additional paid-in capital  |                                 |             |
| Balance, beginning of period  | \$814,641                       | \$821,023   |
| Common shares (redeemed) issued, net                                    | (14 )                           | (168 )      |
| Share compensation expenses   | 9,729                           | 9,491       |
| Balance, end of period  | \$824,356                       | \$830,346   |
| Accumulated other comprehensive income (loss)                           |                                 |             |
| Balance, beginning of period  | \$(22,192 )                     | \$(23,216 ) |
| Other comprehensive income  | 30,562                          | 763         |
| Amounts reclassified from accumulated other comprehensive income (loss) | 1,035                           | —           |
| Balance, end of period  | \$9,405                         | \$(22,453 ) |
| Retained earnings   |                                 |             |
| Balance, beginning of period  | \$2,688,742                     | \$2,876,636 |
| Net income  | 66,462                          | 139,336     |
| Net (income) attributable to noncontrolling interests                   | (64,712 )                       | (42,572 )   |
| Dividends on common shares  | (31,076 )                       | (31,063 )   |
| Dividends on preferred shares   | (5,828 )                        | (2,203 )    |
| Balance, end of period  | \$2,653,588                     | \$2,940,134 |
| Total shareholders' equity available to Validus                         | \$3,901,232                     | \$3,911,876 |
| Noncontrolling interests  | 334,357                         | 330,597     |
| Total shareholders' equity  | \$4,235,589                     | \$4,242,473 |

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

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Validus Holdings, Ltd.

Consolidated Statements of Cash Flows

For the Three Months Ended March 31, 2018 and 2017 (unaudited)

(Expressed in thousands of U.S. dollars)

|   | Three Months Ended<br>March 31, |            |
|---|---------------------------------|------------|
|   | 2018                            | 2017       |
|   | (unaudited)                     |            |
| Cash flows provided by (used in) operating activities                         |                                 |            |
| Net income  | \$66,462                        | \$139,336  |
| Adjustments to reconcile net income to cash provided by operating activities: |                                 |            |
| Share compensation expenses   | 9,729                           | 9,491      |
| Amortization of discount on Senior Notes                                      | 27                              | 27         |
| (Income) from investment and operating affiliates                             | (13,068 )                       | (5,188 )   |
| Net realized and change in net unrealized losses (gains) on investments       | 55,181                          | (12,184 )  |
| Amortization of intangible assets   | 2,243                           | 1,416      |
| Foreign exchange (gains) included in net income                               | (9,885 )                        | (4,938 )   |
| Amortization of premium on fixed maturity investments                         | 3,899                           | 3,536      |
| Change in operational balance sheet items:                                    |                                 |            |
| Premiums receivable   | (924,817 )                      | (488,653 ) |
| Deferred acquisition costs  | (96,009 )                       | (82,953 )  |
| Prepaid reinsurance premiums  | (257,962 )                      | (121,050 ) |
| Loss reserves recoverable   | 255,701                         | (20,743 )  |
| Paid losses recoverable   | (13,069 )                       | (2,619 )   |
| Reserve for losses and loss expenses  | (207,632 )                      | 53,436     |
| Unearned premiums   | 1,095,182                       | 536,425    |
| Reinsurance balances payable  | 66,720                          | 63,070     |
| Other operational balance sheet items, net                                    | 13,240                          | (50,610 )  |
| Net cash provided by operating activities                                     | 45,942                          | 17,799     |
| Cash flows provided by (used in) investing activities                         |                                 |            |
| Proceeds on sales of fixed maturity investments                               | 785,662                         | 743,631    |
| Proceeds on maturities of fixed maturity investments                          | 166,651                         | 123,269    |
| Purchases of fixed maturity investments                                       | (963,990 )                      | (676,349 ) |
| Purchases (sales) of short-term investments, net                              | (257,214 )                      | 11,030     |
| Purchases of other investments, net   | (1,137 )                        | (34,295 )  |
| Increase in securities lending collateral                                     | (1,493 )                        | (607 )     |
| (Investments in) distributions from investment affiliates, net                | (266 )                          | 10,922     |
| Net cash (used in) provided by investing activities                           | (271,787 )                      | 177,601    |
| Cash flows provided by (used in) financing activities                         |                                 |            |
| Net proceeds on issuance of notes payable to AlphaCat investors               | 155,966                         | 73,048     |
| Redemption of common shares, net  | (12 )                           | (167 )     |
| Dividends paid on preferred shares  | (5,828 )                        | (2,203 )   |
| Dividends paid on common shares   | (31,032 )                       | (30,092 )  |
| Increase in securities lending payable  | 1,493                           | 607        |
| Third party investments in redeemable noncontrolling interests                | 385,300                         | 103,699    |
| Third party redemptions of redeemable noncontrolling interests                | (173,986 )                      | (68,296 )  |
| Third party investments in noncontrolling interests                           | 281,300                         | 154,980    |

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|  |            |            |
|--|------------|------------|
| Third party distributions of noncontrolling interests                                    | —          | (62,770 )  |
| Third party subscriptions deployed on funds and sidecars, net                            | (578,666 ) | (144,452 ) |
| Net cash provided by financing activities  | 34,535     | 24,354     |
| Effect of foreign currency rate changes on cash and cash equivalents and restricted cash | 16,107     | 5,798      |
| Net (decrease) increase in cash and cash equivalents and restricted cash                 | (175,203 ) | 225,552    |
| Cash and cash equivalents and restricted cash—beginning of period                        | 1,149,653  | 490,932    |
| Cash and cash equivalents and restricted cash—end of period                              | \$974,450  | \$716,484  |

Supplemental disclosure of cash flow information:

|                               |          |          |
|-------------------------------|----------|----------|
| Taxes paid during the year    | \$460    | \$16     |
| Interest paid during the year | \$19,068 | \$19,073 |

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Validus Holdings, Ltd.

Notes to the Consolidated Financial Statements (unaudited)

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

1. Basis of preparation and consolidation

These unaudited Consolidated Financial Statements (the “Consolidated Financial Statements”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report on Form 10-Q should be read in conjunction with the financial statements and related notes included in Validus Holdings, Ltd.’s (the “Company”) Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the U.S. Securities and Exchange Commission (the “SEC”).

During the fourth quarter of 2017, the Company changed its reportable segments to “Reinsurance,” “Insurance,” and “Asset Management.” The change in reportable segments and primary lines of business had no impact on the Company’s historical consolidated financial positions, results of operations or cash flows as previously reported. Where applicable, all prior periods presented have been reclassified to conform to this new presentation.

The Company consolidates in these Consolidated Financial Statements the results of operations and financial position of every voting interest entity (“VOE”) in which the Company has a controlling financial interest and variable interest entity (“VIE”) in which the Company is considered to be the primary beneficiary. The consolidation assessment, including the determination as to whether an entity qualifies as a VIE or VOE, depends on the facts and circumstances surrounding each entity.

In the opinion of management, these unaudited Consolidated Financial Statements reflect all adjustments (including normal recurring adjustments) considered necessary for a fair statement of the Company’s financial position and results of operations as at the end of and for the periods presented. All significant intercompany accounts and transactions have been eliminated. The results of operations for any interim period are not necessarily indicative of the results for a full year.

The preparation of these Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While the amounts included in the Consolidated Financial Statements reflect management’s best estimates and assumptions, actual results could differ from those estimates. The Company’s principal estimates include:

- the reserve for losses and loss expenses;
- the premium written on a line slip or proportional basis;
- the valuation of goodwill and intangible assets;
- the loss reserves recoverable, including the provision for uncollectible amounts; and
- the valuation of invested assets and other financial instruments.

The term “ASC” used in these notes refers to Accounting Standard Codification issued by the United States Financial Accounting Standards Board (the “FASB”).

2. Recent accounting pronouncements

Accounting Standards Adopted in 2018

In May 2014, the FASB issued Accounting Standards Updated (“ASU”) 2014-09, “Revenue from Contracts with Customers (Topic 606).” The guidance in this ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principal of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March and April 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic

606) - Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” and ASU 2016-10, “Revenue from Contracts with Customers (Topic 606) - Identifying Performance Obligations and Licensing.” The amendments in these ASUs clarify the implementation guidance within ASU 2014-09 on principal versus agent considerations and

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Validus Holdings, Ltd.

Notes to the Consolidated Financial Statements (unaudited)

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

the aspects of identifying performance obligations, respectively, while retaining the related principals in those areas. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606) - Narrow-Scope Improvements and Practical Expedients." The amendments in this ASU do not change the core principal of the guidance in Topic 606. Rather, the amendments provide clarifying guidance in a few narrow areas and add practical expedients to reduce the potential for diversity in practice as well as the cost and complexity of applying the guidance. In December 2016, the FASB issued ASU 2016-20, "Technical Corrections and Improvements to Topic 606 - Revenue from Contracts with Customers." The amendments in this ASU affect narrow aspects of the guidance issued in ASU 2014-09. The amendments in these ASUs became effective for the Company on January 1, 2018.

This guidance impacts the timing of performance fee recognition by AlphaCat Managers Ltd. ("AlphaCat Managers"). Previously, the performance fees were recognized by AlphaCat Managers monthly, on a seasonal basis, in line with the underlying insurance contract portfolio of the AlphaCat sidecars and higher risk ILS funds it manages. However, upon adoption of this guidance, performance fees are now only recognized when it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur. While performance fees are variable and dependent on the results of these entities, the adoption of this guidance did not have a material impact on the results of the Company.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10) - Recognition and measurement of financial assets and financial liabilities." The amendments in this ASU address certain aspects of recognition, measurement and disclosure of financial instruments. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments." This ASU is directed at reducing diversity in practice and addresses eight specific issues in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740) - Intra- Entity Transfers of Assets Other Than Inventory," This ASU aims to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. Prior to the effective date of this ASU, U.S. GAAP prohibited the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. The ASU requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This ASU does not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In January 2017, the FASB issues ASU 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business." The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In May 2017, the FASB issues ASU 2017-09, "Compensation - Stock Compensation (Topic 718)." This ASU is directed at reducing diversity in practice when applying the accounting guidance to a change in the terms or conditions of a share-based payment award. The amendments in this ASU became effective for the Company on January 1, 2018. Adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.



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Validus Holdings, Ltd.

Notes to the Consolidated Financial Statements (unaudited)

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

3. Business combinations

American International Group, Inc. (“AIG”)

On January 21, 2018, the Company entered into a definitive agreement and plan of merger (the “Merger Agreement”) with AIG. The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, the Company will merge with an existing AIG subsidiary in accordance with the Bermuda Companies Act (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of AIG (the “Surviving Company”). Pursuant to the Merger Agreement, at the effective time of the Merger, holders of the Company’s common shares will be entitled to receive consideration of \$68.00 in cash per common share. Each of the Company’s issued and outstanding Series A and Series B Preferred Shares will remain issued and outstanding as a “Series A Preferred Share” and “Series B Preferred Share,” respectively, of the Surviving Company.

The Merger is expected to close in mid-2018, subject to regulatory approvals and other customary closing conditions. The Merger Agreement permits the Company to pay out regular quarterly cash dividends not to exceed \$0.38 per common share, with its quarterly dividend for the second fiscal quarter for 2018 to be paid prior to the closing of the Merger even if such closing occurs prior to the regular record or payment date of such dividend.

Crop Risk Services (“CRS”)

On May 1, 2017, Western World, a wholly-owned subsidiary of the Company acquired all of the outstanding capital stock of CRS for an aggregate purchase price of \$185,576 in cash. CRS is a primary crop insurance managing general agent (“MGA”) based in Decatur, Illinois with 1,170 agents across 36 states. CRS does not have insurance licenses of its own, but acts solely as an MGA in that it can produce business for any properly licensed entity on a commission basis. Concurrent with closing of the transaction, Stratford, a wholly-owned subsidiary of Western World, was granted the required licenses to write crop insurance in the United States and executed several agreements to transfer the related agriculture book of business to Stratford.

The CRS acquisition was undertaken to expand the Company’s presence in U.S. primary specialty lines.

For segmental reporting purposes, the results of CRS’ operations, including the related agricultural book of business have been included within the Insurance segment in the Consolidated Financial Statements from the date of acquisition.

For further information regarding the acquisition of CRS please refer to Note 5, “Business combinations,” included within the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.



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## 4. Investments

Managed investments represent assets governed by the Company's investment policy statement ("IPS") whereas, non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company's IPS. Refer to Note 6, "Variable interest entities," for further details.

The amortized cost (or cost) and fair value of the Company's investments as at March 31, 2018 and December 31, 2017 were as follows:

|  | March 31, 2018               |             | December 31, 2017            |             |
|--|------------------------------|-------------|------------------------------|-------------|
|  | Amortized<br>Cost or<br>Cost | Fair Value  | Amortized<br>Cost or<br>Cost | Fair Value  |
| Managed investments                                    |                              |             |                              |             |
| U.S. government and government agency                  | \$598,080                    | \$589,161   | \$733,510                    | \$727,397   |
| Non-U.S. government and government agency              | 318,542                      | 318,345     | 310,845                      | 312,239     |
| U.S. states, municipalities and political subdivisions | 186,551                      | 184,964     | 201,347                      | 201,303     |
| Agency residential mortgage-backed securities          | 992,087                      | 968,258     | 984,387                      | 978,049     |
| Non-agency residential mortgage-backed securities      | 43,522                       | 43,487      | 40,264                       | 40,373      |
| U.S. corporate   | 1,553,311                    | 1,534,805   | 1,531,498                    | 1,533,395   |
| Non-U.S. corporate                                     | 417,264                      | 415,156     | 420,522                      | 422,249     |
| Bank loans   | 475,154                      | 468,815     | 450,320                      | 442,951     |
| Asset-backed securities                                | 744,051                      | 741,712     | 657,234                      | 658,303     |
| Commercial mortgage-backed securities                  | 325,058                      | 318,392     | 315,002                      | 312,395     |
| Total fixed maturities                                 | 5,653,620                    | 5,583,095   | 5,644,929                    | 5,628,654   |
| Short-term investments                                 | 188,306                      | 188,251     | 229,968                      | 230,011     |
| Other investments                                      |                              |             |                              |             |
| Hedge funds  | 6,954                        | 15,758      | 6,954                        | 15,774      |
| Private equity investments                             | 64,424                       | 79,774      | 63,684                       | 78,407      |
| Fixed income investment funds                          | 199,802                      | 200,944     | 203,167                      | 204,426     |
| Overseas deposits                                      | 60,770                       | 60,770      | 56,611                       | 56,611      |
| Total other investments                                | 331,950                      | 357,246     | 330,416                      | 355,218     |
| Investments in investment affiliates <sup>(a)</sup>    | 75,302                       | 113,471     | 61,944                       | 100,137     |
| Total managed investments                              | \$6,249,178                  | \$6,242,063 | \$6,267,257                  | \$6,314,020 |
| Non-managed investments                                |                              |             |                              |             |
| Catastrophe bonds                                      | \$220,520                    | \$219,927   | \$231,332                    | \$229,694   |
| Short-term investments                                 | 3,450,689                    | 3,450,689   | 3,151,746                    | 3,151,746   |
| Total non-managed investments                          | 3,671,209                    | 3,670,616   | 3,383,078                    | 3,381,440   |
| Total investments                                      | \$9,920,387                  | \$9,912,679 | \$9,650,335                  | \$9,695,460 |

<sup>(a)</sup> The Company's investments in investment affiliates have been treated as equity method investments with the corresponding gains and losses recorded in income as "Income from investment affiliates."

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## (a) Fixed maturity investments

The following table sets forth certain information regarding Standard & Poor's credit quality ratings (or an equivalent rating with another recognized rating agency) of the Company's fixed maturity investments as at March 31, 2018 and December 31, 2017:

|  | March 31, 2018 |            | December 31, 2017 |            |
|--|----------------|------------|-------------------|------------|
|  | Fair Value     | % of Total | Fair Value        | % of Total |
| Managed fixed maturities                                 |                |            |                   |            |
| AAA  | \$2,648,321    | 45.7 %     | \$2,715,074       | 46.4 %     |
| AA   | 419,695        | 7.2 %      | 442,397           | 7.6 %      |
| A  | 1,159,233      | 20.0 %     | 1,137,795         | 19.4 %     |
| BBB  | 830,866        | 14.3 %     | 828,392           | 14.1 %     |
| Total investment grade managed fixed maturities          | 5,058,115      | 87.2 %     | 5,123,658         | 87.5 %     |
| BB   | 170,818        | 2.9 %      | 168,967           | 2.9 %      |
| B  | 240,099        | 4.1 %      | 237,131           | 4.0 %      |
| CCC  | 21,783         | 0.4 %      | 18,217            | 0.3 %      |
| NR   | 92,280         | 1.6 %      | 80,681            | 1.4 %      |
| Total non-investment grade managed fixed maturities      | 524,980        | 9.0 %      | 504,996           | 8.6 %      |
| Total managed fixed maturities                           | \$5,583,095    | 96.2 %     | \$5,628,654       | 96.1 %     |
| Non-managed catastrophe bonds                            |                |            |                   |            |
| BB   | 21,607         | 0.4 %      | 22,110            | 0.3 %      |
| B  | 2,379          | — %        | 3,265             | 0.1 %      |
| NR   | 195,941        | 3.4 %      | 204,319           | 3.5 %      |
| Total non-investment grade non-managed catastrophe bonds | 219,927        | 3.8 %      | 229,694           | 3.9 %      |
| Total non-managed catastrophe bonds                      | 219,927        | 3.8 %      | 229,694           | 3.9 %      |
| Total fixed maturities                                   | \$5,803,022    | 100.0 %    | \$5,858,348       | 100.0 %    |

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The amortized cost and fair values for the Company's fixed maturity investments held at March 31, 2018 and December 31, 2017 are shown below by contractual maturity. Actual maturity may differ from contractual maturity due to prepayment rights associated with certain investments.

|   | March 31, 2018         |             | December 31, 2017      |             |
|---|------------------------|-------------|------------------------|-------------|
|   | Amortized Cost or Cost | Fair Value  | Amortized Cost or Cost | Fair Value  |
| Managed fixed maturities                    |                        |             |                        |             |
| Due in one year or less                     | \$346,118              | \$344,749   | \$343,360              | \$343,541   |
| Due after one year through five years       | 2,453,565              | 2,424,185   | 2,527,018              | 2,513,620   |
| Due after five years through ten years      | 560,679                | 554,188     | 577,347                | 577,109     |
| Due after ten years                         | 188,540                | 188,124     | 200,317                | 205,264     |
|   | 3,548,902              | 3,511,246   | 3,648,042              | 3,639,534   |
| Asset-backed and mortgage-backed securities | 2,104,718              | 2,071,849   | 1,996,887              | 1,989,120   |
| Total managed fixed maturities              | \$5,653,620            | \$5,583,095 | \$5,644,929            | \$5,628,654 |
| Non-managed catastrophe bonds               |                        |             |                        |             |
| Due in one year or less                     | \$67,370               | \$67,926    | \$88,797               | \$88,367    |
| Due after one year through five years       | 147,400                | 146,238     | 140,035                | 138,844     |
| Due after five years through ten years      | 5,750                  | 5,763       | 2,500                  | 2,483       |
| Total non-managed catastrophe bonds         | 220,520                | 219,927     | 231,332                | 229,694     |
| Total fixed maturities                      | \$5,874,140            | \$5,803,022 | \$5,876,261            | \$5,858,348 |

## (b) Other investments

The following tables set forth certain information regarding the Company's other investment portfolio as at March 31, 2018 and December 31, 2017:

|                               | March 31, 2018    |  |  |                      |   |
|-------------------------------|-------------------|--|--|----------------------|---|
|                               | Fair Value        | Investments with redemption restrictions | Investments without redemption restrictions <sup>(a)</sup> | Redemption frequency | Redemption notice period <sup>(a)</sup> |
| Hedge funds                   | \$15,758          | \$15,758                                 | \$ —   |                      |   |
| Private equity investments    | 79,774            | 79,774                                   | —  |                      |   |
| Fixed income investment funds | 200,944           | 200,944                                  | —  |                      |   |
| Overseas deposits             | 60,770            | 60,770                                   | —  |                      |   |
| Total other investments       | \$357,246         | \$357,246                                | \$ —   |                      |   |
|                               | December 31, 2017 |  |  |                      |   |
|                               | Fair Value        | Investments with redemption restrictions | Investments without redemption restrictions <sup>(a)</sup> | Redemption frequency | Redemption notice period <sup>(a)</sup> |
| Hedge funds                   | 15,774            | 15,774                                   | —  |                      |   |
| Private equity investments    | 78,407            | 78,407                                   | —  |                      |   |
| Fixed income investment funds | 204,426           | 200,532                                  | 3,894  | Daily                | Daily to 2 days                         |
| Overseas deposits             | 56,611            | 56,611                                   | —  |                      |   |
| Total other investments       | \$355,218         | \$351,324                                | \$3,894  |                      |   |

- (a) The redemption frequency and notice periods only apply to investments without redemption restrictions.

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Other investments include investments in various funds and pooled investment schemes. These alternative investments employ various investment strategies primarily involving, but not limited to, investments in collateralized obligations, fixed income securities, private equities, distressed debt and equity securities. Certain debt-like investments totaling \$193,053 (December 31, 2017: \$186,734) are either rated or consist of underlying securities or instruments which carry credit ratings issued by nationally recognized statistical rating organizations. Other equity-like investments totaling \$164,193 (December 31, 2017: \$168,484) are unrated given the nature of their underlying assets, such as private equity investments, and as such do not carry credit ratings.

Certain securities included in other investments are subject to redemption restrictions. Distributions from these funds will be received as the underlying investments of the funds are liquidated. Currently, it is not known to the Company when these underlying assets will be sold by their investment managers; however, it is estimated that the majority of the underlying assets of the investments will liquidate over five to ten-year periods from inception of the funds. Furthermore, the underlying investments held in the overseas deposit funds are liquid and will generally trade freely in an open market. However, the Company's ability to withdraw from the overseas deposit funds is restricted by annual and quarterly funding and release processes for Lloyd's market participants.

The Company's maximum exposure to any of these alternative investments is limited to the invested amounts and any remaining capital commitments. Refer to Note 15, "Commitments and contingencies," for further details. As at March 31, 2018, the Company does not have any plans to sell any of the other investments listed above.

## (c) Investments in investment affiliates

Included in the Company's managed investment portfolio as at March 31, 2018 are investments in Aquiline Financial Services Fund II L.P. ("Aquiline II"), Aquiline Financial Services Fund III L.P. ("Aquiline III"), Aquiline Technology Growth Fund L.P. ("Aquiline Tech") and Aquiline Armour Co-Invest L.P. ("Aquiline Armour") (collectively the "Aquiline partnerships").

For further information regarding the Company's Aquiline partnerships refer to Note 7(c), "Investments in investment affiliates," included within the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The following table presents a reconciliation of the Company's beginning and ending investments in investment affiliates for three months ended March 31, 2018 and 2017:

|   | Three Months Ended |            |
|---|--------------------|------------|
|   | March 31,          |            |
|   | 2018               | 2017       |
| Investment affiliates, beginning of year  | \$ 100,137         | \$ 100,431 |
| Net capital contributions (distributions) | 266                | (10,922 )  |
| Income from investment affiliates         | 13,068             | 5,188      |
| Investment affiliates, end of year        | \$ 113,471         | \$ 94,697  |

As at March 31, 2018, the Company's total unfunded investment commitment to the Aquiline partnerships was \$107,386 (December 31, 2017: \$125,996).

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The following table presents the Company's investments in the Aquiline partnerships as at March 31, 2018 and December 31, 2017:

|  | March 31, 2018        |                          |                          |                   |
|--|-----------------------|--------------------------|--------------------------|-------------------|
|  | Investment<br>at cost | Voting<br>ownership<br>% | Equity<br>ownership<br>% | Carrying<br>value |
| Aquiline II                                | \$33,008              | —%                       | 8.1 %                    | \$49,208          |
| Aquiline III                               | 24,737                | —%                       | 9.0 %                    | 47,114            |
| Aquiline Tech                              | 3,858                 | —%                       | 10.6 %                   | 3,450             |
| Aquiline Armour                            | 13,699                | —%                       | 15.2 %                   | 13,699            |
| Total investments in investment affiliates | \$75,302              |                          |                          | \$113,471         |

|  | December 31, 2017     |                          |                          |                   |
|--|-----------------------|--------------------------|--------------------------|-------------------|
|  | Investment<br>at cost | Voting<br>ownership<br>% | Equity<br>ownership<br>% | Carrying<br>value |
| Aquiline II                                | \$33,349              | —%                       | 8.1 %                    | \$51,914          |
| Aquiline III                               | 24,737                | —%                       | 9.0 %                    | 44,733            |
| Aquiline Tech                              | 3,858                 | —%                       | 10.6 %                   | 3,490             |
| Total investments in investment affiliates | \$61,944              |                          |                          | \$100,137         |

(d) Net investment income

Net investment income was derived from the following sources:

|   | Three Months<br>Ended March 31, |          |
|---|---------------------------------|----------|
|   | 2018                            | 2017     |
| Managed investments                           |                                 |          |
| Fixed maturities and short-term investments   | \$37,769                        | \$31,671 |
| Other investments                             | 4,223                           | 6,870    |
| Cash and cash equivalents and restricted cash | 1,139                           | 610      |
| Securities lending income                     | 3                               | 13       |
| Total gross investment income                 | 43,134                          | 39,164   |
| Investment expenses                           | (3,343 )                        | (2,972 ) |
| Total managed net investment income           | \$39,791                        | \$36,192 |
| Non managed investments                       |                                 |          |
| Fixed maturities and short-term investments   | \$4,148                         | \$3,060  |
| Cash and cash equivalents and restricted cash | 8,133                           | 962      |
| Total non-managed net investment income       | 12,281                          | 4,022    |
| Total net investment income                   | \$52,072                        | \$40,214 |

Net investment income from other investments includes distributed and undistributed net income from certain fixed income investment funds.

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(e) Net realized gains (losses) and change in net unrealized (losses) gains on investments

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

|   | Three Months<br>Ended March 31, |          |
|---|---------------------------------|----------|
|   | 2018                            | 2017     |
| Managed investments   |                                 |          |
| Gross realized gains  | \$6,830                         | \$2,690  |
| Gross realized (losses)   | (5,688 )                        | (5,582 ) |
| Net realized gains (losses) on investments  | 1,142                           | (2,892 ) |
| Change in net unrealized (losses) gains on investments                                | (56,777 )                       | 14,349   |
| Total net realized and change in net unrealized (losses) gains on managed investments | \$(55,635)                      | \$11,457 |
| Non-managed investments   |                                 |          |
| Gross realized gains  | \$1,235                         | \$1,728  |
| Gross realized (losses)   | (177 )                          | —        |
| Net realized gains on investments   | 1,058                           | 1,728    |
| Change in net unrealized (losses) on investments                                      | (604 )                          | (1,001 ) |
| Total net realized and change in net unrealized gains on non-managed investments      | 454                             | 727      |
| Total net realized and change in net unrealized (losses) gains on total investments   | \$(55,181)                      | \$12,184 |

(f) Pledged investments and cash

As at March 31, 2018, the Company had \$6,120,705 (December 31, 2017: \$5,853,744) of cash and cash equivalents, restricted cash, short-term investments and fixed maturity investments that were pledged during the normal course of business. Of those, \$6,092,111 were held in trust (December 31, 2017: \$5,789,081). Pledged assets are generally for the benefit of the Company's cedants and policyholders, to support AlphaCat's fully collateralized reinsurance transactions, as collateral for derivative instruments and to facilitate the accreditation of Validus Reinsurance, Ltd. ("Validus Re"), Validus Reinsurance (Switzerland) Ltd. ("Validus Re Swiss") and Lloyd's Syndicate 1183 (the "Talbot Syndicate") as alien (re)insurers by certain regulators.

In addition, the Company has pledged cash and investments as collateral under the Company's credit facilities in the amount of \$540,239 (December 31, 2017: \$576,864). For further details on the credit facilities, refer to Note 13 "Debt and financing arrangements."

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5. Fair value measurements

(a) Classification within the fair value hierarchy

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants. Under U.S. GAAP, a company must determine the appropriate level in the fair value hierarchy for each fair value measurement. The fair value hierarchy prioritizes the inputs, which refer broadly to assumptions market participants would use in pricing an asset or liability, into three levels. It gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The level in the fair value hierarchy within which a fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are described below:

Level 1 - Fair values are measured based on unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access.

Level 2 - Fair values are measured based on quoted prices in active markets for similar assets or liabilities, quoted prices for identical assets or liabilities in inactive markets, or for which significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities, etc.) or can be corroborated by observable market data.

Level 3 - Fair values are measured based on unobservable inputs that reflect the Company's own judgments about assumptions where there is little, if any, market activity for that asset or liability that market participants might use. The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead the Company to change the selection of the valuation technique (for example, from market to cash flow approach) or to use multiple valuation techniques to estimate the fair value of a financial instrument. These circumstances could cause an instrument to be reclassified between levels within the fair value hierarchy.



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At March 31, 2018, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

|  | Level 1     | Level 2     | Level 3   | Fair value based on NAV practical expedient (a) | Total       |
|--|-------------|-------------|-----------|---|-------------|
| Managed investments                                    |             |             |           |   |             |
| U.S. government and government agency                  | \$—         | \$589,161   | \$—       | \$—   | \$589,161   |
| Non-U.S. government and government agency              | —           | 318,345     | —         | —   | 318,345     |
| U.S. states, municipalities and political subdivisions | —           | 184,964     | —         | —   | 184,964     |
| Agency residential mortgage-backed securities          | —           | 968,258     | —         | —   | 968,258     |
| Non-agency residential mortgage-backed securities      | —           | 43,487      | —         | —   | 43,487      |
| U.S. corporate   | —           | 1,534,805   | —         | —   | 1,534,805   |
| Non-U.S. corporate                                     | —           | 415,156     | —         | —   | 415,156     |
| Bank loans   | —           | 241,312     | 227,503   | —   | 468,815     |
| Asset-backed securities                                | —           | 639,896     | 101,816   | —   | 741,712     |
| Commercial mortgage-backed securities                  | —           | 318,392     | —         | —   | 318,392     |
| Total fixed maturities                                 | —           | 5,253,776   | 329,319   | —   | 5,583,095   |
| Short-term investments                                 | 175,526     | 12,725      | —         | —   | 188,251     |
| Other investments                                      |             |             |           |   |             |
| Hedge funds  | —           | —           | —         | 15,758  | 15,758      |
| Private equity investments                             | —           | —           | —         | 79,774  | 79,774      |
| Fixed income investment funds                          | —           | 9,458       | 17,933    | 173,553   | 200,944     |
| Overseas deposits                                      | —           | —           | —         | 60,770  | 60,770      |
| Total other investments                                | —           | 9,458       | 17,933    | 329,855   | 357,246     |
| Investments in investment affiliates (b)               | —           | —           | —         | —   | 113,471     |
| Total managed investments                              | \$175,526   | \$5,275,959 | \$347,252 | \$329,855                                       | \$6,242,063 |
| Non-managed investments                                |             |             |           |   |             |
| Catastrophe bonds                                      | \$—         | \$154,230   | \$65,697  | \$—   | \$219,927   |
| Short-term investments                                 | 3,450,689   | —           | —         | —   | 3,450,689   |
| Total non-managed investments                          | 3,450,689   | 154,230     | 65,697    | —   | 3,670,616   |
| Total investments                                      | \$3,626,215 | \$5,430,189 | \$412,949 | \$329,855                                       | \$9,912,679 |

In accordance with ASC Topic 820 "Fair Value Measurements," investments measured at fair value using the net (a) asset value ("NAV") per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(b) In accordance with ASC Topic 825 "Financial Instruments," the Company's investments in investment affiliates have not been classified in the fair value hierarchy.

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At December 31, 2017, the Company's investments were allocated between Levels 1, 2 and 3 as follows:

|  | Level 1     | Level 2     | Level 3   | Fair value<br>based on<br>NAV<br>practical<br>expedient<br>(a) | Total       |
|--|-------------|-------------|-----------|--|-------------|
| Managed investments                                    |             |             |           |  |             |
| U.S. government and government agency                  | \$—         | \$727,397   | \$—       | \$—  | \$727,397   |
| Non-U.S. government and government agency              | —           | 312,239     | —         | —  | 312,239     |
| U.S. states, municipalities and political subdivisions | —           | 201,303     | —         | —  | 201,303     |
| Agency residential mortgage-backed securities          | —           | 978,049     | —         | —  | 978,049     |
| Non-agency residential mortgage-backed securities      | —           | 40,373      | —         | —  | 40,373      |
| U.S. corporate   | —           | 1,533,395   | —         | —  | 1,533,395   |
| Non-U.S. corporate                                     | —           | 422,249     | —         | —  | 422,249     |
| Bank loans   | —           | 232,886     | 210,065   | —  | 442,951     |
| Asset-backed securities                                | —           | 554,490     | 103,813   | —  | 658,303     |
| Commercial mortgage-backed securities                  | —           | 312,395     | —         | —  | 312,395     |
| Total fixed maturities                                 | —           | 5,314,776   | 313,878   | —  | 5,628,654   |
| Short-term investments                                 | 198,054     | 31,957      | —         | —  | 230,011     |
| Other investments                                      |             |             |           |  |             |
| Hedge funds  | —           | —           | —         | 15,774   | 15,774      |
| Private equity investments                             | —           | —           | —         | 78,407   | 78,407      |
| Fixed income investment funds                          | —           | 13,351      | 17,404    | 173,671  | 204,426     |
| Overseas deposits                                      | —           | —           | —         | 56,611   | 56,611      |
| Total other investments                                | —           | 13,351      | 17,404    | 324,463  | 355,218     |
| Investments in investment affiliates (b)               | —           | —           | —         | —  | 100,137     |
| Total managed investments                              | \$198,054   | \$5,360,084 | \$331,282 | \$324,463  | \$6,314,020 |
| Non-managed investments                                |             |             |           |  |             |
| Catastrophe bonds                                      | \$—         | \$152,233   | \$77,461  | \$—  | \$229,694   |
| Short-term investments                                 | 3,151,746   | —           | —         | —  | 3,151,746   |
| Total non-managed investments                          | 3,151,746   | 152,233     | 77,461    | —  | 3,381,440   |
| Total investments                                      | \$3,349,800 | \$5,512,317 | \$408,743 | \$324,463  | \$9,695,460 |

In accordance with ASC Topic 820 "Fair Value Measurements," investments measured at fair value using the net (a) asset value ("NAV") per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(b) In accordance with ASC Topic 825 "Financial Instruments," the Company's investments in investment affiliates have not been classified in the fair value hierarchy.

At March 31, 2018, managed Level 3 investments totaled \$347,252 (December 31, 2017: \$331,282), representing 5.6% (December 31, 2017: 5.2%) of total managed investments.

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(b) Valuation techniques

There have been no material changes in the Company's valuation techniques during the periods presented in these Consolidated Financial Statements. The following methods and assumptions were used in estimating the fair value of each class of financial instrument recorded in the Consolidated Balance Sheets.

Fixed maturity investments

In general, valuation of the Company's fixed maturity investment portfolio is provided by pricing services, 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.

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 Company considers these valuations to be Level 2 inputs as they are corroborated with other market observable inputs. The techniques generally used to determine the fair value of the Company's fixed maturity investments are detailed below by asset class.

U.S. government and government agency

U.S. government and government agency securities consist primarily of debt securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. 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. As the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

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 that 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. As the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

U.S. states, municipalities and political subdivisions

The Company'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 the techniques described for U.S. government and government agency securities described above. As the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

Agency residential mortgage-backed securities

The Company's agency residential mortgage-backed investments 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 the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

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Non-agency residential mortgage-backed securities

The Company's non-agency mortgage-backed investments include non-agency prime residential mortgage-backed fixed maturity investments. The Company holds no sub-prime fixed maturity investments in its fixed maturity investments portfolio. Securities held in these sectors are primarily priced by pricing services using an option adjusted spread model or other relevant models, which principally utilize inputs including benchmark yields, available trade information or broker quotes, and issuer spreads. The pricing services also review collateral prepayment speeds, loss severity and delinquencies among other collateral performance indicators for the securities valuation, when applicable. As the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

U.S. corporate

U.S. corporate debt securities consist primarily of investment-grade debt of a wide variety of U.S. corporate issuers and industries. The Company'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 values of these investments are classified as Level 2.

Non-U.S. corporate

Non-U.S. corporate debt securities consist primarily of investment-grade debt of a wide variety of non-U.S. corporate issuers and industries. The Company's non-U.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. As the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

Bank loans

The Company's bank loan investments consist primarily of below-investment-grade debt of a wide variety of corporate issuers and industries. The Company's bank loans 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. As the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

Also, included in the bank loan portfolio is a collection of loan participations held through an intermediary. A third party pricing service provides monthly valuation reports for each loan and participation using a combination of quotations from loan pricing services, leveraged loan indices or market price quotes obtained directly from the intermediary. Significant unobservable inputs used to price these securities include credit spreads and default rates; therefore, the fair values of these investments are classified as Level 3.

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 speeds 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 values of the securities held in this sector. As the significant inputs used to price these securities are observable, the fair value of these investments are classified as Level 2. Where pricing is unavailable from pricing services, we obtain non-binding quotes from broker-dealers. This is generally the case when there is a low volume of trading activity

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and current transactions are not orderly. Broker-dealer quotes for which significant observable inputs are unable to be corroborated with market observable information are classified as Level 3.

Commercial mortgage-backed securities

Commercial mortgage backed securities are investment-grade debt primarily priced by pricing services. The pricing services apply dealer quotes and other available trade information such as bids and offers, prepayment speeds 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 the significant inputs used to price these securities are observable, the fair values of these investments are classified as Level 2.

Catastrophe bonds

Catastrophe bonds are priced based on broker or underwriter bid indications. Level 2 catastrophe bonds are those traded over-the-counter; catastrophe bonds available only via private issuances are classified as Level 3.

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. To the extent that the remaining securities are not actively traded due to their approaching maturity, the fair values of these investments are classified as Level 2.

Other investments

Hedge funds

The hedge fund's administrator provides quarterly NAVs with a three month delay in valuation. The fair value of this investment is measured using the NAV practical expedient and therefore has not been categorized within the fair value hierarchy.

Private equity investments

The private equity funds provide quarterly or semi-annual partnership capital statements with a three or six month delay which are used as a basis for valuation. These private equity investments vary in investment strategies and are not actively traded in any open markets. The fair value of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

Fixed income investment funds

The Company's investment funds classified as Level 2 consist of a pooled investment fund. The pooled investment is invested in fixed income securities with high credit ratings and is available only to Lloyd's Trust Fund participants. The fair value of units in the investment fund is based on the NAV of the fund, which is traded on a daily basis. Included in investment funds is a residual equity tranche of a structured credit fund valued using a dynamic yield that calculates an income accrual based on an underlying valuation model with a typical cash flow waterfall structure. Significant unobservable inputs used to price this fund include default rates and prepayment rates; therefore, the fair value of the investment fund is classified as Level 3.

The fair value of the Company's remaining investment funds is based on the NAV of the fund as reported by the independent fund administrator. The fund's administrators provide a monthly reported NAV with a one or three month delay in their valuation. The fair value of these investments is measured using the NAV practical expedient and therefore it has not been categorized within the fair value hierarchy.

None of these investments are probable of being sold at amounts different than their NAVs.

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## Overseas deposits

The Company's share of a portfolio of Lloyd's overseas deposits is managed centrally by Lloyd's and invested according to local regulatory requirements. The composition of the portfolio varies and the deposits are made across the market. The fair values of the deposits are based on the portfolio level reporting that is provided by Lloyd's. The fair values of these investments are measured using the NAV practical expedient and therefore have not been categorized within the fair value hierarchy.

## (c) Level 3 investments

The following table presents a reconciliation of the beginning and ending balances for all investments measured at fair value on a recurring basis using Level 3 inputs during the three months ended March 31, 2018 and 2017:

|  | Three Months Ended March 31, 2018 |                      |  |                               |           |
|--|-----------------------------------|----------------------|--|-------------------------------|-----------|
|  | Bank<br>Loans                     | Catastrophe<br>Bonds | Fixed<br>Income<br>Investment<br>Funds | Asset<br>Backed<br>Securities | Total     |
| Level 3 investments, beginning of period | \$210,065                         | \$ 77,461            | \$ 17,404                              | \$103,813                     | \$408,743 |
| Purchases                                | 30,785                            | 18,825               | 529                                    | —                             | 50,139    |
| Sales                                    | —                                 | —                    | —                                      | (70 )                         | (70 )     |
| Settlements                              | (13,842 )                         | (31,484 )            | —                                      | —                             | (45,326 ) |
| Realized gains                           | —                                 | 1,235                | —                                      | —                             | 1,235     |
| Change in net unrealized gains (losses)  | 495                               | (340 )               | —                                      | (1,927 )                      | (1,772 )  |
| Level 3 investments, end of period       | \$227,503                         | \$ 65,697            | \$ 17,933                              | \$101,816                     | \$412,949 |
|  | Three Months Ended March 31, 2017 |                      |  |                               |           |
|  | Bank<br>Loans                     | Catastrophe<br>Bonds | Fixed<br>Income<br>Investment<br>Funds | Asset<br>Backed<br>Securities | Total     |
| Level 3 investments, beginning of period | \$246,496                         | \$ 48,375            | \$ 12,168                              | \$ 23,931                     | \$330,970 |
| Purchases                                | 23,176                            | 61,091               | —                                      | —                             | 84,267    |
| Settlements                              | (33,110 )                         | (38,780 )            | 392                                    | —                             | (71,498 ) |
| Realized gains                           | —                                 | 3,134                | —                                      | —                             | 3,134     |
| Change in net unrealized gains (losses)  | 132                               | (1,144 )             | —                                      | (49 )                         | (1,061 )  |
| Level 3 investments, end of period       | \$236,694                         | \$ 72,676            | \$ 12,560                              | \$ 23,882                     | \$345,812 |

There were no transfers into or out of Level 3 during the three months ended March 31, 2018 or 2017.

## (d) Financial instruments not carried at fair value

ASC Topic 825 "Financial Instruments" is also applicable to disclosures of financial instruments not carried at fair value, except for certain financial instruments, including insurance contracts and investments in affiliates. The carrying values of accrued investment income, other assets, net payable for investments purchased and accounts payable and accrued expenses approximated their fair values at March 31, 2018, due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 2.



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6. Variable interest entities

The Company consolidates all VIEs in which it is considered to be the primary beneficiary. The Company's VIEs are primarily entities in the AlphaCat segment.

(a) Consolidated VIEs

AlphaCat sidecars

Beginning on May 25, 2011, the Company joined with other investors in capitalizing a series of reinsurance and investment entities, referred to as "sidecars," for the purpose of investing in collateralized reinsurance and retrocessional contracts. Certain of these sidecars deployed their capital through transactions entered into by AlphaCat Reinsurance Ltd. ("AlphaCat Re"). Each of these entities returns capital once the risk period expires and all losses have been paid out. The AlphaCat sidecars are VIEs and are consolidated by the Company. The Company's maximum exposure to any of these sidecars is the amount of capital invested at any given time.

AlphaCat ILS funds

The AlphaCat ILS funds received third party subscriptions beginning on December 17, 2012. The Company and third party investors invest in the AlphaCat ILS funds for the purpose of investing in instruments with returns linked to property catastrophe reinsurance, retrocession and ILS contracts. The AlphaCat ILS funds have varying risk profiles and are categorized by the maximum permitted portfolio expected loss of the fund. The permitted portfolio expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit. Lower risk ILS funds are defined as having a maximum permitted portfolio expected loss of less than 7%, whereas higher risk ILS funds have a maximum permitted portfolio expected loss of 7% or greater. The AlphaCat ILS funds primarily deploy their capital through transactions entered into by AlphaCat Re and AlphaCat Master Fund Ltd. ("AlphaCat Master Fund"). All of the AlphaCat ILS funds are VIEs and were consolidated by the Company through May 31, 2017. However, on June 1, 2017, the Company redeemed its investment in one of the lower risk AlphaCat ILS funds. As a result, the Company was no longer deemed to be the primary beneficiary and therefore this fund was deconsolidated effective June 1, 2017.

The Company's maximum exposure to any of the funds is the amount of capital invested at any given time and any remaining capital commitments.

AlphaCat Re and AlphaCat Master Fund

The Company utilizes AlphaCat Re and AlphaCat Master Fund (collectively the "Master Funds"), both market facing entities, for the purpose of writing collateralized reinsurance and investing in capital markets products, respectively, on behalf of certain entities within the Asset Management segment and direct third party investors. AlphaCat Re enters into transactions on behalf of the AlphaCat sidecars and ILS funds (collectively the "Feeder Funds") and direct third party investors, whereas AlphaCat Master Fund only enters into transactions on behalf of certain AlphaCat ILS funds. All of the risks and rewards of the underlying transactions are allocated to the Feeder Funds and direct third party investors using variable funding notes. The Master Funds are VIEs and are consolidated by the Company.

Notes Payable to AlphaCat Investors

The Master Funds issue variable funding notes to the Feeder Funds, and direct to third party investors, in order to write collateralized reinsurance and invest in capital markets products on their behalf. The Company's investments in the Feeder Funds, together with investments made by third parties in the Feeder Funds and on a direct basis, are provided as consideration for the notes to the Master Funds. The duration of the underlying collateralized reinsurance contracts and capital market products is typically twelve months; however, the variable funding notes do not have a stated maturity date since repayment is dependent on the settlement and income or loss of the underlying transactions. Therefore, the notes are redeemed as the underlying transactions are settled. The income or loss generated by the underlying transactions is then transferred to the Feeder Funds and direct third party investors via the variable funding notes.

Any notes issued by the Master Funds to the consolidated Feeder Funds are eliminated on consolidation and only variable funding notes issued by AlphaCat Re directly to third party investors and non-consolidated Feeder Funds

remain on the Consolidated Balance Sheets as notes payable to AlphaCat investors with the related income or loss included in the Consolidated Statements of (Loss) Income and Comprehensive Income as (income) attributable to AlphaCat investors. To the extent that the income has not been returned to the investors, it is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

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One of the AlphaCat ILS funds (the “Fund”) issued both common shares and structured notes to the Company and third party investors in order to capitalize the fund. The Fund deploys its capital through AlphaCat Re; therefore, the structured notes do not have a stated maturity date since repayment is dependent on the settlement and income or loss of the variable funding notes with AlphaCat Re. The structured notes rank senior to the common shares of the Fund and earn an interest rate of 6.5% (2017: 7%) per annum, payable on a cumulative basis in arrears.

As the Fund is consolidated by the Company, the structured notes issued to the Company are eliminated on consolidation and only the structured notes issued to third party investors remain on the Consolidated Balance Sheets as notes payable to AlphaCat investors, with any related interest included in the Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income as loss (income) attributable to AlphaCat investors. To the extent that the accrued interest on the structured notes has not been returned to the investors, it is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

The following tables present reconciliations of the beginning and ending notes payable to AlphaCat investors during the three months ended March 31, 2018 and 2017:

|  | Three Months Ended March 31,<br>2018 |                     |              |
|--|--------------------------------------|---------------------|--------------|
|  | Variable<br>Funding<br>Notes         | Structured<br>Notes | Total        |
| Notes payable to AlphaCat investors, beginning of period | \$936,164                            | \$ 172,200          | \$ 1,108,364 |
| Issuance of notes payable to AlphaCat investors          | 506,540                              | 179,972             | 686,512      |
| Redemption of notes payable to AlphaCat investors        | (530,546 )                           | —                   | (530,546 )   |
| Foreign exchange losses                                  | 3,864                                | —                   | 3,864        |
| Notes payable to AlphaCat investors, end of period       | \$916,022                            | \$ 352,172          | \$ 1,268,194 |

|  | Three Months Ended March 31,<br>2017 |                     |            |
|--|--------------------------------------|---------------------|------------|
|  | Variable<br>Funding<br>Notes         | Structured<br>Notes | Total      |
| Notes payable to AlphaCat investors, beginning of period | \$278,202                            | \$—                 | \$ 278,202 |
| Issuance of notes payable to AlphaCat investors          | 274,010                              | 103,320             | 377,330    |
| Redemption of notes payable to AlphaCat investors        | (208,956 )                           | —                   | (208,956 ) |
| Notes payable to AlphaCat investors, end of period       | \$343,256                            | \$ 103,320          | \$ 446,576 |

The income attributable to AlphaCat investors for the three months ended March 31, 2018 was \$10,862 (2017: \$7,503). As at March 31, 2018, amounts due to AlphaCat investors totaling \$43,442 (December 31, 2017: \$18,054) were included in accounts payable and accrued expenses.

**BetaCat ILS funds**

The BetaCat ILS funds follow a passive buy-and-hold investment strategy, investing exclusively in catastrophe bonds (principal-at-risk variable rate notes and other event-linked securities, referred to collectively as “Cat Bonds”) focused on property and casualty risks and issued under Rule 144A of the Securities Act of 1933, as amended. Two of the three BetaCat ILS funds are VIEs, one of which is consolidated by the Company. The remaining fund is a VOE and is consolidated by the Company as it owns all of the fund’s voting equity interests. The Company’s maximum exposure to any of the funds is the amount of capital invested at any given time.

The following table presents the total assets and total liabilities of the Company’s consolidated VIEs, excluding intercompany eliminations, as at March 31, 2018 and December 31, 2017:

|  | March 31, 2018 | December 31, 2017 |
|--|----------------|-------------------|
|--|----------------|-------------------|

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|                                      | Total     | Total       | Total     | Total       |
|--------------------------------------|-----------|-------------|-----------|-------------|
|                                      | Assets    | Liabilities | Assets    | Liabilities |
| AlphaCat sidecars                    | \$25,952  | \$ 3,071    | \$25,975  | \$ 3,267    |
| AlphaCat ILS funds - Lower Risk      | 1,046,458 | 1,156       | 1,107,503 | 259,630     |
| AlphaCat ILS funds - Higher Risk     | 1,431,945 | 676,225     | 1,310,079 | 12,341      |
| AlphaCat Re and AlphaCat Master Fund | 3,878,359 | 3,878,189   | 3,398,083 | 3,397,912   |
| BetaCat ILS funds                    | 104,857   | 2,207       | 77,221    | 261         |

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Assets of consolidated VIEs can only be used to settle obligations and liabilities of the consolidated VIEs and do not have recourse to the general credit of the Company. Investments held by these entities are presented separately in Note 4, "Investments," as non-managed investments.

**(b) Non-Consolidated VIEs**

The Company invests in private equity and other investment vehicles as part of the Company's investment portfolio. The activities of these VIEs are generally limited to holding investments and the Company's involvement in these entities is passive in nature. The Company's maximum exposure to the VIEs is the amount of capital invested at any given time, and the Company does not have the power to direct the activities which most significantly impact the VIEs economic performance. The Company is therefore not the primary beneficiary of these VIEs. Refer to Note 4, "Investments," for further details.

**7. Noncontrolling interests**

Investors in certain of the AlphaCat and BetaCat ILS funds have rights that enable them, subject to certain limitations, to redeem their shares. Such investments held by third parties are therefore recorded in the Company's Consolidated Balance Sheets as redeemable noncontrolling interests, a mezzanine item between liabilities and shareholders' equity. If and when a redemption notice is received, the fair value of the redemption is reclassified to accounts payable and accrued expenses.

The AlphaCat sidecars and one of the AlphaCat ILS funds have no shareholder redemption rights. Therefore, the third party equity is recorded in the Company's Consolidated Balance Sheets as noncontrolling interests.

The following tables present a reconciliation of the beginning and ending balances of redeemable noncontrolling interests and noncontrolling interests for the three months ended March 31, 2018 and 2017:

|   | Redeemable<br>Noncontrolling<br>Interests |             | Noncontrolling<br>Interests     |           | Total                           |             |
|---|---|-------------|---------------------------------|-----------|---------------------------------|-------------|
|   | Three Months Ended<br>March 31,           |             | Three Months Ended<br>March 31, |           | Three Months Ended<br>March 31, |             |
|   | 2018                                      | 2017        | 2018                            | 2017      | 2018                            | 2017        |
| Balance, beginning of period                    | \$1,004,094                               | \$1,528,001 | \$16,718                        | \$165,977 | \$1,020,812                     | \$1,693,978 |
| Issuance of shares                              | 385,300                                   | 103,699     | 281,300                         | 154,980   | 666,600                         | 258,679     |
| Income attributable to noncontrolling interests | 28,373                                    | 25,930      | 36,339                          | 16,642    | 64,712                          | 42,572      |
| Redemption of shares / Distributions            | 5,343                                     | —           | —                               | (7,002)   | 5,343                           | (7,002)     |
| Balance, end of period                          | \$1,423,110                               | \$1,657,630 | \$334,357                       | \$330,597 | \$1,757,467                     | \$1,988,227 |

As at March 31, 2018, redemptions payable of \$nil (December 31, 2017: \$180,104) relating to redeemable noncontrolling interests were included within accounts payable and accrued expenses in the Company's Consolidated Balance Sheets.

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## 8. Derivative instruments

The Company enters into various derivative instruments in the form of foreign currency forward exchange contracts, interest rate swap contracts and weather derivative instruments. These derivative instruments are used to manage exposures to currency and interest rate risks, to enhance the efficiency of the Company's investment portfolio and to provide protection against cedants' financial exposure to variability in weather patterns. All of the Company's outstanding derivative financial instruments are recognized in the Consolidated Balance Sheets at their fair values. The effect on earnings from recognizing the fair values of these derivative financial instruments depends on each instrument's intended use, hedge designation, and effectiveness in offsetting the exposure it is intended to hedge.

## (a) Derivatives not designated as hedging instruments

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Company's Consolidated Balance Sheets as at March 31, 2018 and December 31, 2017:

|   | March 31, 2018    |                              |                              | December 31, 2017 |                              |                              |
|---|-------------------|------------------------------|------------------------------|-------------------|------------------------------|------------------------------|
|   | Asset             |                              | Liability                    | Asset             |                              | Liability                    |
|   | Notional Exposure | Derivative at Fair Value (a) | Derivative at Fair Value (a) | Notional Exposure | Derivative at Fair Value (a) | Derivative at Fair Value (a) |
| Derivatives not designated as hedging instruments |                   |                              |                              |                   |                              |                              |
| Foreign currency forward contracts                | \$239,398         | \$ 1,945                     | \$ 433                       | \$283,765         | \$ 1,147                     | \$ 906                       |
| Interest rate swap contracts                      | \$200,000         | \$ 7,357                     | \$ —                         | \$200,000         | \$ 1,589                     | \$ —                         |
| Weather derivative contracts                      | \$4,825           | \$ 26,958                    | \$ —                         | \$4,825           | \$ 853                       | \$ —                         |

(a) Asset and liability derivative positions are classified within other assets and accounts payable and accrued expenses, respectively, within the Company's Consolidated Balance Sheets.

The foreign currency forward contracts and interest rate swap contracts are valued on the basis of standard industry valuation models. The inputs to these models are based on observable market inputs, and as such the fair values of these contracts are classified as Level 2. The weather derivative contracts are valued on the basis of modeled and other information provided by Validus' counterparties. Validus reviews this information, which represents Level 3 inputs, as it is ultimately management's responsibility to ensure that the fair values reflected in the Company's financial statements are appropriate.

The following table summarizes information on the classification and net impact on earnings recognized in the Company's Consolidated Statements of Income and Comprehensive Income relating to derivatives that were not designated as hedging instruments during the three months ended March 31, 2018 and 2017:

| Derivatives not designated as hedging instruments | Classification of gains recognized in earnings  | Three Months Ended March 31, |         |
|---|---|------------------------------|---------|
|   |   | 2018                         | 2017    |
| Foreign currency forward contracts                | Foreign exchange (losses) gains                 | \$(5,201)                    | \$453   |
| Foreign currency forward contracts                | Other insurance related income and other income | \$—                          | \$(105) |
| Interest rate swap contracts                      | Net realized gains on investments               | \$5,944                      | \$—     |
| Weather derivative contracts                      | Other insurance related income and other income | \$26,773                     | \$—     |

## (b) Derivatives designated as hedging instruments

## Derivative instruments designated as cash flow hedges

During 2012 and 2013, the Company entered into several swap agreements with third parties in order to convert the floating interest rates associated with its Junior Subordinated Deferrable Debentures into fixed rates. See Note 13, "Debt and financing arrangements," for further details. The Company also designates certain foreign exchange contracts as cash flow hedges of anticipated foreign currency-denominated sales or purchases.



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The following table summarizes information on the classification and amount of the fair value of derivatives designated as hedging instruments on the Consolidated Balance Sheets as at March 31, 2018 and December 31, 2017:

|   | March 31, 2018    |                                    |  | December 31, 2017 |                                    |  |
|---|-------------------|------------------------------------|--|-------------------|------------------------------------|--|
|   | Notional Exposure | Asset Derivative at Fair Value (a) | Liability Derivative at Fair Value (a) | Notional Exposure | Asset Derivative at Fair Value (a) | Liability Derivative at Fair Value (a) |
| Derivatives designated as hedging instruments |                   |                                    |  |                   |                                    |  |
| Interest rate swap contracts                  | \$552,263         | \$ 23,256                          | \$ 4,931                               | \$552,263         | \$ 9,806                           | \$ 18,840                              |
| Foreign currency forward contracts            | \$80,373          | \$ 4,503                           | \$ —                                   | \$96,293          | \$ 1,891                           | \$ —                                   |

(a) Asset and liability derivative positions are classified within other assets and accounts payable and accrued expenses, respectively, within the Company's Consolidated Balance Sheets.

The interest rate swap contracts and foreign currency forward contracts are valued on the basis of Level 2 inputs.

The following tables provide the total impact on other comprehensive income and earnings relating to the derivative instruments formally designated as cash flow hedges for the three months ended March 31, 2018 and 2017:

|   | Three Months Ended March 31, |       |
|---|------------------------------|-------|
|   | 2018                         | 2017  |
| Interest rate swap contracts                    |                              |       |
| Amount recognized in other comprehensive income | \$25,843                     | \$ 98 |
| Amount reclassified to finance expenses         | \$1,343                      | \$ —  |

|  | Three Months Ended March 31, |      |
|--|------------------------------|------|
|  | 2018                         | 2017 |
| Foreign currency forward contracts                         |                              |      |
| Amount recognized in other comprehensive income            | \$2,920                      | \$ — |
| Amount reclassified to general and administrative expenses | \$(308 )                     | \$ — |

(c) Balance sheet offsetting

There was no balance sheet offsetting activity as at March 31, 2018 or December 31, 2017.

The Company provides investments as collateral for interest rate swap contracts and weather derivative contracts. The Company does not provide collateral or financial instruments as security for foreign currency forward contracts. Our derivative instruments are generally traded under International Swaps and Derivatives Association master agreements, which establish terms that apply to all transactions. On a periodic basis, the amounts receivable from or payable to the counterparties are settled in cash.

The Company has not elected to settle multiple transactions with an individual counterparty on a net basis.



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## 9. Reserve for losses and loss expenses

The following table summarizes the Company's reserve for losses and loss expenses as at March 31, 2018 and December 31, 2017:

|                                      | March 31,<br>2018 | December 31,<br>2017 |
|--------------------------------------|-------------------|----------------------|
| Case reserves                        | \$1,770,278       | \$ 1,753,844         |
| IBNR                                 | 2,862,351         | 3,077,546            |
| Reserve for losses and loss expenses | \$4,632,629       | \$ 4,831,390         |

The following table represents an analysis of paid and unpaid losses and loss expenses incurred and a reconciliation of the beginning and ending unpaid losses and loss expenses for the three months ended March 31, 2018 and 2017:

|   | Three Months Ended<br>March 31, |             |
|---|---------------------------------|-------------|
|   | 2018                            | 2017        |
| Reserve for losses and loss expenses, beginning of period   | \$4,831,390                     | \$2,995,195 |
| Loss reserves recoverable   | (1,233,997 )                    | (430,421 )  |
| Net reserves for losses and loss expenses, beginning of period                                      | 3,597,393                       | 2,564,774   |
| Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in: |                                 |             |
| Current year  | 329,115                         | 330,816     |
| Prior years   | (7,570 )                        | (61,231 )   |
| Total incurred losses and loss expenses   | 321,545                         | 269,585     |
| Foreign exchange loss   | 15,627                          | 12,317      |
| Less net losses and loss expenses paid in respect of losses occurring in:                           |                                 |             |
| Current year  | (19,735 )                       | (7,698 )    |
| Prior years   | (262,145 )                      | (238,089 )  |
| Total net paid losses   | (281,880 )                      | (245,787 )  |
| Net reserve for losses and loss expenses, end of period   | 3,652,685                       | 2,600,889   |
| Loss reserves recoverable   | 979,944                         | 451,856     |
| Reserve for losses and loss expenses, end of period   | \$4,632,629                     | \$3,052,745 |

Incurred losses and loss expenses comprise:

|                                       | Three Months Ended<br>March 31, |           |
|---------------------------------------|---------------------------------|-----------|
|                                       | 2018                            | 2017      |
| Gross losses and loss expenses        | \$248,781                       | \$336,442 |
| Reinsurance recoveries                | 72,764                          | (66,857 ) |
| Net incurred losses and loss expenses | \$321,545                       | \$269,585 |

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The net (favorable) adverse development on prior accident years by segment and line of business for the three months ended March 31, 2018 and 2017 was as follows:

|                                     | Three Months Ended March 31, 2018 |                         |                      |             |
|-------------------------------------|-----------------------------------|-------------------------|----------------------|-------------|
|                                     | Property                          | Specialty<br>Short-tail | Specialty<br>- Other | Total       |
| Reinsurance Segment                 | \$(4,822 )                        | \$(13,451 )             | \$435                | \$(17,838 ) |
| Insurance Segment                   | 4,068                             | (12,201 )               | (7,415 )             | (15,548 )   |
| Asset Management Segment            | 25,200                            | 616                     | —                    | 25,816      |
| Net adverse (favorable) development | \$24,446                          | \$(25,036)              | \$(6,980)            | \$(7,570 )  |

|                           | Three Months Ended March 31, 2017 |                         |                      |            |
|---------------------------|-----------------------------------|-------------------------|----------------------|------------|
|                           | Property                          | Specialty<br>Short-tail | Specialty<br>- Other | Total      |
| Reinsurance Segment       | \$(4,062 )                        | \$(26,748)              | \$(314 )             | \$(31,124) |
| Insurance Segment         | (8,666 )                          | (11,763 )               | (6,260 )             | (26,689 )  |
| Asset Management Segment  | (4,395 )                          | 977                     | —                    | (3,418 )   |
| Net favorable development | \$(17,123)                        | \$(37,534)              | \$(6,574)            | \$(61,231) |

The net favorable development on prior accident years for the three months ended March 31, 2018 and 2017 was primarily driven by favorable development on attritional losses.

## 10. Reinsurance

The Company's reinsurance balances recoverable at March 31, 2018 and December 31, 2017 were as follows:

|                                      | March 31,<br>2018 | December 31,<br>2017 |
|--------------------------------------|-------------------|----------------------|
| Loss reserves recoverable on unpaid: |                   |                      |
| Case reserves                        | \$235,814         | \$275,450            |
| IBNR                                 | 744,130           | 958,547              |
| Total loss reserves recoverable      | 979,944           | 1,233,997            |
| Paid losses recoverable              | 59,892            | 46,873               |
| Total reinsurance recoverable        | \$1,039,836       | \$1,280,870          |

## (a) Credit risk

The cession of reinsurance does not legally discharge the Company from its primary liability for the full amount of the (re)insurance policies it writes, and the Company is required to pay the loss and bear collection risk regarding reinsurers' obligations under reinsurance and retrocession agreements. Validus records provisions for uncollectible reinsurance recoverable when collection becomes unlikely due to the reinsurer's inability to pay.

To the extent the creditworthiness of the Company's reinsurers were to deteriorate due to adverse events affecting the reinsurance industry, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the Company's provision. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying loss reserves.

The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from its exposure to individual reinsurers. The reinsurance program is generally placed with reinsurers whose rating, at the time of placement, is A- or better as rated by Standard & Poor's or the equivalent with other rating agencies. Exposure to a single reinsurer is also controlled with restrictions dependent on rating. As at March 31, 2018, \$1,029,021 or 99.0% (December 31, 2017: \$1,270,503 or 99.2%) of the Company's reinsurance balances recoverable were either fully collateralized or recoverable from reinsurers rated A- or better.



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Information regarding the Company's concentration of credit risk arising from its exposure to individual reinsurers as at March 31, 2018 and December 31, 2017 is as follows:

|  | March 31, 2018             |            |   | December 31, 2017          |            |   |
|--|----------------------------|------------|---|----------------------------|------------|---|
|  | Reinsurance<br>Recoverable | % of Total |   | Reinsurance<br>Recoverable | % of Total |   |
| Top 10 reinsurers                        | \$878,685                  | 84.5       | % | \$1,055,445                | 82.5       | % |
| Other reinsurers' balances > \$1 million | 153,572                    | 14.8       | % | 218,226                    | 17.0       | % |
| Other reinsurers' balances < \$1 million | 7,579                      | 0.7        | % | 7,199                      | 0.5        | % |
| Total                                    | \$1,039,836                | 100.0      | % | \$1,280,870                | 100.0      | % |

|                                 |        | March 31, 2018             |            |   |
|---------------------------------|--------|----------------------------|------------|---|
| Top 10 Reinsurers               | Rating | Reinsurance<br>Recoverable | % of Total |   |
| Fully collateralized reinsurers | NR     | \$ 407,361                 | 39.2       | % |
| Everest Re                      | A+     | 128,360                    | 12.3       | % |
| Lloyd's Syndicates              | A+     | 69,885                     | 6.7        | % |
| Swiss Re                        | AA-    | 56,892                     | 5.5        | % |
| Munich Re                       | AA-    | 50,097                     | 4.8        | % |
| Hannover Re                     | AA-    | 49,501                     | 4.8        | % |
| Transatlantic Re                | A+     | 38,446                     | 3.7        | % |
| Qatar Insurance Company         | A      | 30,981                     | 3.0        | % |
| Markel                          | A      | 25,893                     | 2.5        | % |
| XL Catlin                       | A+     | 21,269                     | 2.0        | % |
| Total                           |        | \$ 878,685                 | 84.5       | % |

NR: Not rated

|                                    |        | December 31, 2017          |            |   |
|------------------------------------|--------|----------------------------|------------|---|
| Top 10 Reinsurers                  | Rating | Reinsurance<br>Recoverable | % of Total |   |
| Fully collateralized reinsurers    | NR     | \$ 459,339                 | 35.9       | % |
| Everest Re                         | A+     | 128,206                    | 10.0       | % |
| Munich Re                          | AA-    | 94,180                     | 7.4        | % |
| Lloyd's Syndicates                 | A+     | 74,277                     | 5.8        | % |
| Federal Crop Insurance Corporation | (a)    | 68,745                     | 5.4        | % |
| Swiss Re                           | AA-    | 65,218                     | 5.1        | % |
| Hannover Re                        | AA-    | 53,523                     | 4.2        | % |
| Qatar Insurance Company            | A      | 50,160                     | 3.9        | % |
| Transatlantic Re                   | A+     | 33,729                     | 2.6        | % |
| Markel                             | A      | 28,068                     | 2.2        | % |
| Total                              |        | \$ 1,055,445               | 82.5       | % |

NR: Not rated

The Company participates in a crop reinsurance program sponsored by the U.S. federal government. The Company remains obligated for amounts ceded in the event that its reinsurers or retrocessionaires do not meet their obligations, except for amounts ceded to the U.S. federal government in the Insurance segment agriculture line of business.

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At March 31, 2018 and December 31, 2017, the provision for uncollectible reinsurance relating to reinsurance recoverables was \$8,403 and \$8,848, respectively.

11. Share capital

The Company's share capital consists of Preferred Shares and Common Shares, each with a par value of \$0.175 per share. Holders of Preferred Shares have no voting rights with respect to matters that generally require the approval of voting shareholders but are entitled to vote in certain extraordinary instances. Holders of common shares are entitled to one vote for each share held, subject to certain voting limitations.

The Company is authorized to issue up to an aggregate of 571,428,571 common and preferred shares with a par value of \$0.175 per share.

(a) Preferred shares

5.875% Non-Cumulative Preferred Shares, Series A (the "Series A Preferred Shares")

On June 13, 2016, the Company issued 6,000 shares of its 5.875% Non-Cumulative Preferred Shares, Series A (the "Series A Preferred Shares") (equivalent to 6,000,000 Depositary Shares, each of which represents a 1/1,000th interest in a Series A Preferred Share), \$0.175 par value and \$25,000 liquidation preference per share (equivalent to \$25 per Depositary Share). The Series A Preferred Shares were registered and sold under the Securities Act of 1933, as amended, and were issued at a price to the public of \$25,000 per share (equivalent to \$25 per Depositary Share). After underwriting discounts and expenses, the Company received net proceeds of \$144,852 which were used for general corporate purposes.

The Depositary Shares, representing the Series A Preferred Shares, are traded on the New York Stock Exchange ("NYSE") under the symbol "VRPRA." Holders of the Series A Preferred Shares have no voting rights, except with respect to certain fundamental changes in the terms of the Series A Preferred Shares and in the case of certain dividend non-payments or as otherwise required by Bermuda law or the Company's bye-laws.

5.800% Non-Cumulative Preferred Shares, Series B (the "Series B Preferred Shares")

On June 12, 2017, the Company issued 10,000 shares of its 5.800% Non-Cumulative Preferred Shares, Series B (the "Series B Preferred Shares") (equivalent to 10,000,000 Depositary Shares, each of which represents a 1/1,000th interest in a Series B Preferred Share), \$0.175 par value and \$25,000 liquidation preference per share (equivalent to \$25 per Depositary Share). The Series B Preferred Shares were registered and sold under the Securities Act of 1933, as amended, and were issued at a price to the public of \$25,000 per share (equivalent to \$25 per Depositary Share). After underwriting discounts and expenses, the Company received net proceeds of \$241,686 which were used for general corporate purposes.

The Depositary Shares, representing the Series B Preferred Shares, are traded on the New York Stock Exchange ("NYSE") under the symbol "VRPRB." Holders of the Series B Preferred Shares have no voting rights, except with respect to certain fundamental changes in the terms of the Series B Preferred Shares and in the case of certain dividend non-payments or as otherwise required by Bermuda law or the Company's bye-laws.

The Company had 6,000 Series A Preferred Shares and 10,000 Series B Preferred Shares issued and outstanding as at March 31, 2018 and December 31, 2017.

For further information regarding the Company's preferred shares refer to Note 16(a), "Share capital," included within the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(b) Common shares

The holders of common shares are entitled to receive dividends and are allocated one vote per share, provided that, if the controlled shares of any shareholder or group of related shareholders constitute more than 9.09 percent of the outstanding common shares of the Company, their voting power will be reduced to 9.09 percent.

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. The Company has repurchased 81,035,969 common shares for an aggregate purchase price of \$2,730,975 from the inception of its share repurchase program to March 31, 2018. The Company had \$293,426 remaining under its authorized share repurchase program as of March 31, 2018.



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The Company may make purchases under its share repurchase program from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.

The following table is a summary of the common shares issued and outstanding during the three months ended March 31, 2018 and 2017:

|  | Three Months Ended March |               |
|--|--------------------------|---------------|
|  | 2018                     | 2017          |
| Common shares issued, beginning of period              | 161,994,491              | 161,279,976   |
| Restricted share awards vested, net of shares withheld | 7,423                    | 3,440         |
| Restricted share units vested, net of shares withheld  | 2,055                    | 1,995         |
| Common shares issued, end of period                    | 162,003,969              | 161,285,411   |
| Treasury shares, end of period                         | (82,674,941 )            | (82,147,821 ) |
| Common shares outstanding, end of period               | 79,329,028               | 79,137,590    |

## (c) Dividends

During February 2018, the Company announced a quarterly cash dividend of \$0.38 per common share (2017: \$0.38), payable on March 29, 2018 to shareholders of record on March 15, 2018. The Company also announced a quarterly cash dividend of \$0.3671875 (2017: \$0.3671875) and \$0.3625000 per depository share on the outstanding Series A and Series B Preferred Shares, respectively. The Series A and Series B Preferred Share dividends are payable on March 15, 2018 to shareholders of record on March 1, 2018.

## 12. Stock plans

## (a) Long Term Incentive Plan

The Company's Amended and Restated 2005 Long Term Incentive Plan ("LTIP") provides for grants to employees of options, stock appreciation rights ("SARs"), restricted shares, restricted share units, performance shares, dividend equivalents or other share-based awards. The total number of shares reserved for issuance under the LTIP are 2,753,292, of which 706,006 shares are remaining. The LTIP is administered by the Compensation Committee of the Board of Directors. No SARs have been granted to date. The grant date fair value of each award is established at the fair market value of the Company's common shares at the date of grant.

## (i) Options

The Company has not granted any stock option awards since September 4, 2009. These stock option awards were fully amortized as at December 31, 2012, and the final options outstanding were exercised during the year ended December 31, 2017.

While outstanding, the Company's options could be exercised for voting common shares upon vesting and had a term of ten years. The fair value of the option awards at the date of grant was determined using the Black-Scholes option-pricing model. Expected volatility was based on the stock price volatility of comparable publicly-traded companies. The Company used the simplified method consistent with U.S. GAAP authoritative guidance on stock compensation expenses to estimate expected lives for options granted during the period.

Activity with respect to options for the three months ended March 31, 2017 was as follows:

| Options  |        | Weighted   | Weighted       |
|--|--------|------------|----------------|
|  |        | Average    | Average        |
|  |        | Grant Date | Grant Date     |
|  |        | Fair Value | Exercise Price |
| Options outstanding, beginning and end of period | 26,136 | \$ 6.78    | \$ 23.48       |





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## (ii) Restricted share awards

Restricted shares granted under the LTIP vest either pro rata or 100% at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment, and transferability. Share compensation expenses of \$8,113 were recorded in connection with restricted share awards for the three months ended March 31, 2018 (2017: \$9,044). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested restricted share awards for the three months ended March 31, 2018 and 2017 was as follows:

|  | Three Months Ended March 31, |  |                         |  |
|--|------------------------------|--|-------------------------|--|
|  | 2018                         | 2017                                   | 2018                    | 2017                                   |
|  | Restricted Share Awards      | Weighted Average Grant Date Fair Value | Restricted Share Awards | Weighted Average Grant Date Fair Value |
| Restricted share awards outstanding, beginning of period | 2,080,397                    | \$ 43.66                               | 2,469,982               | \$ 40.89                               |
| Restricted share awards granted                          | 1,552                        | 67.64                                  | 2,082                   | 57.66                                  |
| Restricted share awards vested                           | (8,092 )                     | 44.49                                  | (4,571 )                | 37.93                                  |
| Restricted share awards forfeited                        | (6,138 )                     | 47.46                                  | (513 )                  | 48.69                                  |
| Restricted share awards outstanding, end of period       | 2,067,719                    | \$ 43.66                               | 2,466,980               | \$ 40.91                               |

At March 31, 2018, there were \$40,926 (December 31, 2017: \$48,907) of total unrecognized share compensation expenses in respect of restricted share awards that are expected to be recognized over a weighted-average period of 2.2 years (December 31, 2017: 2.3 years).

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## (iii) Restricted share units

Restricted share units under the LTIP vest either ratably or 100% at the end of the required service period and contain certain restrictions during the vesting period, relating to, among other things, forfeiture in the event of termination of employment, and transferability. Share compensation expenses of \$332 were recorded in connection with restricted share units for the three months ended March 31, 2018 (2017: \$315). The expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested restricted share units for the three months ended March 31, 2018 and 2017 was as follows:

|   | Three Months Ended March 31, |   | 2017     |   |
|---|------------------------------|---|----------|---|
|   | 2018                         | Weighted<br>Average<br>Grant Date<br>Fair Value | 2017     | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Restricted share units outstanding, beginning of period | 109,394                      | \$ 42.20  | 112,808  | \$ 40.95  |
| Restricted share units vested                           | (2,178 )                     | 38.24   | (2,115 ) | 38.24   |
| Restricted share units issued in lieu of cash dividends | 886                          | 42.20   | 717      | 40.95   |
| Restricted share units forfeited                        | (1 )                         | 38.24   | —        | —   |
| Restricted share units outstanding, end of period       | 108,101                      | \$ 42.28  | 111,410  | \$ 41.01  |

At March 31, 2018, there were \$1,592 (December 31, 2017: \$1,909) of total unrecognized share compensation expenses in respect of restricted share units that are expected to be recognized over a weighted-average period of 2.3 years (December 31, 2017: 2.4 years).

## (iv) Performance share awards

Performance share awards vest three years after the grant date, with the grant date fair value of each share awarded recognized evenly over this period. The number of performance shares initially granted is adjusted via “conversion adjustments” to reflect the compounded growth in the Dividend-Adjusted Book Value per Diluted Share over the three years. The cumulative compensation expense recognized and unrecognized as at any reporting period date represents the adjusted estimate of performance shares that will ultimately be awarded, valued at their original grant date fair values.

Share compensation expenses of \$1,284 were recorded for the three months ended March 31, 2018 (2017: \$132). The share compensation expenses represent the proportionate accrual of the fair value of each grant based on the remaining vesting period.

Activity with respect to unvested performance share awards for the three months ended March 31, 2018 and 2017 was as follows:

|   | Three Months Ended March 31, |   | 2017      |   |
|---|------------------------------|---|-----------|---|
|   | 2018                         | Weighted<br>Average<br>Grant Date<br>Fair Value | 2017      | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Performance share awards outstanding, beginning of period | 314,068                      | \$ 49.37  | 285,820   | \$ 44.53  |
| Performance share awards conversion adjustment            | —                            | —   | (26,322 ) | 36.82   |
| Performance share awards outstanding, end of period       | 314,068                      | \$ 49.37  | 259,498   | \$ 45.26  |

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At March 31, 2018, there were \$6,597 (December 31, 2017: \$7,813) of total unrecognized share compensation expenses in respect of performance share awards that are expected to be recognized over a weighted-average period of 1.8 years (December 31, 2017: 1.9 years).

(b) Total share compensation expenses

The breakdown of share compensation expenses by award type is as follows:

|                          | Three Months<br>Ended March<br>31,<br>2018 2017 |         |
|--------------------------|---|---------|
| Restricted share awards  | \$8,113   | \$9,044 |
| Restricted share units   | 332   | 315     |
| Performance share awards | 1,284   | 132     |
| Total                    | \$9,729   | \$9,491 |

## 13. Debt and financing arrangements

The Company's financing structure is composed of debentures and senior notes payable along with credit and other facilities. For further information regarding the Company's financing structure refer to Note 19, "Debt and financing arrangements," included within the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

(a) Senior Notes and Junior Subordinated Deferrable Debentures

The Company's outstanding debentures and senior notes payable as at March 31, 2018 and December 31, 2017 were as follows:

|   | March 31,<br>2018 | December 31,<br>2017 |
|---|-------------------|----------------------|
| Deferrable debentures                     |                   |                      |
| 2006 Junior Subordinated                  | \$150,000         | \$150,000            |
| 2007 Junior Subordinated                  | 139,800           | 139,800              |
| Flagstone 2006 Junior Subordinated        | 136,022           | 135,608              |
| Flagstone 2007 Junior Subordinated        | 113,750           | 113,750              |
| Total debentures payable                  | 539,572           | 539,158              |
| 2010 Senior Notes due 2040                | 250,000           | 250,000              |
| Less: Unamortized debt issuance costs     | (4,386 )          | (4,436 )             |
| Total senior notes payable                | 245,614           | 245,564              |
| Total debentures and senior notes payable | \$785,186         | \$784,722            |

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The following table summarizes the key terms of the Company's Senior Notes and Junior Subordinated deferrable debentures:

| Description  | Issuance date      | Issued     | Maturity date      | Interest Rate as at   |                       | Interest payments due    |
|--|--------------------|------------|--------------------|-----------------------|-----------------------|--------------------------|
|  |                    |            |                    | Issuance Date         | March 31, 2018        |                          |
| 2006 Junior Subordinated Deferrable Debentures           | June 15, 2006      | \$ 150,000 | June 15, 2036      | 9.069% <sup>(a)</sup> | 5.831% <sup>(e)</sup> | Quarterly                |
| Flagstone 2006 Junior Subordinated Deferrable Debentures | August 23, 2006    | \$ 136,022 | September 15, 2036 | 3.540% <sup>(b)</sup> | 6.463% <sup>(e)</sup> | Quarterly                |
| 2007 Junior Subordinated Deferrable Debentures           | June 21, 2007      | \$ 200,000 | June 15, 2037      | 8.480% <sup>(c)</sup> | 5.180% <sup>(e)</sup> | Quarterly                |
| Flagstone 2007 Junior Subordinated Deferrable Debentures | June 8, 2007       | \$ 100,000 | July 30, 2037      | 3.000% <sup>(b)</sup> | 5.900% <sup>(e)</sup> | Quarterly                |
| Flagstone 2007 Junior Subordinated Deferrable Debentures | September 20, 2007 | \$ 25,000  | September 15, 2037 | 3.100% <sup>(b)</sup> | 5.983% <sup>(e)</sup> | Quarterly                |
| 2010 Senior Notes due 2040                               | January 26, 2010   | \$ 250,000 | January 26, 2040   | 8.875% <sup>(d)</sup> | 8.875% <sup>(d)</sup> | Semi-annually in arrears |

(a) Fixed interest rate for 5 years, floating interest rate of three-month LIBOR plus 3.550% thereafter, reset quarterly.

(b) Floating interest rate of three-month LIBOR plus amount stated, reset quarterly.

(c) Fixed interest rate for 5 years, floating interest rate of three-month LIBOR plus 2.950% thereafter, reset quarterly.

(d) Fixed interest rate.

(e) Fixed interest rate as a result of interest rate swap contracts entered into by the Company.

Future payments of principal of \$250,000 on the 2010 Senior Notes and \$539,572 on the debentures are all expected to be made after 2023.

(b) Credit and other facilities

The Company's outstanding credit facilities as at March 31, 2018 and December 31, 2017 were as follows:

March 31, 2018

| Credit facility   | Commitment <sup>(a)</sup> | Outstanding | Drawn <sup>(b)</sup> | Cash and investments pledged as collateral |
|---|---------------------------|-------------|----------------------|--|
| \$85,000 syndicated unsecured letter of credit facility | \$ 85,000                 | \$ —        | \$ —                 | \$ —                                       |
| \$300,000 syndicated secured letter of credit facility  | 300,000                   | 98,419      | —                    | 123,468                                    |
| \$100,000 secured bi-lateral letter of credit facility  | 100,000                   | 4,407       | —                    | 22,364                                     |
| \$25,000 IPC bi-lateral facility                        | 25,000                    | 7,705       | —                    | —  |
| \$236,000 Flagstone bi-lateral facility                 | 236,000                   | 109,796     | —                    | 156,058                                    |
| \$65,000 unsecured revolving credit facility            | 65,000                    | —           | —                    | —  |
| \$100,000 unsecured revolving credit facility           | 100,000                   | —           | —                    | —  |
| FHLB secured facility                                   | 433,165                   | 206,000     | 206,000              | 238,349                                    |
| Total credit facilities                                 | \$ 1,344,165              | \$ 426,327  | \$ 206,000           | \$ 540,239                                 |

(a) Indicates utilization of commitment amount.

(b) Represents drawn borrowings included in accounts payable and accrued expenses.



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| Credit facility   | December 31, 2017 |                            |                      | Cash and investments pledged as collateral |
|---|-------------------|----------------------------|----------------------|--|
|   | Commitment        | Outstanding <sup>(a)</sup> | Drawn <sup>(b)</sup> |  |
| \$85,000 syndicated unsecured letter of credit facility | \$85,000          | \$ —                       | \$ —                 | \$ —                                       |
| \$300,000 syndicated secured letter of credit facility  | 300,000           | 92,979                     | —                    | 118,188                                    |
| \$24,000 secured bi-lateral letter of credit facility   | 24,000            | 5,765                      | —                    | 22,340                                     |
| \$25,000 IPC bi-lateral facility                        | 25,000            | 7,754                      | —                    | —  |
| \$236,000 Flagstone bi-lateral facility                 | 236,000           | 115,682                    | —                    | 184,569                                    |
| \$65,000 unsecured revolving credit facility            | 65,000            | —                          | —                    | —  |
| \$100,000 unsecured revolving credit facility           | 100,000           | —                          | —                    | —  |
| FHLB secured facility                                   | 484,096           | 206,000                    | 206,000              | 251,767                                    |
| Total credit facilities                                 | \$1,319,096       | \$ 428,180                 | \$ 206,000           | \$ 576,864                                 |

(a) Indicates utilization of commitment amount.

(b) Represents drawn borrowings included in accounts payable and accrued expenses.

On January 24, 2018, the Company increased the size of the secured bi-lateral letter of credit facility with Citibank Europe plc (the “Secured bi-lateral LOC facility”) from \$24,000 to \$100,000. All covenants and restrictions under the Secured bi-lateral LOC facility remain unchanged. As of March 31, 2018, \$4,407 (December 31, 2017: \$5,765) of letters of credit were outstanding under the Secured bi-lateral LOC facility.

As of March 31, 2018 and December 31, 2017, the Company was in compliance with all covenants and restrictions under its credit facilities.

## (c) Finance expenses

Finance expenses consist of interest on the Junior Subordinated Deferrable Debentures and the 2010 Senior Notes, the amortization of debt offering costs, credit facility fees, bank and other charges and AlphaCat financing fees as follows:

|  | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2018                         | 2017     |
| 2006 Junior Subordinated Deferrable Debentures           | \$2,186                      | \$2,187  |
| 2007 Junior Subordinated Deferrable Debentures           | 1,810                        | 1,810    |
| Flagstone 2006 Junior Subordinated Deferrable Debentures | 2,227                        | 2,221    |
| Flagstone 2007 Junior Subordinated Deferrable Debentures | 1,713                        | 1,723    |
| 2010 Senior Notes  | 5,597                        | 5,597    |
| Credit facilities  | 416                          | 218      |
| Bank and other charges                                   | 263                          | 151      |
| AlphaCat fees <sup>(a)</sup>                             | 51                           | 36       |
| Total finance expenses                                   | \$14,263                     | \$13,943 |

(a) Includes finance expenses incurred by AlphaCat Managers Ltd. in relation to fund raising for the AlphaCat sidecars, the AlphaCat ILS funds and AlphaCat direct.

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## 14. Accumulated other comprehensive income (loss)

The changes in accumulated other comprehensive income (loss), by component for the three months ended March 31, 2018 and 2017 are as follows:

|  | Three Months Ended March 31, 2018                |                                 |                       |            |
|--|--|---------------------------------|-----------------------|------------|
|  | Foreign<br>currency<br>translation<br>adjustment | Minimum<br>pension<br>liability | Cash<br>flow<br>hedge | Total      |
| Balance, net of tax, beginning of period                         | \$(18,217)                                       | \$ 2,719                        | \$(6,694 )            | \$(22,192) |
| Other comprehensive income (loss), net of tax                    | 1,837  | (38 )                           | 28,763                | 30,562     |
| Amounts reclassified from accumulated other comprehensive income | —  | —                               | 1,035                 | 1,035      |
| Balance, net of tax, end of period                               | \$(16,380)                                       | \$ 2,681                        | \$ 23,104             | \$ 9,405   |

|  | Three Months Ended March 31, 2017                |                                 |                       |            |
|--|--|---------------------------------|-----------------------|------------|
|  | Foreign<br>currency<br>translation<br>adjustment | Minimum<br>pension<br>liability | Cash<br>flow<br>hedge | Total      |
| Balance, net of tax, beginning of period | \$(22,274)                                       | \$(150 )                        | \$(792 )              | \$(23,216) |
| Other comprehensive income, net of tax   | 597  | 68                              | 98                    | 763        |
| Balance, net of tax, end of period       | \$(21,677)                                       | \$(82 )                         | \$(694 )              | \$(22,453) |

## 15. Commitments and contingencies

## (a) Funds at Lloyd's

The Company operates in Lloyd's through a corporate member, Talbot 2002 Underwriting Capital Ltd ("T02"), which is the sole participant in Lloyd's Syndicate 1183 (the "Talbot Syndicate"). Lloyd's sets T02's Economic Capital Assessment ("ECA") annually based on the Talbot Syndicate's business plan, rating environment and reserving environment together with input arising from Lloyd's discussions with regulatory and rating agencies, and other parties. This ECA is satisfied by syndicate net assets determined on a basis consistent with Solvency II, an EU directive covering capital adequacy, risk management and regulatory reporting for insurers. Any syndicate net liabilities on a Solvency II basis are required to be funded in addition to the ECA. Such additional funds, known as Funds at Lloyd's ("FAL"), comprises cash and investments. The Company provided FAL in the amount of \$661,600 during the fourth quarter of 2017 (2016: \$583,600).

The amounts which are provided as FAL are not available for distribution to the Company for the payment of dividends. T02 may also be required to maintain funds under the control of Lloyd's in excess of its capital requirement and such funds also may not be available for distribution to the Company for the payment of dividends.

## (b) Lloyd's Central Fund

Whenever a member of Lloyd's is unable to pay its debts to policyholders, such debts may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. The Company does not believe that any assessment is likely in the foreseeable future and has not provided any allowance for such an assessment. However, based on the Company's 2018 estimated premium income at Lloyd's of £650,000, at March 31, 2018 using an exchange rate of £1 equals \$1.40 and assuming the maximum 3% assessment, the Company would be assessed approximately \$27,300 (December 31, 2017: \$26,325).

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## (c) Unfunded investment commitments

As at March 31, 2018 and December 31, 2017, the Company had total unfunded investment commitments related to the following:

|   | Unfunded investment commitments |            |
|---|---------------------------------|------------|
|   | March 31, December 31,          |            |
|   | 2018                            | 2017       |
| Fixed maturity investments <sup>(a)</sup>           | \$28,067                        | \$ 22,082  |
| Other investments <sup>(b)</sup>                    | 87,353                          | 86,697     |
| Investments in investment affiliates <sup>(c)</sup> | 107,386                         | 125,996    |
| Total unfunded investment commitments               | \$222,806                       | \$ 234,775 |

(a) The Company has an outstanding commitment to participate in certain secured loan facilities through participation agreements with an established loan originator.

(b) The Company's total capital commitments related to other investments as at March 31, 2018 was \$268,000 (December 31, 2017: \$268,000).

(c) Refer to Note 4(c), "Investments in Investment Affiliates."

## 16. Related party transactions

The transactions listed below are classified as related party transactions as principals and/or directors of each counterparty are members of the Company's board of directors.

(a) Aquiline Capital Partners LLC ("Aquiline Capital")

Wellington

Aquiline Capital are shareholders of Wellington Insurance Company ("Wellington") and Christopher E. Watson serves as a director of Wellington.

Pursuant to reinsurance agreements with a subsidiary of Wellington, the Company recognized gross premiums written during the three months ended March 31, 2018 of \$782 (2017: \$2,974) with \$262 included in premiums receivable at March 31, 2018 (December 31, 2017: \$211). The Company also recognized premium adjustments during the three months ended March 31, 2018 of \$778 (2017: \$861).

Aquiline II, Aquiline III, Aquiline Tech and Aquiline Armour

Jeffrey W. Greenberg and Christopher E. Watson, directors of the Company, serve as managing principal and senior principal, respectively, of Aquiline Capital. Additional information related to the Company's investments in Aquiline II, III, Tech and Armour is disclosed in Note 4(c), "Investments in Investment Affiliates."

The Company had, as of March 31, 2018 and December 31, 2017, investments in Aquiline II, III, Tech and Armour with a total value of \$113,471 and \$100,137 and outstanding unfunded commitments of \$107,386 and \$125,996, respectively. For the three months ended March 31, 2018, the Company incurred \$132 (2017: \$356) in partnership fees associated with these investments.

(b) Other

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



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## 17. Earnings per common share

The following table sets forth the computation of basic (loss) earnings per common share and (loss) earnings per diluted common share available to Validus common shareholders for the three months ended March 31, 2018 and 2017:

|  | Three Months Ended<br>March 31, |           |
|--|---------------------------------|-----------|
|  | 2018                            | 2017      |
| Basic (loss) earnings per common share   |                                 |           |
| Net (loss) income allocated to Validus common shareholders                                       | (4,078 )                        | 94,561    |
| Weighted average number of common shares outstanding   | 79,325,688                      | 9,133,671 |
| Basic (loss) earnings per share (attributable) available to Validus common shareholders          | \$(0.05 )                       | \$ 1.19   |
| (Loss) earnings per diluted common share   |                                 |           |
| Net (loss) income (attributable) available to Validus common shareholders                        | \$(4,078)                       | \$ 94,561 |
| Weighted average number of common shares outstanding   | 79,325,688                      | 9,133,671 |
| Share equivalents:   |                                 |           |
| Stock options  | —                               | 15,379    |
| Unvested restricted shares   | —                               | 1,590,092 |
| Weighted average number of diluted common shares outstanding                                     | 79,325,688                      | 9,739,142 |
| (Loss) earnings per diluted common share (attributable) available to Validus common shareholders | \$(0.05 )                       | \$ 1.17   |

Earnings per diluted common share assumes the exercise of all dilutive stock options and restricted stock grants. Due to the net loss incurred during the three months ended March 31, 2018, share equivalents were not included in the computation of loss per diluted share due to their anti-dilutive effect. Share equivalents that would result in the issuance of 1,503 common shares were outstanding for the three months ended March 31, 2017, but were not included in the computation of earnings per diluted share because the effect would be anti-dilutive.

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18. Segment information

The Company conducts its operations worldwide through three reportable segments, which have been determined under ASC Topic 280 “Segment Reporting” to be Reinsurance, Insurance and Asset Management. The Company’s reportable segments are strategic business units that offer different products and services. They are managed and have capital allocated separately because each segment undertakes different strategies.

A description of each of the Company’s reportable segments and its Corporate and Investments function is as follows:

Reinsurance Segment

The Reinsurance segment operates globally and is primarily focused on treaty reinsurance within the following lines and classes of business:

Property: catastrophe excess of loss, per risk excess of loss, proportional and treaty;

Specialty - Short-tail: aerospace and aviation, agriculture, composite, marine, other specialty (including contingency, crisis management and life and accident & health), technical lines, terrorism, trade credit and workers’ compensation; and

Specialty - Other: casualty and financial lines of business.

Insurance Segment

The Insurance segment operates globally and focuses on specialty insurance within both the Lloyd’s and the U.S. commercial insurance markets and is focused on a wide range of insurance products within the following lines and classes of business:

Property: direct property and downstream energy and power;

Specialty - Short-tail: accident & health, agriculture, aviation, contingency, marine, and political lines (including war and political violence); and

Specialty - Other: financial, liability (including general liability, professional liability, products liability and miscellaneous malpractice), marine and energy, political risk and products and airports.

Asset Management Segment

The Asset Management segment leverages the Company’s underwriting and analytical expertise and earns management and performance fees primarily through the management of ILS funds and sidecars.

Corporate and Investments

The Company’s Corporate and Investments function, which includes the activities of the parent company, carries out certain functions for the group, including investment management. Corporate and Investments includes investment income on a managed basis and other non-segment expenses, predominantly general and administrative, stock compensation, finance and transaction expenses. Transaction expenses are primarily composed of legal and financial advisory services incurred in connection with the Company’s Merger with AIG. Corporate and Investments also includes the activities of certain key executives such as the Chief Executive Officer and Chief Financial Officer. For reporting purposes, Corporate and Investments is reflected separately; however, it is not considered a reportable segment under these circumstances. Other reconciling items include, but are not limited to, the elimination of certain inter segment revenues and expenses and other items that are not allocated to the reportable segments.

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The following tables summarize the results of our reportable segments and “Corporate and Investments” function:

| Reinsurance Segment Information     | Three Months Ended |            |
|-------------------------------------|--------------------|------------|
|                                     | March 31,          |            |
|                                     | 2018               | 2017       |
| Underwriting revenues               |                    |            |
| Gross premiums written              | \$765,573          | \$643,141  |
| Reinsurance premiums ceded          | (190,194 )         | (114,446 ) |
| Net premiums written                | 575,379            | 528,695    |
| Change in unearned premiums         | (350,627 )         | (297,040 ) |
| Net premiums earned                 | 224,752            | 231,655    |
| Other insurance related income      | 2                  | 2          |
| Total underwriting revenues         | 224,754            | 231,657    |
| Underwriting deductions             |                    |            |
| Losses and loss expenses            | 103,473            | 80,881     |
| Policy acquisition costs            | 48,340             | 43,535     |
| General and administrative expenses | 28,915             | 19,969     |
| Share compensation expenses         | 2,663              | 2,623      |
| Total underwriting deductions       | 183,391            | 147,008    |
| Underwriting income                 | \$41,363           | \$84,649   |

## Selected ratios:

|  |      |   |      |   |
|--|------|---|------|---|
| Ratio of net to gross premiums written   | 75.2 | % | 82.2 | % |
| Losses and loss expense ratio            | 46.0 | % | 34.9 | % |
| Policy acquisition cost ratio            | 21.5 | % | 18.8 | % |
| General and administrative expense ratio | 14.1 | % | 9.8  | % |
| Expense ratio                            | 35.6 | % | 28.6 | % |
| Combined ratio                           | 81.6 | % | 63.5 | % |

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| Insurance Segment Information            | Three Months Ended |             |   |
|--|--------------------|-------------|---|
|  | March 31,          |             |   |
|  | 2018               | 2017        |   |
| Underwriting revenues                    |                    |             |   |
| Gross premiums written                   | \$785,795          | \$382,790   |   |
| Reinsurance premiums ceded               | (191,637 )         | (79,000 )   |   |
| Net premiums written                     | 594,158            | 303,790     |   |
| Change in unearned premiums              | (294,620 )         | (24,696 )   |   |
| Net premiums earned                      | 299,538            | 279,094     |   |
| Other insurance related income           | 2,170              | 996         |   |
| Total underwriting revenues              | 301,708            | 280,090     |   |
| Underwriting deductions                  |                    |             |   |
| Losses and loss expenses                 | 183,389            | 186,610     |   |
| Policy acquisition costs                 | 60,057             | 61,192      |   |
| General and administrative expenses      | 68,050             | 45,276      |   |
| Share compensation expenses              | 2,989              | 3,373       |   |
| Total underwriting deductions            | 314,485            | 296,451     |   |
| Underwriting (loss)                      | \$(12,777 )        | \$(16,361 ) |   |
| Selected ratios:                         |                    |             |   |
| Ratio of net to gross premiums written   | 75.6               | % 79.4      | % |
| Losses and loss expense ratio            | 61.2               | % 66.9      | % |
| Policy acquisition cost ratio            | 20.0               | % 21.9      | % |
| General and administrative expense ratio | 23.7               | % 17.4      | % |
| Expense ratio                            | 43.7               | % 39.3      | % |
| Combined ratio                           | 104.9              | % 106.2     | % |

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|   | Three Months Ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2018                            | 2017      |
| Asset Management Segment Information                            |                                 |           |
| Fee revenues  |                                 |           |
| Third party   | \$6,209                         | \$4,644   |
| Related party   | 443                             | 631       |
| Total fee revenues  | 6,652                           | 5,275     |
| Expenses  |                                 |           |
| General and administrative expenses                             | 4,547                           | 3,844     |
| Share compensation expenses                                     | 41                              | 82        |
| Finance expenses  | 78                              | 31        |
| Tax (benefit)   | (7                              | ) (1      |
| Foreign exchange losses (gains)                                 | 1                               | (1        |
| Total expenses  | 4,660                           | 3,955     |
| Income before investment income from funds and sidecars         | 1,992                           | 1,320     |
| Investment income (loss) from funds and sidecars <sup>(a)</sup> |                                 |           |
| AlphaCat Sidecars   | 32                              | (112      |
| AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>                  | 1,234                           | 2,189     |
| AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>                 | 3,820                           | 2,367     |
| BetaCat ILS Funds   | 186                             | 368       |
| Validus' share of investment income from funds and sidecars     | 5,272                           | 4,812     |
| Asset Management segment income                                 | \$7,264                         | \$6,132   |
| Gross premiums written  |                                 |           |
| AlphaCat Sidecars   | \$(143                          | ) \$66    |
| AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>                  | 109,950                         | 52,908    |
| AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>                 | 165,896                         | 93,536    |
| AlphaCat Direct <sup>(c)</sup>                                  | 10,922                          | 18,416    |
| Total   | \$286,625                       | \$164,926 |

(a) The investment income (loss) from funds and sidecars is based on equity accounting.

(b) Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of 7% or greater. The portfolio expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.

(c) AlphaCat Direct includes direct investments from a third party investor in AlphaCat Re.

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|   | Three Months<br>Ended March 31, |          |
|---|---------------------------------|----------|
|   | 2018                            | 2017     |
| Corporate and Investments   |                                 |          |
| Managed investments   |                                 |          |
| Managed net investment income <sup>(a)</sup>                                  | \$39,791                        | \$36,192 |
| Net realized gains (losses) on managed investments <sup>(a)</sup>             | 1,142                           | (2,892 ) |
| Change in net unrealized (losses) gains on managed investments <sup>(a)</sup> | (56,777 )                       | 14,349   |
| Income from investment affiliates   | 13,068                          | 5,188    |
| Total managed investment return   | \$(2,776 )                      | \$52,837 |
| Corporate expenses  |                                 |          |
| General and administrative expenses   | \$12,309                        | \$17,961 |
| Share compensation expenses   | 4,036                           | 3,413    |
| Finance expenses <sup>(a)</sup>   | 14,090                          | 13,864   |
| Dividends on preferred shares   | 5,828                           | 2,203    |
| Tax (benefit) <sup>(a)</sup>  | (6,826 )                        | (3,548 ) |
| Total Corporate expenses  | \$29,437                        | \$33,893 |
| Other items   |                                 |          |
| Foreign exchange (losses) gains <sup>(a)</sup>                                | (3 )                            | 1,103    |
| Other income  | 44                              | 94       |
| Transaction expenses  | (7,756 )                        | —        |
| Total other items   | \$(7,715 )                      | \$1,197  |
| Total Corporate and Investments   | \$(39,928)                      | \$20,141 |

<sup>(a)</sup> These items exclude the components which are included in the Asset Management segment income (loss) and amounts which are consolidated from VIEs.

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The following tables reconcile the results of our reportable segments and “Corporate & Investments” function to the Consolidated results of the Company for the years indicated:

|   | Three Months Ended March 31, 2018 |                   |  |                         |             | Eliminations | Total       |
|---|-----------------------------------|-------------------|--|-------------------------|-------------|--------------|-------------|
|   | Reinsurance Segment               | Insurance Segment | Asset Management Segment and Consolidated VIEs | Corporate & Investments |             |              |             |
| Underwriting revenues   |                                   |                   |  |                         |             |              |             |
| Gross premiums written  | \$765,573                         | \$785,795         | \$286,625                                      | \$—                     | \$ (5,537 ) |              | \$1,832,456 |
| Reinsurance premiums ceded  | (190,194 )                        | (191,637 )        | —  | —                       | 5,537       |              | (376,294 )  |
| Net premiums written  | 575,379                           | 594,158           | 286,625  | —                       | —           |              | 1,456,162   |
| Change in unearned premiums   | (350,627 )                        | (294,620 )        | (191,973 )                                     | —                       | —           |              | (837,220 )  |
| Net premiums earned   | 224,752                           | 299,538           | 94,652   | —                       | —           |              | 618,942     |
| Other insurance related income  | 2                                 | 2,170             | 28,080   | —                       | (4,756 )    |              | 25,496      |
| Total underwriting revenues   | 224,754                           | 301,708           | 122,732  | —                       | (4,756 )    |              | 644,438     |
| Underwriting deductions   |                                   |                   |  |                         |             |              |             |
| Losses and loss expenses  | 103,473                           | 183,389           | 34,683   | —                       | —           |              | 321,545     |
| Policy acquisition costs  | 48,340                            | 60,057            | 8,059  | —                       | —           |              | 116,456     |
| General and administrative expenses                                       | 28,915                            | 68,050            | 10,208   | 12,309                  | (4,756 )    |              | 114,726     |
| Share compensation expenses   | 2,663                             | 2,989             | 41   | 4,036                   | —           |              | 9,729       |
| Total underwriting deductions   | 183,391                           | 314,485           | 52,991   | 16,345                  | (4,756 )    |              | 562,456     |
| Underwriting income (loss)  | \$41,363                          | \$(12,777 )       | \$69,741                                       | \$(16,345 )             | \$—         |              | \$81,982    |
| Net investment return <sup>(a)</sup>                                      | —                                 | —                 | 12,735   | (2,776 )                | —           |              | 9,959       |
| Other items <sup>(b)</sup>  | —                                 | —                 | 362  | (20,807 )               | —           |              | (20,445 )   |
| (Income) attributable to AlphaCat investors                               | —                                 | —                 | (10,862 )                                      | —                       | —           |              | (10,862 )   |
| Net (income) attributable to noncontrolling interests                     | —                                 | —                 | (64,712 )                                      | —                       | —           |              | (64,712 )   |
| Net income (loss) available (attributable) to Validus common shareholders | \$41,363                          | \$(12,777 )       | \$7,264  | \$(39,928 )             | \$—         |              | \$(4,078 )  |

(a) Net investment return includes net investment income, net realized and change in net unrealized gains (losses) on investments and income (loss) from investment affiliates.

(b) Other items includes finance expenses, transaction expenses, dividends on preferred shares, tax benefit (expense), foreign exchange gains (losses), income (loss) from operating affiliate and other income (loss).

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|   | Three Months Ended March 31, 2017 |                      |  |                               |             |             |
|---|-----------------------------------|----------------------|--|-------------------------------|-------------|-------------|
|   | Reinsurance<br>Segment            | Insurance<br>Segment | Asset<br>Management<br>Segment and<br>Consolidated<br>VIEs | Corporate<br>&<br>Investments | Elimination | Total       |
| Underwriting revenues   |                                   |                      |  |                               |             |             |
| Gross premiums written  | \$643,141                         | \$382,790            | \$164,926  | \$—                           | \$—         | \$1,190,857 |
| Reinsurance premiums ceded  | (114,446 )                        | (79,000 )            | (6,660 )   | —                             | —           | (200,106 )  |
| Net premiums written  | 528,695                           | 303,790              | 158,266  | —                             | —           | 990,751     |
| Change in unearned premiums   | (297,040 )                        | (24,696 )            | (93,639 )  | —                             | —           | (415,375 )  |
| Net premiums earned   | 231,655                           | 279,094              | 64,627   | —                             | —           | 575,376     |
| Other insurance related income  | 2                                 | 996                  | 5,161  | —                             | (4,923)     | 1,236       |
| Total underwriting revenues   | 231,657                           | 280,090              | 69,788   | —                             | (4,923)     | 576,612     |
| Underwriting deductions   |                                   |                      |  |                               |             |             |
| Losses and loss expenses  | 80,881                            | 186,610              | 2,094  | —                             | —           | 269,585     |
| Policy acquisition costs  | 43,535                            | 61,192               | 6,901  | —                             | —           | 111,628     |
| General and administrative expenses                                       | 19,969                            | 45,276               | 9,641  | 17,961                        | (4,923)     | 87,924      |
| Share compensation expenses   | 2,623                             | 3,373                | 82   | 3,413                         | —           | 9,491       |
| Total underwriting deductions   | 147,008                           | 296,451              | 18,718   | 21,374                        | (4,923)     | 478,628     |
| Underwriting income (loss)  | \$84,649                          | \$(16,361 )          | \$51,070   | \$(21,374 )                   | \$—         | \$97,984    |
| Net investment return <sup>(a)</sup>                                      | —                                 | —                    | 4,749  | 52,837                        | —           | 57,586      |
| Other items <sup>(b)</sup>  | —                                 | —                    | 388  | (11,322 )                     | —           | (10,934 )   |
| (Income) attributable to AlphaCat investors                               | —                                 | —                    | (7,503 )   | —                             | —           | (7,503 )    |
| Net (income) attributable to noncontrolling interests                     | —                                 | —                    | (42,572 )  | —                             | —           | (42,572 )   |
| Net income (loss) available (attributable) to Validus common shareholders | \$84,649                          | \$(16,361 )          | \$6,132  | \$20,141                      | \$—         | \$94,561    |

(a) Net investment return includes net investment income, net realized and change in net unrealized gains (losses) on investments and income (loss) from investment affiliates.

(b) Other items includes finance expenses, transaction expenses, dividends on preferred shares, tax benefit (expense), foreign exchange gains (losses), income (loss) from operating affiliate and other income (loss).



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Validus Holdings, Ltd.

Notes to the Consolidated Financial Statements (unaudited)

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

The Company's exposures are generally diversified across geographic zones. The following tables set forth the gross premiums written allocated to the territory of coverage exposure for the years indicated:

|  | Gross Premiums Written<br>Three Months Ended March 31, 2018 |                      |                                |              |             |         |
|--|---|----------------------|--------------------------------|--------------|-------------|---------|
|  | Reinsurance<br>Segment                                      | Insurance<br>Segment | Asset<br>Management<br>Segment | Eliminations | Total       | %       |
| United States                                    | \$200,174   | \$560,722            | \$ 31,023                      | \$ (1,525 )  | \$790,394   | 43.1 %  |
| Worldwide excluding United States <sup>(a)</sup> | 39,325  | 52,232               | 2,879                          | —            | 94,436      | 5.2 %   |
| Australia and New Zealand                        | 1,136   | 8,177                | —                              | —            | 9,313       | 0.5 %   |
| Europe   | 37,982  | 5,560                | 338                            | —            | 43,880      | 2.4 %   |
| Latin America and Caribbean                      | 6,539   | 18,445               | —                              | —            | 24,984      | 1.4 %   |
| Japan  | 2,100   | 916                  | 431                            | —            | 3,447       | 0.2 %   |
| Canada   | 3,735   | 933                  | —                              | —            | 4,668       | 0.3 %   |
| Rest of the world <sup>(b)</sup>                 | 18,298  | 27,220               | —                              | —            | 45,518      | 2.5 %   |
| Sub-total, non United States                     | 109,115   | 113,483              | 3,648                          | —            | 226,246     | 12.3 %  |
| Worldwide including United States <sup>(a)</sup> | 118,809   | 26,655               | 248,114                        | (4,012 )     | 389,566     | 21.3 %  |
| Other locations non-specific <sup>(c)</sup>      | 337,475   | 84,935               | 3,840                          | —            | 426,250     | 23.3 %  |
| Total  | \$765,573   | \$785,795            | \$ 286,625                     | \$ (5,537 )  | \$1,832,456 | 100.0 % |

|  | Gross Premiums Written<br>Three Months Ended March 31, 2017 |                      |                                |              |              |         |
|--|---|----------------------|--------------------------------|--------------|--------------|---------|
|  | Reinsurance<br>Segment                                      | Insurance<br>Segment | Asset<br>Management<br>Segment | Eliminations | Total        | %       |
| United States                                    | \$223,928   | \$190,188            | \$ 28,203                      | \$           | —\$442,319   | 37.1 %  |
| Worldwide excluding United States <sup>(a)</sup> | 35,208  | 32,538               | 7,035                          | —            | 74,781       | 6.3 %   |
| Australia and New Zealand                        | 789   | 3,174                | —                              | —            | 3,963        | 0.3 %   |
| Europe   | 31,945  | 8,681                | 466                            | —            | 41,092       | 3.5 %   |
| Latin America and Caribbean                      | 9,960   | 20,687               | —                              | —            | 30,647       | 2.6 %   |
| Japan  | 1,951   | 1,005                | 1,193                          | —            | 4,149        | 0.3 %   |
| Canada   | 2,358   | 449                  | —                              | —            | 2,807        | 0.2 %   |
| Rest of the world <sup>(b)</sup>                 | 15,103  | 20,392               | —                              | —            | 35,495       | 3.0 %   |
| Sub-total, non United States                     | 97,314  | 86,926               | 8,694                          | —            | 192,934      | 16.2 %  |
| Worldwide including United States <sup>(a)</sup> | 95,801  | 27,187               | 123,309                        | —            | 246,297      | 20.7 %  |
| Other locations non-specific <sup>(c)</sup>      | 226,098   | 78,489               | 4,720                          | —            | 309,307      | 26.0 %  |
| Total  | \$643,141   | \$382,790            | \$ 164,926                     | \$           | —\$1,190,857 | 100.0 % |

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

(b) Represents risks in one geographic zone.

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



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## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the Company's consolidated results of operations for the three months ended March 31, 2018 and 2017 and the Company's consolidated financial condition, liquidity and capital resources as at March 31, 2018 and December 31, 2017. This discussion and analysis should be read in conjunction with the Company's unaudited Consolidated Financial Statements and notes thereto included in this filing and the Company's audited Consolidated Financial Statements and related notes for the fiscal year ended December 31, 2017, the discussions of critical accounting policies and the qualitative and quantitative disclosure about market risk, as well as management's discussion and analysis of financial condition and results of operations contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

For a number of reasons, the Company's historical financial results may not accurately indicate future performance. See "Cautionary Note Regarding Forward-Looking Statements." The Risk Factors set forth in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 present a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

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### Executive Overview

During the fourth quarter of 2017, the Company changed its reportable segments to “Reinsurance,” “Insurance,” and “Asset Management.” Furthermore, to better align the Company’s disclosures with its current strategy, the Company also changed its primary lines of business to “Property,” “Specialty - Short-tail” and “Specialty - Other.” The change in reportable segments and primary lines of business had no impact on the Company’s historical consolidated financial positions, results of operations or cash flows as previously reported. Where applicable, all prior periods presented have been reclassified to conform to this new presentation.

In addition, the Company has a corporate and investments function (“Corporate and Investments”), which includes the activities of the parent company, and which carries out certain functions for the group, including investment management. Corporate and Investments includes investment income on a managed basis and other non-segment expenses, predominantly general and administrative, stock compensation, finance and transaction expenses. Corporate and Investments also includes the activities of certain key executives such as the Chief Executive Officer and Chief Financial Officer. For reporting purposes, Corporate and Investments is reflected separately; however, it is not considered a reportable segment. The Company’s corporate expenses, capital servicing and debt costs and investment results are presented separately within the Corporate and Investments discussion.

The Company’s strategy is to concentrate primarily on short-tail risks, which has been an area where management believes prices and terms provide an attractive risk-adjusted return and the management team has proven expertise. The Company’s profitability in any given period is a function of net earned premium and investment revenues, less net losses and loss expenses, acquisition expenses and operating expenses. Financial results in the (re)insurance industry are influenced by the frequency and/or severity of claims and losses, including as a result of catastrophic events; changes in interest rates, financial markets and general economic conditions; the supply of (re)insurance capacity and changes in legal, regulatory and judicial environments.

### Merger Agreement

On January 21, 2018, the Company entered into a definitive agreement and plan of merger (the “Merger Agreement”) with American International Group, Inc. (“AIG”). The Merger Agreement provides that, subject to the satisfaction or waiver of certain conditions set forth therein, the Company will merge with an existing AIG subsidiary in accordance with the Bermuda Companies Act (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of AIG (the “Surviving Company”).

Pursuant to the Merger Agreement, at the effective time of the Merger, holders of the Company’s common shares will be entitled to receive consideration of \$68.00 in cash per common share. Each of the Company’s issued and outstanding Series A and Series B Preferred Shares will remain issued and outstanding as a “Series A Preferred Share” and “Series B Preferred Share,” respectively, of the Surviving Company.

The Merger is expected to close in mid-2018, subject to regulatory approvals and other customary closing conditions. The Merger Agreement permits the Company to pay out regular quarterly cash dividends not to exceed \$0.38 per common share, with its quarterly dividend for the second fiscal quarter for 2018 to be paid prior to the closing of the Merger even if such closing occurs prior to the regular record or payment date of such dividend.

### Business Outlook and Trends

We underwrite global property (re)insurance and have large aggregate exposures to natural and man-made disasters. The occurrence of claims from catastrophic events results in substantial volatility, and can have material adverse effects on the Company’s financial condition and results and its ability to write new business. This volatility affects results for the period in which the loss occurs because U.S. GAAP does not permit (re)insurers to reserve for such catastrophic events until they occur. Catastrophic events of significant magnitude historically have been relatively infrequent, although management believes the property catastrophe reinsurance market has experienced a higher level of worldwide catastrophic losses in terms of both frequency and severity in the period from 1992 to the present. We also expect that increases in the values and concentrations of insured property will increase the severity of such occurrences in the future. The Company seeks to reflect these types of trends when pricing contracts.

Property and other reinsurance premiums have historically risen in the aftermath of significant catastrophic losses. As loss reserves are established, industry surplus is depleted and the industry’s capacity to write new business diminishes. The global property and casualty (re)insurance industry has historically been highly cyclical. Since 2007, increased

capital and the relative infrequency of significant catastrophic events resulted in a softening of rates on most lines. From 2010 to 2012, there was an increased level of catastrophe activity, principally the Chilean earthquake, Deepwater Horizon, the Tohoku earthquake, the New Zealand earthquakes and Superstorm Sandy; however, the impact of these events in the aggregate were not severe enough to increase rates. As such, the Company continued to see increased competition and decreased premium rates in most classes of business.

Following the significant catastrophic events of 2017: Hurricanes Harvey, Irma and Maria and the Northern and Southern California Wildfires, the Company expects the industry to see rate increases across all loss affected classes, some of which are noted

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in the renewal commentary below. However, the Company expects rate changes to be driven by the retrocession market, with reinsurers and insurers following accordingly; therefore, the full extent of rate increases will not likely be realized until mid-2018.

During the January 2018 renewal season, the Reinsurance segment underwrote \$646.8 million in gross premiums written (excluding agriculture premiums), an increase of \$159.6 million, or 32.8% from the 2017 renewal season. The increase was primarily driven by the continued build out of the Company's casualty portfolio and the timing of casualty renewals as well as rate increases and significant premium growth on a few U.S. property lines where the Company participated with large gross positions and managed its net exposure through strategic retrocession purchases.

The Asset Management segment underwrote \$274.4 million in gross premiums written during the January 2018 renewal season, an increase of \$111.2 million, or 68.1% from the 2017 renewal season. The increase was primarily driven by significant rate increases in the retrocession component of the portfolio and an increase in assets under management.

Business written by the Insurance segment is distributed evenly throughout the year. Through March 31, 2018, the Insurance segment experienced a whole account rate increase of 8.6% on business written through the Talbot Syndicate, primarily driven by rate increases on loss impacted accounts in the property and specialty - other classes, and a whole account rate increase of 5.8% on business written through Western World, primarily driven by increases in the property class.

Non-GAAP Financial Measures

In presenting the Company's results, management has included and discussed certain non-GAAP financial measures. The Company believes that these non-GAAP measures, which may be defined and calculated differently by other companies, better explain and enhance the understanding of the Company's results of operations. However, these measures should not be viewed as a substitute for those determined in accordance with U.S. GAAP.

Book value financial indicators

In addition to presenting book value per common share determined in accordance with U.S. GAAP, the Company believes that the key financial indicator for evaluating our performance and measuring the overall growth in value generated for shareholders is book value per diluted common share plus accumulated dividends, a non-GAAP financial measure.

The following tables present reconciliations of book value per common share to book value per diluted common share plus accumulated dividends and other non-GAAP book value financial indicators:

|  | March 31, 2018   |                  |                               |
|--|------------------|------------------|-------------------------------|
|  | Equity<br>Amount | Common<br>Shares | Per<br>Share<br>Amount<br>(a) |
| Book value per common share (b)                                    | \$3,501,232      | 79,329,028       | \$ 44.14                      |
| Non-GAAP Adjustments:  |                  |                  |                               |
| Unvested restricted shares   | —                | 2,489,888        |                               |
| Book value per diluted common share (c)                            | 3,501,232        | 81,818,916       | \$ 42.79                      |
| Goodwill   | (229,573 )       | —                |                               |
| Intangible assets  | (169,168 )       | —                |                               |
| Tangible book value per diluted common share (c)                   | \$3,102,491      | 81,818,916       | \$ 37.92                      |
| Book value per diluted common share (c)                            |                  |                  | \$ 42.79                      |
| Accumulated dividends  |                  |                  | 13.46                         |
| Book value per diluted common share plus accumulated dividends (c) |                  |                  | \$ 56.25                      |

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|   | December 31, 2017 |            |          |
|---|-------------------|------------|----------|
|   | Equity            | Common     | Per      |
|   | Amount            | Shares     | Share    |
|   |                   |            | Amount   |
|   |                   |            | (a)      |
| Book value per common share <sup>(b)</sup>                                    | \$3,495,072       | 79,319,550 | \$ 44.06 |
| Non-GAAP Adjustments:   |                   |            |          |
| Unvested restricted shares  | —                 | 2,503,859  |          |
| Book value per diluted common share <sup>(c)</sup>                            | 3,495,072         | 81,823,409 | \$ 42.71 |
| Goodwill  | (229,573 )        | —          |          |
| Intangible assets   | (171,411 )        | —          |          |
| Tangible book value per diluted common share <sup>(c)</sup>                   | \$3,094,088       | 81,823,409 | \$ 37.81 |
| Book value per diluted common share <sup>(c)</sup>                            |                   |            | \$ 42.71 |
| Accumulated dividends   |                   |            | 13.08    |
| Book value per diluted common share plus accumulated dividends <sup>(c)</sup> |                   |            | \$ 55.79 |

(a) Per share amounts are calculated by dividing the equity amount by the common shares.

(b) The equity amount used in the calculation of book value per common share represents total shareholders' equity available to Validus excluding the liquidation value of the preferred shares.

(c) Non-GAAP financial measure.

Book value per common share, a GAAP financial measure, increased by \$0.08, or 0.2%, from \$44.06 at December 31, 2017 to \$44.14 at March 31, 2018.

Book value per diluted common share plus accumulated dividends, a non-GAAP financial measure, is considered by management to be the key financial indicator of performance, as the Company believes growth in book value on a diluted basis, plus the dividends that have accumulated, ultimately translates into the return that a shareholder will receive. Book value per diluted common share plus accumulated dividends increased by \$0.46, or 0.8%, from \$55.79 at December 31, 2017 to \$56.25 at March 31, 2018. Cash dividends per common share are an integral part of the value created for shareholders. During the three months ended March 31, 2018, the Company paid cash dividends of \$0.38 (2017: \$0.38) per common share.

Book value per diluted common share, a non-GAAP financial measure, is considered by management to be a measure of returns to common shareholders, as the Company believes growth in book value on a diluted basis ultimately translates into growth in stock price. Book value per diluted common share after dividends paid increased by \$0.08, or 0.2%, from \$42.71 at December 31, 2017 to \$42.79 at March 31, 2018.

The change in book value per diluted common share inclusive of dividends paid was 1.1% and 2.9% for the three months ended March 31, 2018 and 2017, respectively.

Tangible book value per diluted common share, a non-GAAP financial measure, is considered by management to be a measure of returns to common shareholders excluding goodwill and other intangible assets, as the Company believes growth in tangible book value on a diluted basis ultimately translates into growth in the tangible value of the Company. Tangible book value per diluted common share increased by \$0.11, or 0.3%, from \$37.81 at December 31, 2017 to \$37.92 at March 31, 2018.

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## Other financial indicators

In addition to presenting net (loss) income (attributable) available to Validus common shareholders determined in accordance with U.S. GAAP, the Company believes that showing net operating income available to Validus common shareholders, a non-GAAP financial measure, provides investors with a valuable measure of profitability and enables investors, analysts, rating agencies and other users of its financial information to more easily analyze the Company's results in a manner similar to how management analyzes the Company's underlying business performance.

Net operating income available to Validus common shareholders is calculated by the addition or subtraction of certain Consolidated Statement of (Loss) Income and Comprehensive Income line items from net (loss) income (attributable) available to Validus common shareholders, the most directly comparable GAAP financial measure, as illustrated in the table below:

|  | Three Months Ended March |             |
|--|--------------------------|-------------|
|  | 31,                      |             |
|  | 2018                     | 2017        |
| Net (loss) income (attributable) available to Validus common shareholders            | \$(4,078 )               | \$94,561    |
| Non-GAAP Adjustments:  |                          |             |
| Net realized (gains) losses on investments   | (2,200 )                 | 1,164       |
| Change in net unrealized losses (gains) on investments                               | 57,381                   | (13,348 )   |
| (Income) from investment affiliates  | (13,068 )                | (5,188 )    |
| Foreign exchange (gains)   | (525 )                   | (1,569 )    |
| Other (income)   | (44 )                    | (94 )       |
| Transaction expenses   | 7,756                    | —           |
| Net income attributable to noncontrolling interests                                  | 429                      | 728         |
| Tax (benefit) expense <sup>(a)</sup>   | (3,094 )                 | 580         |
| Net operating income available to Validus common shareholders <sup>(b)</sup>         | \$42,557                 | \$76,834    |
| Average shareholders' equity available to Validus common shareholders <sup>(c)</sup> | \$3,498,152              | \$3,725,084 |
| Annualized return on average equity  | (0.5 %)                  | 10.2 %      |
| Annualized net operating return on average equity <sup>(b)</sup>                     | 4.9 %                    | 8.3 %       |

(a) Represents the tax expense or benefit associated with the specific country to which the pre-tax adjustment relates to. The tax impact is estimated by applying the statutory rates of applicable jurisdictions, after consideration of other relevant factors including the ability to utilize tax losses carried forward.

(b) Non-GAAP financial measure.

(c) Average shareholders' equity for the three months ended is the average of the beginning and ending quarter end shareholders' equity balances, excluding the liquidation value of the preferred shares.



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## First Quarter 2018 Results of Operations - Consolidated

The following table presents the results of operations for the three months ended March 31, 2018 and 2017:

| (Dollars in thousands)  | Three Months Ended March<br>31, |              |    |
|---|---------------------------------|--------------|----|
|   | 2018                            | 2017         |    |
| Revenues  |                                 |              |    |
| Gross premiums written  | \$ 1,832,456                    | \$ 1,190,857 |    |
| Reinsurance premiums ceded  | (376,294 )                      | (200,106 )   |    |
| Net premiums written  | 1,456,162                       | 990,751      |    |
| Change in unearned premiums   | (837,220 )                      | (415,375 )   |    |
| Net premiums earned   | 618,942                         | 575,376      |    |
| Net investment income   | 52,072                          | 40,214       |    |
| Net realized gains (losses) on investments                                | 2,200                           | (1,164 )     |    |
| Change in net unrealized (losses) gains on investments                    | (57,381 )                       | 13,348       |    |
| Income from investment affiliates   | 13,068                          | 5,188        |    |
| Other insurance related income and other income                           | 25,540                          | 1,330        |    |
| Foreign exchange gains  | 525                             | 1,569        |    |
| Total revenues  | 654,966                         | 635,861      |    |
| Expenses  |                                 |              |    |
| Losses and loss expenses  | 321,545                         | 269,585      |    |
| Policy acquisition costs  | 116,456                         | 111,628      |    |
| General and administrative expenses                                       | 114,726                         | 87,924       |    |
| Share compensation expenses   | 9,729                           | 9,491        |    |
| Finance expenses  | 14,263                          | 13,943       |    |
| Transaction expenses  | 7,756                           | —            |    |
| Total expenses  | 584,475                         | 492,571      |    |
| Income before taxes and (income) attributable to AlphaCat investors       | 70,491                          | 143,290      |    |
| Tax benefit   | 6,833                           | 3,549        |    |
| (Income) attributable to AlphaCat investors                               | (10,862 )                       | (7,503 )     |    |
| Net income  | 66,462                          | 139,336      |    |
| Net (income) attributable to noncontrolling interests                     | (64,712 )                       | (42,572 )    |    |
| Net income available to Validus   | 1,750                           | 96,764       |    |
| Dividends on preferred shares   | (5,828 )                        | (2,203 )     |    |
| Net (loss) income (attributable) available to Validus common shareholders | \$(4,078 )                      | \$94,561     |    |
| Supplemental information:   |                                 |              |    |
| Losses and loss expenses:   |                                 |              |    |
| Current period excluding items below                                      | \$ 329,115                      | \$ 311,054   |    |
| Current period—notable loss events  | —                               | —            |    |
| Current period—non-notable loss events                                    | —                               | 19,762       |    |
| Change in prior accident years  | (7,570 )                        | (61,231 )    |    |
| Total losses and loss expenses  | \$ 321,545                      | \$ 269,585   |    |
| Selected ratios:  |                                 |              |    |
| Ratio of net to gross premiums written                                    | 79.5                            | % 83.2       | %  |
| Losses and loss expense ratio:  |                                 |              |    |
| Current period excluding items below                                      | 53.2                            | % 54.1       | %  |
| Current period—notable loss events  | —                               | % —          | %  |
| Current period—non-notable loss events                                    | —                               | % 3.4        | %  |
| Change in prior accident years  | (1.2                            | )% (10.6     | )% |

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|  |      |   |      |   |
|--|------|---|------|---|
| Losses and loss expense ratio            | 52.0 | % | 46.9 | % |
| Policy acquisition cost ratio            | 18.8 | % | 19.4 | % |
| General and administrative expense ratio | 20.1 | % | 16.9 | % |
| Expense ratio                            | 38.9 | % | 36.3 | % |
| Combined ratio                           | 90.9 | % | 83.2 | % |

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Highlights for the first quarter 2018 were as follows:

Gross premiums written for the three months ended March 31, 2018 were \$1,832.5 million compared to \$1,190.9 million for the three months ended March 31, 2017, an increase of \$641.6 million, or 53.9% driven by increases in all segments.

Reinsurance premiums ceded for the three months ended March 31, 2018 were \$376.3 million compared to \$200.1 million for the three months ended March 31, 2017, an increase of \$176.2 million, or 88.0%. The increase was primarily driven by increases in the Insurance and Reinsurance segments.

Net premiums earned for the three months ended March 31, 2018 were \$618.9 million compared to \$575.4 million for the three months ended March 31, 2017, an increase of \$43.6 million, or 7.6%. The increase was primarily driven by an increase in the Asset Management and Insurance segments and was partially offset by a decrease in the Reinsurance segment.

Losses and loss expenses for the three months ended March 31, 2018 were \$321.5 million compared to \$269.6 million for the three months ended March 31, 2017, an increase of \$52.0 million or 19.3% and included the following:

#### Notable and Non-notable Loss Events

The Company defines a notable loss event as an event whereby consolidated net losses and loss expenses aggregate to a threshold greater than or equal to \$30.0 million. The Company defines a non-notable loss event as an event whereby consolidated net losses and loss expenses aggregate to a threshold greater than or equal to \$15.0 million but less than \$30.0 million.

#### Notable Loss Events

There were no notable loss events occurring during the three months ended March 31, 2018 or 2017.

#### Non-notable Loss Events

There were no non-notable loss events occurring during the three months ended March 31, 2018.

Losses and loss expenses incurred from a single energy non-notable loss event during the three months ended March 31, 2017 were \$19.8 million, or 3.4 percentage points of the loss ratio. Including reinstatement premiums payable of \$1.0 million, the net loss attributable to Validus was \$20.8 million.

#### Attritional losses

Attritional losses of \$329.1 million, or 53.2 percentage points of the loss ratio during the three months ended March 31, 2018 compared to \$311.1 million, or 54.1 percentage points of the loss ratio during the three months ended March 31, 2017.

#### Change in prior accident years

Loss reserve development for the three months ended March 31, 2018 and 2017 was as follows:

| (Dollars in thousands)                          | Three Months    |             |
|---|-----------------|-------------|
|   | Ended March 31, |             |
|   | 2018            | 2017        |
| Adverse (favorable) development on event losses | \$36,546        | \$(10,610)  |
| (Favorable) development on attritional losses   | (44,116 )       | (50,621 )   |
| Change in prior accident years                  | \$(7,570 )      | \$(61,231 ) |

The adverse development on event losses during the three months ended March 31, 2018 was primarily driven by adverse development on the 2017 notable loss events, Hurricanes Irma and Maria and the Northern California Wildfires and was partially offset by favorable development on the 2017 Southern California Wildfires. Excluding the Asset Management segment, which includes losses attributable to AlphaCat's third party investors and noncontrolling interests, favorable development during the three months ended March 31, 2018 was \$33.4 million, which included adverse development of \$6.5 million on event losses. The favorable development for the three months ended March 31, 2017 was primarily driven by favorable development on attritional losses.

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Loss ratio for the three months ended March 31, 2018 and 2017 was 52.0% and 46.9%, respectively, an increase of 5.1 percentage points.

Loss ratios by line of business for the three months ended March 31, 2018 and 2017 were as follows:

|                        | Three Months<br>Ended March<br>31, |       |
|------------------------|------------------------------------|-------|
|                        | 2018                               | 2017  |
| Property               | 45.2%                              | 33.1% |
| Specialty - Short-tail | 50.9%                              | 48.9% |
| Specialty - Other      | 65.8%                              | 69.4% |
| All lines              | 52.0%                              | 46.9% |

Policy acquisition cost ratio for the three months ended March 31, 2018 was 18.8% compared to 19.4% for the three months ended March 31, 2017, a decrease of 0.6 percentage points.

General and administrative (“G&A”) expenses for the three months ended March 31, 2018 were \$114.7 million compared to \$87.9 million for the three months ended March 31, 2017, an increase of \$26.8 million or 30.5%.

General and administrative expenses for the three months ended March 31, 2018 included \$12.0 million of Crop Risk Services (“CRS”) expenses, of which \$1.7 million related to the amortization of intangible assets acquired. The remaining increase was primarily driven by an increase in the performance bonus accrual.

Combined ratio for the three months ended March 31, 2018 and 2017 was 90.9% and 83.2%, respectively, an increase of 7.7 percentage points.

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## First Quarter 2018 Results of Operations - Reinsurance Segment

The following table presents underwriting results by line of business for the three months ended March 31, 2018 and 2017:

| (Dollars in thousands)                   | Three Months Ended March 31, 2018 |                        |                   |            | 2017      |                        |                   |            |
|--|-----------------------------------|------------------------|-------------------|------------|-----------|------------------------|-------------------|------------|
|  | Property                          | Specialty - Short-tail | Specialty - Other | Total      | Property  | Specialty - Short-tail | Specialty - Other | Total      |
| Underwriting revenues                    |                                   |                        |                   |            |           |                        |                   |            |
| Gross premiums written                   | \$273,989                         | \$352,110              | \$139,474         | \$765,573  | \$216,667 | \$376,878              | \$49,596          | \$643,141  |
| Reinsurance premiums ceded               | (136,390 )                        | (31,643 )              | (22,161 )         | (190,194 ) | (88,417 ) | (24,591 )              | (1,438 )          | (114,446 ) |
| Net premiums written                     | 137,599                           | 320,467                | 117,313           | 575,379    | 128,250   | 352,287                | 48,158            | 528,695    |
| Change in unearned premiums              | (47,748 )                         | (223,413 )             | (79,466 )         | (350,627 ) | (25,868 ) | (247,936 )             | (23,236 )         | (297,040 ) |
| Net premiums earned                      | 89,851                            | 97,054                 | 37,847            | 224,752    | 102,382   | 104,351                | 24,922            | 231,655    |
| Other insurance related income           |                                   |                        |                   | 2          |           |                        |                   | 2          |
| Total underwriting revenues              |                                   |                        |                   | 224,754    |           |                        |                   | 231,657    |
| Underwriting deductions                  |                                   |                        |                   |            |           |                        |                   |            |
| Losses and loss expenses                 | 29,122                            | 50,907                 | 23,444            | 103,473    | 17,437    | 49,450                 | 13,994            | 80,881     |
| Policy acquisition costs                 | 17,631                            | 19,760                 | 10,949            | 48,340     | 17,884    | 18,103                 | 7,548             | 43,535     |
| Total underwriting deductions before G&A | 46,753                            | 70,667                 | 34,393            | 151,813    | 35,321    | 67,553                 | 21,542            | 124,416    |
| Underwriting income before G&A           | \$43,098                          | \$26,387               | \$3,454           | \$72,941   | \$67,061  | \$36,798               | \$3,380           | \$107,241  |
| General and administrative expenses      |                                   |                        |                   | 28,915     |           |                        |                   | 19,969     |
| Share compensation expenses              |                                   |                        |                   | 2,663      |           |                        |                   | 2,623      |
| Total underwriting deductions            |                                   |                        |                   | 183,391    |           |                        |                   | 147,008    |
| Underwriting income                      |                                   |                        |                   | \$41,363   |           |                        |                   | \$84,649   |

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|  |          |            |          |           |           |            |           |            |    |
|--|----------|------------|----------|-----------|-----------|------------|-----------|------------|----|
| Losses and loss expenses:                |          |            |          |           |           |            |           |            |    |
| Current period excluding items below     | \$33,944 | \$64,358   | \$23,009 | \$121,311 | \$21,144  | \$71,480   | \$14,308  | \$106,932  |    |
| Current period—notable loss—events       |          | —          | —        | —         | —         | —          | —         | —          |    |
| Current period—non-notable—loss events   |          | —          | —        | —         | 355       | 4,718      | —         | 5,073      |    |
| Change in prior accident years           | (4,822 ) | (13,451 )  | 435      | (17,838 ) | (4,062 )  | (26,748 )  | (314 )    | (31,124 )  |    |
| Total losses and loss expenses           | \$29,122 | \$50,907   | \$23,444 | \$103,473 | \$17,437  | \$49,450   | \$13,994  | \$80,881   |    |
| Selected ratios:                         |          |            |          |           |           |            |           |            |    |
| Ratio of net to gross premiums written   | 50.2     | % 91.0     | % 84.1   | % 75.2    | % 59.2    | % 93.5     | % 97.1    | % 82.2     | %  |
| Losses and loss expense ratio:           |          |            |          |           |           |            |           |            |    |
| Current period excluding items below     | 37.8     | % 66.3     | % 60.8   | % 53.9    | % 20.7    | % 68.5     | % 57.5    | % 46.1     | %  |
| Current period—notable loss—events       |          | % —        | % —      | % —       | % —       | % —        | % —       | % —        | %  |
| Current period—non-notable—loss events   |          | % —        | % —      | % —       | % 0.3     | % 4.5      | % —       | % 2.2      | %  |
| Change in prior accident years           | (5.4 )   | )% (13.9 ) | )% 1.1   | % (7.9 )  | )% (4.0 ) | )% (25.6 ) | )% (1.3 ) | )% (13.4 ) | )% |
| Losses and loss expense ratio            | 32.4     | % 52.4     | % 61.9   | % 46.0    | % 17.0    | % 47.4     | % 56.2    | % 34.9     | %  |
| Policy acquisition cost ratio            | 19.6     | % 20.4     | % 28.9   | % 21.5    | % 17.5    | % 17.3     | % 30.3    | % 18.8     | %  |
| General and administrative expense ratio |          |            |          | 14.1      | %         |            |           | 9.8        | %  |
| Expense ratio                            |          |            |          | 35.6      | %         |            |           | 28.6       | %  |
| Combined ratio                           |          |            |          | 81.6      | %         |            |           | 63.5       | %  |

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Highlights for the first quarter 2018 were as follows:

Gross premiums written for the three months ended March 31, 2018 were \$765.6 million compared to \$643.1 million for the three months ended March 31, 2017, an increase of \$122.4 million, or 19.0% and included the following:

Property premiums of \$274.0 million during the three months ended March 31, 2018, compared to \$216.7 million during the three months ended March 31, 2017, an increase of \$57.3 million, or 26.5%, primarily driven by increased participation on a number of catastrophe excess of loss programs and new proportional business written;

Specialty - short-tail premiums of \$352.1 million during the three months ended March 31, 2018, compared to \$376.9 million during the three months ended March 31, 2017, a decrease of \$24.8 million, or 6.6%. The decrease was primarily driven by the non-renewal of one significant agriculture contract and was partially offset by new composite business written; and

Specialty - other premiums of \$139.5 million during the three months ended March 31, 2018, compared to \$49.6 million during the three months ended March 31, 2017, an increase of \$89.9 million, or 181.2%, primarily driven by new casualty business written and the timing of renewals.

Reinsurance premiums ceded for the three months ended March 31, 2018 were \$190.2 million compared to \$114.4 million for the three months ended March 31, 2017, an increase of \$75.7 million, or 66.2%. The increase was primarily driven by an increase in the property lines of \$48.0 million as a result of new aggregate and proportional covers purchased and an increase in the specialty - other lines of \$20.7 million as a result of a new casualty retrocession cover.

Net premiums earned for the three months ended March 31, 2018 were \$224.8 million compared to \$231.7 million for the three months ended March 31, 2017, a decrease of \$6.9 million, or 3.0%.

Losses and loss expenses for the three months ended March 31, 2018 were \$103.5 million compared to \$80.9 million for the three months ended March 31, 2017, an increase of \$22.6 million or 27.9% and included the following:

Notable Loss Events

There were no notable loss events occurring during the three months ended March 31, 2018 or 2017.

Non-notable Loss Events

There were no non-notable loss events occurring during the three months ended March 31, 2018.

Losses and loss expenses incurred from a single energy non-notable loss event during the three months ended March 31, 2017 were \$5.1 million, or 2.2 percentage points of the loss ratio and related primarily to the specialty - short-tail lines.

Attritional losses

Attritional losses of \$121.3 million, or 53.9 percentage points of the loss ratio during the three months ended March 31, 2018 compared to \$106.9 million, or 46.1 percentage points of the loss ratio during the three months ended March 31, 2017. The increase in the attritional loss ratio was primarily due to \$10.0 million of losses from Winter Storm Friederike which did not meet the non-notable loss threshold and the earned impact of higher retrocession purchases as noted above.

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Change in prior accident years

Loss reserve development for the three months ended March 31, 2018 and 2017 was as follows:

| (Dollars in thousands)                          | Three Months Ended March 31, 2018 |            |           |            |
|---|-----------------------------------|------------|-----------|------------|
|   | Property                          | Specialty  | Specialty | Total      |
|   |                                   | Short-tail | - Other   |            |
| Adverse development on event losses             | \$ 857                            | \$ 3,348   | \$ 450    | \$ 4,655   |
| (Favorable) development on attritional losses   | (5,679 )                          | (16,799 )  | (15 )     | (22,493 )  |
| Change in prior accident years                  | \$(4,822)                         | \$(13,451) | \$ 435    | \$(17,838) |
| (Dollars in thousands)                          | Three Months Ended March 31, 2017 |            |           |            |
|   | Property                          | Specialty  | Specialty | Total      |
|   |                                   | Short-tail | - Other   |            |
| Adverse (favorable) development on event losses | \$ 2,623                          | \$(8,670 ) | \$ 194    | \$(5,853 ) |
| (Favorable) development on attritional losses   | (6,685 )                          | (18,078 )  | (508 )    | (25,271 )  |
| Change in prior accident years                  | \$(4,062)                         | \$(26,748) | \$ (314 ) | \$(31,124) |

The net favorable development for the three months ended March 31, 2018 and 2017 was primarily driven by favorable development on attritional losses. The favorable development on event losses during the three months ended March 31, 2017 was primarily related to the 2015 Pemex notable loss event.

Loss ratio for the three months ended March 31, 2018 and 2017 was 46.0% and 34.9%, respectively, an increase of 11.1 percentage points.

Policy acquisition cost ratio for the three months ended March 31, 2018 was 21.5% compared to 18.8% for the three months ended March 31, 2017, an increase of 2.7 percentage points. The increase was primarily driven by the earned impact of higher retrocession purchases as noted above and a change in business mix in the specialty classes.

General and administrative expenses for the three months ended March 31, 2018 were \$28.9 million compared to \$20.0 million for the three months ended March 31, 2017, an increase of \$8.9 million or 44.8%. The increase was primarily driven by an increase in the performance bonus accrual and a higher allocation of costs to the segment.

Combined ratio for the three months ended March 31, 2018 and 2017 was 81.6% and 63.5%, respectively, an increase of 18.1 percentage points.

Underwriting income for the three months ended March 31, 2018 was \$41.4 million compared to \$84.6 million for the three months ended March 31, 2017, a decrease of \$43.3 million or 51.1%.



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## First Quarter 2018 Results of Operations - Insurance Segment

On May 1, 2017, the Company completed its acquisition of CRS. The results of CRS have been presented within the specialty - short-tail line of business in the Insurance segment from the date of acquisition.

The following table presents underwriting results by line of business for the three months ended March 31, 2018 and 2017:

| (Dollars in thousands)                   | Three Months Ended March 31, 2018 |                        |                   |             | 2017       |                        |                   |             |
|--|-----------------------------------|------------------------|-------------------|-------------|------------|------------------------|-------------------|-------------|
|  | Property                          | Specialty - Short-tail | Specialty - Other | Total       | Property   | Specialty - Short-tail | Specialty - Other | Total       |
| Underwriting revenues                    |                                   |                        |                   |             |            |                        |                   |             |
| Gross premiums written                   | \$91,958                          | \$538,322              | \$155,515         | \$785,795   | \$81,547   | \$179,221              | \$122,022         | \$382,790   |
| Reinsurance premiums ceded               | (47,055 )                         | (105,303 )             | (39,279 )         | (191,637 )  | (33,263 )  | (26,554 )              | (19,183 )         | (79,000 )   |
| Net premiums written                     | 44,903                            | 433,019                | 116,236           | 594,158     | 48,284     | 152,667                | 102,839           | 303,790     |
| Change in unearned premiums              | 30,084                            | (312,988 )             | (11,716 )         | (294,620 )  | 19,990     | (40,070 )              | (4,616 )          | (24,696 )   |
| Net premiums earned                      | 74,987                            | 120,031                | 104,520           | 299,538     | 68,274     | 112,597                | 98,223            | 279,094     |
| Other insurance related income           |                                   |                        |                   | 2,170       |            |                        |                   | 996         |
| Total underwriting revenues              |                                   |                        |                   | 301,708     |            |                        |                   | 280,090     |
| Underwriting deductions                  |                                   |                        |                   |             |            |                        |                   |             |
| Losses and loss expenses                 | 53,552                            | 59,674                 | 70,163            | 183,389     | 59,487     | 55,708                 | 71,415            | 186,610     |
| Policy acquisition costs                 | 16,556                            | 21,481                 | 22,020            | 60,057      | 13,823     | 26,618                 | 20,751            | 61,192      |
| Total underwriting deductions before G&A | 70,108                            | 81,155                 | 92,183            | 243,446     | 73,310     | 82,326                 | 92,166            | 247,802     |
| Underwriting income before G&A           | \$4,879                           | \$38,876               | \$12,337          | \$58,262    | \$(5,036 ) | \$30,271               | \$6,057           | \$32,288    |
| General and administrative expenses      |                                   |                        |                   | 68,050      |            |                        |                   | 45,276      |
| Share compensation expenses              |                                   |                        |                   | 2,989       |            |                        |                   | 3,373       |
| Total underwriting deductions            |                                   |                        |                   | 314,485     |            |                        |                   | 296,451     |
| Underwriting (loss)                      |                                   |                        |                   | \$(12,777 ) |            |                        |                   | \$(16,361 ) |

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|  |          |           |          |           |           |           |          |           |   |
|--|----------|-----------|----------|-----------|-----------|-----------|----------|-----------|---|
| Supplemental information:                |          |           |          |           |           |           |          |           |   |
| Losses and loss expenses:                |          |           |          |           |           |           |          |           |   |
| Current period excluding items below     | \$49,484 | \$71,875  | \$77,578 | \$198,937 | \$53,464  | \$67,471  | \$77,675 | \$198,610 |   |
| Current period—notable loss—events       | —        | —         | —        | —         | —         | —         | —        | —         |   |
| Current period—non-notable—loss events   | —        | —         | —        | —         | 14,689    | —         | —        | 14,689    |   |
| Change in prior accident years           | 4,068    | (12,201 ) | (7,415 ) | (15,548 ) | (8,666 )  | (11,763 ) | (6,260 ) | (26,689 ) |   |
| Total losses and loss expenses           | \$53,552 | \$59,674  | \$70,163 | \$183,389 | \$59,487  | \$55,708  | \$71,415 | \$186,610 |   |
| Selected ratios:                         |          |           |          |           |           |           |          |           |   |
| Ratio of net to gross premiums written   | 48.8     | % 80.4    | % 74.7   | % 75.6    | % 59.2    | % 85.2    | % 84.3   | % 79.4    | % |
| Losses and loss expense ratio:           |          |           |          |           |           |           |          |           |   |
| Current period excluding items below     | 66.0     | % 59.9    | % 74.2   | % 66.4    | % 78.3    | % 59.9    | % 79.1   | % 71.2    | % |
| Current period—notable loss—events       | % —      | % —       | % —      | % —       | % —       | % —       | % —      | % —       | % |
| Current period—non-notable—loss events   | % —      | % —       | % —      | % —       | % 21.5    | % —       | % —      | % 5.3     | % |
| Change in prior accident years           | 5.4      | % (10.2 ) | % (7.1 ) | % (5.2 )  | % (12.7 ) | % (10.4 ) | % (6.4 ) | % (9.6 )  | % |
| Losses and loss expense ratio            | 71.4     | % 49.7    | % 67.1   | % 61.2    | % 87.1    | % 49.5    | % 72.7   | % 66.9    | % |
| Policy acquisition cost ratio            | 22.1     | % 17.9    | % 21.1   | % 20.0    | % 20.2    | % 23.6    | % 21.1   | % 21.9    | % |
| General and administrative expense ratio |          |           |          | 23.7      | %         |           |          | 17.4      | % |
| Expense ratio                            |          |           |          | 43.7      | %         |           |          | 39.3      | % |
| Combined ratio                           |          |           |          | 104.9     | %         |           |          | 106.2     | % |

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Highlights for the first quarter 2018 were as follows:

Gross premiums written for the three months ended March 31, 2018 were \$785.8 million compared to \$382.8 million for the three months ended March 31, 2017, an increase of \$403.0 million, or 105.3% and included the following:

Property premiums of \$92.0 million during the three months ended March 31, 2018, compared to \$81.5 million during the three months ended March 31, 2017, an increase of \$10.4 million, or 12.8%;

Specialty - short-tail premiums of \$538.3 million during the three months ended March 31, 2018, compared to \$179.2 million during the three months ended March 31, 2017, an increase of \$359.1 million, or 200.4%. The increase was primarily driven by new agriculture business written through CRS; and

Specialty - other premiums of \$155.5 million during the three months ended March 31, 2018, compared to \$122.0 million during the three months ended March 31, 2017, an increase of \$33.5 million, or 27.4%, primarily driven by increased participation on renewals and the build out of product offerings in U.S. liability lines.

Reinsurance premiums ceded for the three months ended March 31, 2018 were \$191.6 million compared to \$79.0 million for the three months ended March 31, 2017, an increase of \$112.6 million, or 142.6%. The increase was primarily driven by an increase in the specialty - short-tail lines of \$78.7 million driven by ceded agriculture premiums relating to new business written through CRS and an increase in the specialty - other lines of \$20.1 million as a result of the continued build out of U.S. liability lines as noted above.

Net premiums earned for the three months ended March 31, 2018 were \$299.5 million compared to \$279.1 million for the three months ended March 31, 2017, an increase of \$20.4 million, or 7.3%. The increase was primarily due to agriculture net premiums earned relating to new business written through CRS.

Losses and loss expenses for the three months ended March 31, 2018 were \$183.4 million compared to \$186.6 million for the three months ended March 31, 2017, a decrease of \$3.2 million or 1.7% and included the following:

## Notable Loss Events

There were no notable loss events occurring during the three months ended March 31, 2018 or 2017.

## Non-notable Loss Events

There were no non-notable loss events occurring during the three months ended March 31, 2018.

Losses and loss expenses incurred from a single energy non-notable loss event during the three months ended March 31, 2017 were \$14.7 million, or 5.3 percentage points of the loss ratio and related solely to the property lines.

## Attritional losses

Attritional losses of \$198.9 million, or 66.4 percentage points of the loss ratio during the three months ended March 31, 2018 compared to \$198.6 million, or 71.2 percentage points of the loss ratio during the three months ended March 31, 2017.

## Change in prior accident years

Loss reserve development for the three months ended March 31, 2018 and 2017 was as follows:

| (Dollars in thousands)                                | Three Months Ended March 31, 2018 |            |           |            |
|---|-----------------------------------|------------|-----------|------------|
|   | Property-                         | Specialty  | Specialty | Total      |
|   |                                   | Short-tail | - Other   |            |
| Adverse (favorable) development on event losses       | \$2,934                           | \$(887 )   | \$(156 )  | \$1,891    |
| Adverse (favorable) development on attritional losses | 1,134                             | (11,314 )  | (7,259 )  | (17,439 )  |
| Change in prior accident years                        | \$4,068                           | \$(12,201) | \$(7,415) | \$(15,548) |

## Three Months Ended March 31, 2017

| (Dollars in thousands)                        | Property -                              | Specialty  | Specialty  | Total      |
|---|---|------------|------------|------------|
|   |   | Short-tail | - Other    |            |
|   | (Favorable) development on event losses | \$(800 )   | \$(3,730 ) | \$(1 )     |
| (Favorable) development on attritional losses | (7,866 )                                | (8,033 )   | (6,259 )   | (22,158 )  |
| Change in prior accident years                | \$(8,666)                               | \$(11,763) | \$(6,260)  | \$(26,689) |

The net favorable development for the three months ended March 31, 2018 and 2017 was primarily driven by favorable development on attritional losses.



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Loss ratio for the three months ended March 31, 2018 and 2017 was 61.2% and 66.9%, respectively, a decrease of 5.7 percentage points.

Policy acquisition cost ratio for the three months ended March 31, 2018 was 20.0% compared to 21.9% for the three months ended March 31, 2017, a decrease of 1.9 percentage points.

General and administrative expenses for the three months ended March 31, 2018 were \$68.1 million compared to \$45.3 million for the three months ended March 31, 2017, an increase of \$22.8 million or 50.3%. General and administrative expenses for the three months ended March 31, 2018 included \$12.0 million of CRS expenses, of which \$1.7 million related to the amortization of intangible assets acquired. The remaining increase was primarily driven by an increase in the performance bonus accrual and a higher allocation of costs to the segment.

Combined ratio for the three months ended March 31, 2018 and 2017 was 104.9% and 106.2%, respectively, a decrease of 1.3 percentage points.

Underwriting (loss) for the three months ended March 31, 2018 was \$(12.8) million compared to \$(16.4) million for the three months ended March 31, 2017, a decrease of \$3.6 million or 21.9%.

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## First Quarter 2018 Results of Operations - Asset Management Segment

The following table presents the Asset Management segment income on an asset manager basis for the three months ended March 31, 2018 and 2017:

| (Dollars in thousands)  | Three Months Ended |           |   |
|---|--------------------|-----------|---|
|   | March 31,          |           |   |
|   | 2018               | 2017      |   |
| Fee revenues  |                    |           |   |
| Third party   | \$6,209            | \$4,644   |   |
| Related party   | 443                | 631       |   |
| Total fee revenues  | 6,652              | 5,275     |   |
| Expenses  |                    |           |   |
| General and administrative expenses                             | 4,547              | 3,844     |   |
| Share compensation expenses                                     | 41                 | 82        |   |
| Finance expenses  | 78                 | 31        |   |
| Tax (benefit)   | (7                 | ) (1      | ) |
| Foreign exchange losses (gains)                                 | 1                  | (1        | ) |
| Total expenses  | 4,660              | 3,955     |   |
| Income before investment income from funds and sidecars         | 1,992              | 1,320     |   |
| Investment income (loss) from funds and sidecars <sup>(a)</sup> |                    |           |   |
| AlphaCat Sidecars   | 32                 | (112      | ) |
| AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>                  | 1,234              | 2,189     |   |
| AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>                 | 3,820              | 2,367     |   |
| BetaCat ILS Funds   | 186                | 368       |   |
| Validus' share of investment income from funds and sidecars     | 5,272              | 4,812     |   |
| Asset Management segment income                                 | \$7,264            | \$6,132   |   |
| Gross premiums written  |                    |           |   |
| AlphaCat Sidecars   | \$(143             | ) \$66    |   |
| AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>                  | 109,950            | 52,908    |   |
| AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>                 | 165,896            | 93,536    |   |
| AlphaCat Direct <sup>(c)</sup>                                  | 10,922             | 18,416    |   |
| Total   | \$286,625          | \$164,926 |   |

(a) The investment income (loss) from funds and sidecars is based on equity accounting.

Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of 7% or greater. The maximum permitted portfolio expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.

(c) AlphaCat Direct includes direct investments from a third party investor in AlphaCat Re.

Highlights for the first quarter 2018 were as follows:

Fee revenues earned for the three months ended March 31, 2018 were \$6.7 million compared to \$5.3 million during the three months ended March 31, 2017, an increase of \$1.4 million or 26.1%. Third party fee revenues earned during the three months ended March 31, 2018 were \$6.2 million compared to \$4.6 million during the three months ended March 31, 2017, an increase of \$1.6 million or 33.7%. The increase in third party fee revenues was primarily driven by an increase in management fees as a result of an increase in assets under management over the last twelve months. Total expenses for the three months ended March 31, 2018 were \$4.7 million compared to \$4.0 million during the three months ended March 31, 2017, an increase of \$0.7 million, or 17.8%. The increase was driven by a higher allocation of costs to the segment.

Validus' share of investment income from AlphaCat Funds and Sidecars for the three months ended March 31, 2018 was \$5.3 million compared to \$4.8 million during the three months ended March 31, 2017, an increase of \$0.5

million, or 9.6%.

Asset Management segment income for the three months ended March 31, 2018 was \$7.3 million compared to \$6.1 million during the three months ended March 31, 2017, an increase of \$1.1 million, or 18.5%.

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## Assets Under Management

| (Dollars in thousands)                                 | Assets Under Management <sup>(a)</sup> |                 |
|--|--|-----------------|
|  | April 1, 2018                          | January 1, 2018 |
| Assets Under Management - Related Party <sup>(a)</sup> |  |                 |
| AlphaCat Sidecars                                      | \$4,777                                | \$5,631         |
| AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>         | 75,283                                 | 75,898          |
| AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>        | 74,253                                 | 68,290          |
| AlphaCat Direct <sup>(c)</sup>                         | —                                      | —               |
| BetaCat ILS Funds                                      | 25,104                                 | 24,914          |
| Total  | \$179,417                              | \$174,733       |
| Assets Under Management - Third Party <sup>(a)</sup>   |  |                 |
| AlphaCat Sidecars                                      | \$17,120                               | \$20,565        |
| AlphaCat ILS Funds - Lower Risk <sup>(b)</sup>         | 1,741,804                              | 1,663,606       |
| AlphaCat ILS Funds - Higher Risk <sup>(b)</sup>        | 1,157,510                              | 1,029,224       |
| AlphaCat Direct <sup>(c)</sup>                         | 490,716                                | 443,730         |
| BetaCat ILS Funds                                      | 77,547                                 | 67,046          |
| Total  | 3,484,697                              | 3,224,171       |
| Total Assets Under Management <sup>(a)</sup>           | \$3,664,114                            | \$3,398,904     |

<sup>(a)</sup> The Company's assets under management are based on NAV and are represented by investments made by related parties and third parties in the feeder funds and on a direct basis.

Lower risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of less than 7%, whereas higher risk AlphaCat ILS funds have a maximum permitted portfolio expected loss of 7% or greater. The maximum <sup>(b)</sup> permitted portfolio expected loss represents the average annual loss over the set of simulation scenarios divided by the total limit.

<sup>(c)</sup> AlphaCat Direct includes direct investments from third party investors in AlphaCat Re.

Assets under management were \$3.7 billion as at April 1, 2018, compared to \$3.4 billion as at January 1, 2018, of which third party assets under management were \$3.5 billion as at April 1, 2018, compared to \$3.2 billion as at January 1, 2018. During the three months ended April 1, 2018, a total of \$200.4 million of capital was raised, of which \$198.1 million was raised from third parties. During the three months ended April 1, 2018, \$4.3 million was returned to investors, of which \$3.4 million was returned to third party investors.



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## First Quarter 2018 Results - Corporate and Investments

The following table presents the Corporate and Investment function's income and expense items on a consolidated basis for the three months ended March 31, 2018 and 2017:

| (Dollars in thousands)  | Three Months            |          |
|---|-------------------------|----------|
|   | Ended March 31,<br>2018 | 2017     |
| Managed investments   |                         |          |
| Managed net investment income <sup>(a)</sup>                                  | \$39,791                | \$36,192 |
| Net realized gains (losses) on managed investments <sup>(a)</sup>             | 1,142                   | (2,892 ) |
| Change in net unrealized (losses) gains on managed investments <sup>(a)</sup> | (56,777 )               | 14,349   |
| Income from investment affiliates   | 13,068                  | 5,188    |
| Total managed investment return   | (2,776 )                | 52,837   |
| Corporate expenses  |                         |          |
| General and administrative expenses   | 12,309                  | 17,961   |
| Share compensation expenses   | 4,036                   | 3,413    |
| Finance expenses <sup>(a)</sup>   | 14,090                  | 13,864   |
| Dividends on preferred shares   | 5,828                   | 2,203    |
| Tax (benefit) <sup>(a)</sup>  | (6,826 )                | (3,548 ) |
| Total Corporate expenses  | 29,437                  | 33,893   |
| Other items   |                         |          |
| Foreign exchange (losses) gains <sup>(a)</sup>                                | (3 )                    | 1,103    |
| Other income  | 44                      | 94       |
| Transaction expenses  | (7,756 )                | —        |
| Total other items   | (7,715 )                | 1,197    |
| Total Corporate and Investments   | \$(39,928)              | \$20,141 |

<sup>(a)</sup> These items exclude the components which are included in the Asset Management segment income and amounts which are consolidated from VIEs.

## Managed investments

Highlights for the first quarter 2018 were as follows:

Managed net investment income for the three months ended March 31, 2018 was \$39.8 million compared to \$36.2 million for the three months ended March 31, 2017, an increase of \$3.6 million, or 9.9%.

Annualized effective yield on managed investments for the three months ended March 31, 2018 was 2.33%, compared to 2.27% for the three months ended March 31, 2017, an increase of 6 basis points.

Net realized gains on managed investments for the three months ended March 31, 2018 were \$1.1 million compared to (losses) of \$(2.9) million for the three months ended March 31, 2017.

Change in net unrealized (losses) on managed investments for the three months ended March 31, 2018 of \$(56.8) million compared to gains \$14.3 million for the three months ended March 31, 2017. Changes in unrealized (losses) on managed investments during the three months ended March 31, 2018 were primarily driven by the impact of interest rate increases on the Company's managed fixed maturity portfolio.

Income from investment affiliates for the three months ended March 31, 2018 was \$13.1 million compared to \$5.2 million for the three months ended March 31, 2017, an increase of \$7.9 million, or 151.9%. The income from investment affiliates represents equity earnings on investments in funds managed by Aquiline Capital Partners LLC.

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Corporate expenses and other items

Highlights for the first quarter 2018 were as follows:

General and administrative expenses for the three months ended March 31, 2018 were \$12.3 million compared to \$18.0 million for the three months ended March 31, 2017, a decrease of \$5.7 million, or 31.5%. The decrease was primarily driven by a higher allocation of costs to reporting segments during the three months ended March 31, 2018.

Share compensation expenses for the three months ended March 31, 2018 were \$4.0 million compared to \$3.4 million for the three months ended March 31, 2017, an increase of \$0.6 million, or 18.3%.

Finance expenses for the three months ended March 31, 2018 were \$14.1 million compared to \$13.9 million for the three months ended March 31, 2017, an increase of \$0.2 million, or 1.6%.

Dividends on preferred shares for the three months ended March 31, 2018 were \$5.8 million compared to \$2.2 million for the three months ended March 31, 2017, an increase of \$3.6 million, or 164.5% due to \$250.0 million of new preferred shares issued during the second quarter of 2017.

Tax (benefit) for the three months ended March 31, 2018 was \$(6.8) million compared to \$(3.5) million for the three months ended March 31, 2017. The tax (benefit) during the three months ended March 31, 2018 mainly related to operating losses in the Insurance segment and unrealized losses on the Company's investment portfolio.

Foreign exchange (losses) for the three months ended March 31, 2018 were \$nil compared to gains of \$1.1 million for the three months ended March 31, 2017.

Transaction expenses for the three months ended March 31, 2018 were \$7.8 million compared to \$nil for the three months ended March 31, 2017 and were primarily composed of legal and financial advisory services in relation to the Company's Merger with AIG.

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## Liquidity and Capital Resources

## Investments

Managed investments represent assets governed by the Company's Investment Policy Statement ("IPS") whereas, non-managed investments represent assets held in support of consolidated AlphaCat VIEs which are not governed by the Company's IPS. Refer to Note 6, "Variable interest entities," to the Consolidated Financial Statements in Part I, Item 1 for further details.

The fair value of the Company's investments, cash and cash equivalents and restricted cash as at March 31, 2018 and December 31, 2017 was as follows:

|  | Fair Value        |                      |
|--|-------------------|----------------------|
|  | March 31,<br>2018 | December<br>31, 2017 |
| Managed investments, cash and cash equivalents and restricted cash           |                   |                      |
| Fixed maturities   |                   |                      |
| U.S. government and government agency  | \$589,161         | \$727,397            |
| Non-U.S. government and government agency                                    | 318,345           | 312,239              |
| U.S. states, municipalities and political subdivisions                       | 184,964           | 201,303              |
| Agency residential mortgage-backed securities                                | 968,258           | 978,049              |
| Non-agency residential mortgage-backed securities                            | 43,487            | 40,373               |
| U.S. corporate   | 1,534,805         | 1,533,395            |
| Non-U.S. corporate   | 415,156           | 422,249              |
| Bank loans   | 468,815           | 442,951              |
| Asset-backed securities  | 741,712           | 658,303              |
| Commercial mortgage-backed securities  | 318,392           | 312,395              |
| Total fixed maturities   | 5,583,095         | 5,628,654            |
| Short-term investments   | 188,251           | 230,011              |
| Other investments  |                   |                      |
| Hedge funds  | 15,758            | 15,774               |
| Private equity investments   | 79,774            | 78,407               |
| Fixed income investment funds  | 200,944           | 204,426              |
| Overseas deposits  | 60,770            | 56,611               |
| Total other investments  | 357,246           | 355,218              |
| Investments in investment affiliates <sup>(a)</sup>                          | 113,471           | 100,137              |
| Cash and cash equivalents  | 666,527           | 691,687              |
| Restricted cash  | 70,968            | 62,848               |
| Total managed investments, cash and cash equivalents and restricted cash     | \$6,979,558       | \$7,068,555          |
| Non-managed investments, cash and cash equivalents and restricted cash       |                   |                      |
| Catastrophe bonds  | \$219,927         | \$229,694            |
| Short-term investments   | 3,450,689         | 3,151,746            |
| Cash and cash equivalents  | 5,646             | 63,303               |
| Restricted cash  | 231,309           | 331,815              |
| Total non-managed investments, cash and cash equivalents and restricted cash | 3,907,571         | 3,776,558            |
| Total investments and cash   | \$10,887,129      | \$10,845,113         |

<sup>(a)</sup> The Company's investments in investment affiliates have been treated as equity method investments with the corresponding gains and losses recorded in income as "Income from investment affiliates."

As at March 31, 2018, the Company's managed cash and investment portfolio totaled \$7.0 billion (December 31, 2017: \$7.1 billion). Refer to Note 4 to the Consolidated Financial Statements, "Investments," in Part I, Item 1 for further details related to the Company's managed investments.

A significant portion of (re)insurance contracts written by the Company 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 Company'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. The Company's IPS specifically requires certain minimum thresholds of cash, short-term investments, and highly-rated fixed maturity securities relative to our consolidated

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net reserves and estimates of probable maximum loss exposures at the 1 in 100 year threshold to provide necessary liquidity in a wide range of reasonable scenarios. As such, the Company 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 Company's IPS requires managed investments to have an average duration in the range of 0.75 years to 3.25 years. At March 31, 2018, the average duration of the Company's managed investment portfolio was 2.19 years (December 31, 2017: 2.17 years). This duration is reviewed regularly based on changes in the duration of the Company's liabilities and general market conditions.

The Company's IPS also requires certain minimum credit quality standards for its managed fixed maturity portfolio, including a minimum weighted average portfolio rating of A+ for securities with ratings. Further limits on asset classes and security types are also mandated. In addition, the Company stress-tests the downside risks within its asset portfolio using internal and external inputs and stochastic modeling processes to help define and limit asset risks to acceptable levels that are consistent with our overall ERM framework. At March 31, 2018, the Company's rated managed fixed maturity portfolio had an average credit quality rating of A+ (December 31, 2017: AA-). Refer to Note 4(a) to the Consolidated Financial Statements, "Investments," in Part I, Item 1 for further details related to the investment ratings of the Company's fixed maturity portfolio.

The value of the Company's managed fixed maturity portfolio will fluctuate with, among other factors, changes in the interest rate environment and in overall economic conditions. Additionally, the structure of the Company's overall managed investment portfolio exposes the Company to other risks, including insolvency or reduced credit quality of corporate debt securities, prepayment, default and structural risks on asset-backed securities, mortgage-backed securities and bank loans and liquidity risks on certain other investments, including hedge funds, fixed income investment funds and private equity investments. For further details on market risks, refer to Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

As part of the ongoing risk management process, the Company monitors the aggregation of country or jurisdiction risk exposure. Jurisdiction risk exposure is the risk that events within a jurisdiction, such as currency crises, regulatory changes and other political events, will adversely affect the ability of obligors within the jurisdiction to honor their obligations. The following tables provide a breakdown of the fair value of jurisdiction risk exposures outside the United States within the Company's managed fixed maturity portfolio:

|   | March 31, 2018 |            |   |
|---|----------------|------------|---|
| (Dollars in thousands)                          | Fair Value     | % of Total |   |
| Supranational                                   | \$70,161       | 9.6        | % |
| Germany   | 59,199         | 8.1        | % |
| Canada  | 40,512         | 5.5        | % |
| Province of Ontario                             | 30,784         | 4.2        | % |
| France  | 25,457         | 3.5        | % |
| United Kingdom                                  | 15,804         | 2.2        | % |
| Netherlands                                     | 10,610         | 1.4        | % |
| Other (individual jurisdictions below \$10,000) | 65,818         | 9.0        | % |
| Total Managed Non-U.S. Government Securities    | 318,345        | 43.5       | % |
| European Corporate Securities                   | 156,345        | 21.2       | % |
| U.K. Corporate Securities                       | 121,808        | 16.6       | % |
| Other Non-U.S. Corporate Securities             | 137,003        | 18.7       | % |
| Total Managed Non-U.S. Fixed Maturity Portfolio | \$733,501      | 100.0      | % |

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| (Dollars in thousands)                          | December 31, 2017 |            |   |
|---|-------------------|------------|---|
|   | Fair Value        | % of Total |   |
| Germany   | \$71,287          | 9.7        | % |
| Supranational                                   | 60,200            | 8.2        | % |
| Canada  | 38,805            | 5.3        | % |
| Province of Ontario                             | 31,069            | 4.2        | % |
| United Kingdom                                  | 19,886            | 2.7        | % |
| France  | 14,066            | 1.9        | % |
| Netherlands                                     | 10,348            | 1.4        | % |
| Other (individual jurisdictions below \$10,000) | 66,578            | 9.1        | % |
| Total Managed Non-U.S. Government Securities    | 312,239           | 42.5       | % |
| European Corporate Securities                   | 139,779           | 19.0       | % |
| U.K. Corporate Securities                       | 122,534           | 16.7       | % |
| Other Non-U.S. Corporate Securities             | 159,936           | 21.8       | % |
| Total Managed Non-U.S. Fixed Maturity Portfolio | \$734,488         | 100.0      | % |

At March 31, 2018, the Company did not have an aggregate exposure to any single issuer of more than 0.9% (December 31, 2017: 0.9%) of managed cash and investments, other than with respect to government and agency securities. The top ten exposures to fixed income corporate issuers at March 31, 2018 and December 31, 2017 were as follows:

| Issuer <sup>(a)</sup>                 | March 31, 2018            |                       |                          | % of Managed Investments, Cash and Restricted Cash | % |
|---------------------------------------|---------------------------|-----------------------|--------------------------|--|---|
|                                       | Fair Value <sup>(b)</sup> | Rating <sup>(c)</sup> | Cash and Restricted Cash |  |   |
| JPMorgan Chase & Co.                  | \$62,897                  | BBB+                  | 0.9                      |  | % |
| Morgan Stanley                        | 55,645                    | BBB+                  | 0.8                      |  | % |
| Goldman Sachs Group                   | 55,316                    | BBB+                  | 0.8                      |  | % |
| Citigroup Inc.                        | 49,566                    | BBB+                  | 0.7                      |  | % |
| Bank of America Corp.                 | 48,184                    | BBB+                  | 0.7                      |  | % |
| Wells Fargo & Company                 | 47,163                    | A                     | 0.7                      |  | % |
| HSBC Holdings plc                     | 34,960                    | A                     | 0.5                      |  | % |
| CVS Health Corp.                      | 33,611                    | BBB                   | 0.5                      |  | % |
| AT&T Inc.                             | 30,973                    | BBB+                  | 0.4                      |  | % |
| International Business Machines Corp. | 30,303                    | A+                    | 0.4                      |  | % |
| Total                                 | \$448,618                 |                       | 6.4                      |  | % |

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| Issuer <sup>(a)</sup>             | December 31, 2017         |                       | % of                                     |   |
|-----------------------------------|---------------------------|-----------------------|--|---|
|                                   | Fair Value <sup>(b)</sup> | Rating <sup>(c)</sup> | Cash and Equivalents and Restricted Cash | Managed Investments, Cash and Equivalents and Restricted Cash |
| JPMorgan Chase & Co.              | \$67,079                  | BBB+                  | 0.9                                      | %   |
| Citigroup Inc.                    | 59,438                    | BBB+                  | 0.8                                      | %   |
| Morgan Stanley                    | 56,503                    | BBB+                  | 0.8                                      | %   |
| Bank of America Corp.             | 51,579                    | A-                    | 0.7                                      | %   |
| Goldman Sachs Group               | 49,679                    | BBB+                  | 0.7                                      | %   |
| Wells Fargo & Company             | 45,545                    | A                     | 0.6                                      | %   |
| AT&T Inc.                         | 34,615                    | BBB+                  | 0.5                                      | %   |
| HSBC Holdings plc                 | 33,972                    | A                     | 0.5                                      | %   |
| Bank of New York Mellon Corp.     | 32,592                    | A                     | 0.5                                      | %   |
| Capital One Financial Corporation | 29,145                    | BBB+                  | 0.4                                      | %   |
| Total                             | \$460,147                 |                       | 6.4                                      | %   |

(a) Issuers exclude government-backed government-sponsored enterprises and cash and cash equivalents.

(b) Credit exposures represent only direct exposure to fixed maturities and short-term investments of the parent issuer and its major subsidiaries. These exposures exclude asset and mortgage backed securities that were issued, sponsored or serviced by the parent.

(c) Investment ratings are the median of Moody's, Standard & Poor's and Fitch, presented in Standard & Poor's equivalent rating. For investments where three ratings are unavailable, the lower of the ratings shall apply, presented as the Standard & Poor's equivalent rating.

## Reserve for Losses and Loss Expenses

At March 31, 2018 and 2017, gross and net reserves for losses and loss expenses were estimated using the methodology as outlined in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates" in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

The following tables indicate the breakdown of gross and net reserves for losses and loss expenses between lines of business and between case reserves and IBNR.

| (Dollars in thousands) | March 31, 2018      |             | December 31, 2017                           |                     |             |   |
|------------------------|---------------------|-------------|---|---------------------|-------------|---|
|                        | Gross Case Reserves | Gross IBNR  | Total Gross Reserve for Losses and Expenses | Gross Case Reserves | Gross IBNR  | Total Gross Reserve for Losses and Expenses |
| Property               | \$898,512           | \$1,314,079 | \$2,212,591                                 | \$893,180           | \$1,398,563 | \$2,291,743                                 |
| Specialty - Short-tail | 537,548             | 746,147     | 1,283,695                                   | 515,450             | 930,062     | 1,445,512                                   |
| Specialty - Other      | 334,218             | 802,125     | 1,136,343                                   | 345,214             | 748,921     | 1,094,135                                   |
| Total                  | \$1,770,278         | \$2,862,351 | \$4,632,629                                 | \$1,753,844         | \$3,077,546 | \$4,831,390                                 |
| (Dollars in thousands) | March 31, 2018      |             | December 31, 2017                           |                     |             |   |
|                        | Net IBNR            |             | Net IBNR                                    |                     |             |   |

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|                        | Net Case Reserves |             | Total Net Reserve for Losses and Loss Expenses | Net Case Reserves | Total Net Reserve for Losses and Loss Expenses |             |
|------------------------|-------------------|-------------|--|-------------------|--|-------------|
| Property               | \$768,768         | \$809,606   | \$1,578,374                                    | \$732,289         | \$820,301                                      | \$1,552,590 |
| Specialty - Short-tail | 464,911           | 614,369     | 1,079,280                                      | 435,201           | 653,693  | 1,088,894   |
| Specialty - Other      | 300,785           | 694,246     | 995,031  | 310,904           | 645,005  | 955,909     |
| Total                  | \$1,534,464       | \$2,118,221 | \$3,652,685                                    | \$1,478,394       | \$2,118,999                                    | \$3,597,393 |

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The following table sets forth a reconciliation of gross and net reserves for losses and loss expenses by operating segment for the three months ended March 31, 2018.

| (Dollars in thousands)  | Three Months Ended March 31, 2018 |                   |                          |              |
|---|-----------------------------------|-------------------|--------------------------|--------------|
|   | Reinsurance Segment               | Insurance Segment | Asset Management Segment | Total        |
| Reserve for losses and loss expenses, beginning of period   | \$ 1,816,654                      | \$ 2,300,437      | \$ 714,299               | \$ 4,831,390 |
| Loss reserves recoverable   | (548,131 )                        | (640,866 )        | (45,000 )                | (1,233,997 ) |
| Net reserves for losses and loss expenses, beginning of period                                      | 1,268,523                         | 1,659,571         | 669,299                  | 3,597,393    |
| Increase (decrease) in net reserves for losses and loss expenses in respect of losses occurring in: |                                   |                   |                          |              |
| Current year  | 121,311                           | 198,937           | 8,867                    | 329,115      |
| Prior years   | (17,838 )                         | (15,548 )         | 25,816                   | (7,570 )     |
| Total net incurred losses and loss expenses   | 103,473                           | 183,389           | 34,683                   | 321,545      |
| Foreign exchange loss   | 8,683                             | 6,803             | 141                      | 15,627       |
| Less net losses and loss expenses paid in respect of losses occurring in:                           |                                   |                   |                          |              |
| Current year  | (3,081 )                          | (16,654 )         | —                        | (19,735 )    |
| Prior years   | (93,307 )                         | (192,024 )        | 23,186                   | (262,145 )   |
| Total net paid losses   | (96,388 )                         | (208,678 )        | 23,186                   | (281,880 )   |
| Net reserves for losses and loss expenses, end of period  | 1,284,291                         | 1,641,085         | 727,309                  | 3,652,685    |
| Loss reserves recoverable   | 529,574                           | 450,370           | —                        | 979,944      |
| Reserve for losses and loss expenses, end of period   | \$ 1,813,865                      | \$ 2,091,455      | \$ 727,309               | \$ 4,632,629 |

For further information regarding the Company's reserves for losses and loss expenses refer to Note 9 to the Consolidated Financial Statements, "Reserve for losses and loss expenses," in Part I, Item 1. The amount of recorded reserves represents management's best estimate of expected losses and loss expenses on premiums earned. For the three months ended March 31, 2018, net favorable loss reserve development on prior accident years was \$7.6 million, of which \$17.8 million related to the Reinsurance segment and \$15.5 million related to the Insurance segment. The favorable development was partially offset by \$25.8 million of adverse development related to the Asset Management segment.

The management of (re)insurance companies use significant judgment in the estimation of reserves for losses and loss expenses. Given the magnitude of some notable loss events and other uncertainties inherent in loss estimation, meaningful uncertainty remains regarding the estimation for these events. The Company's actual ultimate net loss may vary materially from these estimates. Ultimate losses for notable loss events are estimated through detailed review of contracts which are identified by the Company as potentially exposed to the specific notable loss event. However, there can be no assurance that the ultimate loss amount estimated for a specific contract will be accurate, or that all contracts with exposure to a specific notable loss event will be identified in a timely manner. Potential losses in excess of the estimated ultimate loss assigned to a contract on the basis of a specific review, or loss amounts from contracts not specifically included in the detailed review may be reserved for in the reserve for potential development on notable loss events ("RDE") and would be included as part of the Company's overall reserves. As at March 31, 2018, the Company had no RDE.

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For disclosure purposes, only those notable loss events which have an ultimate loss estimate above \$30.0 million are disclosed separately and included in the reserves for notable loss event roll forward table below. To the extent that there are increased complexity and volatility factors relating to notable loss events in the aggregate, RDE may be established for a specific accident year.

| 2016 Notable Loss Events    | Initial estimate <sup>(a)</sup> | Year Ended December 31, 2016          |                                 | Year Ended December 31, 2017          |                                 | Three Months Ended March 31, 2018     |                                 |
|-----------------------------|---------------------------------|---------------------------------------|---------------------------------|---------------------------------------|---------------------------------|---------------------------------------|---------------------------------|
|                             |                                 | Development (Favorable) / Unfavorable | Closing Estimate <sup>(b)</sup> | Development (Favorable) / Unfavorable | Closing Estimate <sup>(b)</sup> | Development (Favorable) / Unfavorable | Closing Estimate <sup>(b)</sup> |
| Canadian Wildfires          | \$36,915                        | \$(17,265)                            | \$ 19,650                       | \$(162 )                              | \$ 19,488                       | \$1                                   | \$ 19,489                       |
| Hurricane Matthew           | 39,140                          | —                                     | 39,140                          | 9,222                                 | 48,362                          | (1,372 )                              | 46,990                          |
| 2016 New Zealand Earthquake | 31,421                          | —                                     | 31,421                          | —                                     | 31,421                          | —                                     | 31,421                          |
| Total                       | \$107,476                       | \$(17,265)                            | \$ 90,211                       | \$9,060                               | \$99,271                        | \$(1,371 )                            | \$97,900                        |

|                             | Paid Loss | Closing Reserve <sup>(c)</sup> | Paid Loss | Closing Reserve <sup>(c)</sup> | Paid Loss | Closing Reserve <sup>(c)</sup> |
|-----------------------------|-----------|--------------------------------|-----------|--------------------------------|-----------|--------------------------------|
| Canadian Wildfires          | \$5,676   | \$ 13,974                      | \$4,074   | \$9,738                        | \$165     | \$9,574                        |
| Hurricane Matthew           | 6,712     | 32,428                         | 25,090    | 16,560                         | 1,642     | 13,546                         |
| 2016 New Zealand Earthquake | —         | 31,421                         | 817       | 30,604                         | 65        | 30,539                         |
| Total                       | \$12,388  | \$ 77,823                      | \$29,981  | \$56,902                       | \$1,872   | \$53,659                       |

| 2017 Notable Loss Events      | Initial estimate <sup>(a)</sup> | Development (Favorable) / Unfavorable |                                 | Development (Favorable) / Unfavorable |                                 |
|-------------------------------|---------------------------------|---------------------------------------|---------------------------------|---------------------------------------|---------------------------------|
|                               |                                 | Closing Estimate <sup>(b)</sup>       | Closing Estimate <sup>(b)</sup> | Closing Estimate <sup>(b)</sup>       | Closing Estimate <sup>(b)</sup> |
| Hurricane Harvey              | \$247,409                       | \$65,795                              | \$313,204                       | \$(458 )                              | \$312,746                       |
| Hurricane Irma                | 518,559                         | (60,414 )                             | 458,145                         | 37,320                                | 495,465                         |
| Hurricane Maria               | 160,207                         | (10,856 )                             | 149,351                         | 10,658                                | 160,009                         |
| Northern California Wildfires | 87,754                          | —                                     | 87,754                          | 7,068                                 | 94,822                          |
| Southern California Wildfires | 38,495                          | —                                     | 38,495                          | (25,050 )                             | 13,445                          |
| Total                         | \$1,052,424                     | \$(5,475 )                            | \$1,046,949                     | \$29,538                              | \$1,076,487                     |

|                               | Paid Loss | Closing Reserve <sup>(c)</sup> | Paid Loss | Closing Reserve <sup>(c)</sup> |
|-------------------------------|-----------|--------------------------------|-----------|--------------------------------|
| Hurricane Harvey              | \$59,010  | \$254,194                      | \$14,030  | \$239,706                      |
| Hurricane Irma                | 119,045   | 339,100                        | 21,080    | 355,340                        |
| Hurricane Maria               | 9,817     | 139,534                        | 1,668     | 148,524                        |
| Northern California Wildfires | 12,172    | 75,582                         | 1,067     | 81,583                         |
| Southern California Wildfires | —         | 38,495                         | 461       | 12,984                         |
| Total                         | \$200,044 | \$846,905                      | \$38,306  | \$838,137                      |

(a) Includes paid losses, case reserves and IBNR reserves.

(b) Excludes impact of movements in foreign exchange rates.

(c) Closing Reserve for the period equals closing estimate for the period less cumulative paid losses.

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## Sources of Liquidity

## Holding Company Liquidity

Validus Holdings, Ltd. is a holding company and conducts no operations of its own. The Company relies primarily on cash dividends and other permitted payments from operating subsidiaries within the Reinsurance, Insurance, and Asset Management segments to pay dividends, finance expenses and other holding company expenses. There are restrictions on the payment of dividends from most operating subsidiaries, primarily due to regulatory requirements in the jurisdictions in which the operating subsidiaries are domiciled. The Company believes the dividend/distribution capacity of the Company's subsidiaries will provide the Company with sufficient liquidity for the foreseeable future. The Company continues to generate substantial cash from operating activities and remains in a strong financial position, with resources available for reinvestment in existing businesses, strategic acquisitions and managing capital structure to meet its short and long-term objectives.

The following table details the capital resources of certain subsidiaries of the Company on an unconsolidated basis:

| (Dollars in thousands)   | March 31,<br>2018 | December 31,<br>2017 |
|--|-------------------|----------------------|
| Validus Reinsurance, Ltd. (excluding capital supporting FAL) <sup>(a) (b)</sup>    | \$3,952,489       | \$3,898,905          |
| Talbot Holdings, Ltd. (including capital supporting FAL) <sup>(b)</sup>            | 815,158           | 824,946              |
| Other, net   | (81,229 )         | (44,057 )            |
| Redeemable noncontrolling interests in AlphaCat                                    | 1,423,110         | 1,004,094            |
| Noncontrolling interests in AlphaCat   | 334,357           | 16,718               |
| Total consolidated capitalization  | 6,443,885         | 5,700,606            |
| Senior notes payable   | (245,614 )        | (245,564 )           |
| Debentures payable   | (539,572 )        | (539,158 )           |
| Redeemable noncontrolling interests in AlphaCat                                    | (1,423,110 )      | (1,004,094 )         |
| Total shareholders' equity   | 4,235,589         | 3,911,790            |
| Preferred shares <sup>(c)</sup>  | (400,000 )        | (400,000 )           |
| Noncontrolling interests in AlphaCat   | (334,357 )        | (16,718 )            |
| Total shareholders' equity available to Validus common shareholders <sup>(c)</sup> | \$3,501,232       | \$3,495,072          |

(a) Validus Reinsurance, Ltd. (excluding capital supporting FAL) includes capital of \$691,901 (December 31, 2017: \$702,932) relating to Western World Insurance Group, Inc.

Validus Reinsurance, Ltd. (excluding capital supporting FAL) excludes capital of \$586,260 (December 31, 2017: \$599,077) which supports Talbot's FAL. This capital was included in Talbot Holdings, Ltd. (including capital supporting FAL).

(c) Total shareholders' equity available to Validus common shareholders excludes the liquidation value of the preferred shares.

## Sources and Uses of Cash

The Company has written certain (re)insurance business that has loss experience generally characterized as having low frequency and high severity. This results in volatility in both results and operational cash flows. The potential for large claims or a series of claims under one or more reinsurance contracts means that substantial and unpredictable payments may be required within relatively short periods of time. As a result, cash flows from operating activities may fluctuate, perhaps significantly, between individual quarters and years. Management believes the Company's unused credit facility amounts and highly liquid investment portfolio are sufficient to support any potential operating cash flow deficiencies.

In addition to relying on premiums received and investment income from the investment portfolio, the Company intends to meet these cash flow demands by carrying a substantial amount of short and medium term investments that would mature, or possibly be sold, prior to the settlement of expected liabilities. The Company cannot provide assurance, however, that it will successfully match the structure of its investments with its liabilities due to uncertainty related to the timing and severity of loss events.



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There are three main sources of cash flows for the Company: operating activities, investing activities and financing activities. The movement in net cash provided by or used in operating, investing and financing activities and the effect of foreign currency rate changes on cash and cash equivalents and restricted cash for the three months ended March 31, 2018 and 2017 is provided in the following table:

|  | Three Months Ended March 31, |            |
|--|------------------------------|------------|
| (Dollars in thousands)   | 2018                         | 2017       |
| Net cash provided by operating activities  | \$ 45,942                    | \$ 17,799  |
| Net cash (used in) provided by investing activities                                      | (271,787 )                   | 177,601    |
| Net cash provided by financing activities  | 34,535                       | 24,354     |
| Effect of foreign currency rate changes on cash and cash equivalents and restricted cash | 16,107                       | 5,798      |
| Net increase in cash and cash equivalents and restricted cash                            | \$ (175,203 )                | \$ 225,552 |
| <b>Operating Activities</b>  |                              |            |

Cash flow from operating activities is derived primarily from the receipt of premiums less the payment of losses and loss expenses related to underwriting activities.

Net cash provided by operating activities during three months ended March 31, 2018 and 2017 was \$45.9 million and \$17.8 million, respectively. The favorable movement of \$28.1 million during the three months ended March 31, 2018 compared to 2017 was primarily due to the timing of cash receipts and payments, notably with regard to premiums receivable and losses payable, respectively.

We anticipate that cash flows from operations will continue to be sufficient to cover cash outflows under our contractual commitments as well as most loss scenarios through the foreseeable future. Refer to the “Capital Resources” section below for further information on our anticipated obligations.

**Investing Activities**

Cash flow (used in) provided by investing activities is primarily from net (purchases) sales made in the Company’s investment portfolio. As at March 31, 2018, the Company’s portfolio was composed of fixed income, short-term and other investments and investments in investment affiliates amounting to \$9.9 billion or 91.0% of total cash and investments. For further details related to investments pledged as collateral, refer to Note 4 to the Consolidated Financial Statements, “Investments,” in Part I Item 1.

Net cash (used in) investing activities during the three months ended March 31, 2018 was \$(271.8) million compared to net cash provided by investing activities of \$177.6 million during the three months ended March 31, 2017. The increase in net cash used in investing activities of \$449.4 million during the three months ended March 31, 2018 compared to 2017 was primarily driven by an increase in purchases of fixed maturity investments in the Company’s managed portfolio and an increase in purchases of short-term investments in the Company’s non-managed portfolio primarily on behalf of AlphaCat investors.

**Financing Activities**

Cash flow from financing activities is derived primarily from the issuance and purchase of shares in the Company and its subsidiaries, including third party investments in the funds and sidecars, as well as the issuance of notes payable to

AlphaCat investors, and is partially offset by repurchases of shares in the Company and the payment of dividends. Net cash provided by financing activities during the three months ended March 31, 2018 and 2017 was \$34.5 million and \$24.4 million, respectively.

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## Capital Resources

The following table details the Company's capital position as at March 31, 2018 and December 31, 2017:

| (Dollars in thousands)  | March 31,<br>2018 | December 31,<br>2017 |  |   |
|---|-------------------|----------------------|--|---|
| Senior Notes <sup>(a)</sup>   | \$245,614         | \$245,564            |  |   |
| Junior Subordinated Deferrable Debentures (JSDs) <sup>(a)</sup>               | 289,800           | 289,800              |  |   |
| Flagstone Junior Subordinated Deferrable Debentures (JSDs) <sup>(a)</sup>     | 249,772           | 249,358              |  |   |
| Total debt  | 785,186           | 784,722              |  |   |
| Redeemable noncontrolling interests   | 1,423,110         | 1,004,094            |  |   |
| Preferred shares, liquidation value <sup>(b)</sup>                            | 400,000           | 400,000              |  |   |
| Ordinary shares, capital and surplus available to Validus common shareholders | 3,491,827         | 3,517,264            |  |   |
| Accumulated other comprehensive income (loss)                                 | 9,405             | (22,192 )            |  |   |
| Noncontrolling interests  | 334,357           | 16,718               |  |   |
| Total shareholders' equity  | \$4,235,589       | \$3,911,790          |  |   |
| Total capitalization <sup>(c)</sup>   | \$6,443,885       | \$5,700,606          |  |   |
| Total capitalization available to Validus <sup>(d)</sup>                      | \$4,686,418       | \$4,679,794          |  |   |
| Debt to total capitalization  | 12.2              | % 13.8               |  | % |
| Debt (excluding JSDs) to total capitalization                                 | 3.8               | % 4.3                |  | % |
| Debt and preferred shares to total capitalization                             | 18.4              | % 20.8               |  | % |
| Debt to total capitalization available to Validus                             | 16.8              | % 16.8               |  | % |
| Debt (excluding JSDs) to total capitalization available to Validus            | 5.2               | % 5.2                |  | % |
| Debt and preferred shares to total capitalization available to Validus        | 25.3              | % 25.3               |  | % |

<sup>(a)</sup> Refer to Part I, Item 1, Note 13 to the Consolidated Financial Statements, "Debt and financing arrangements," for further details and discussion on the debt and financing arrangements of the Company.

<sup>(b)</sup> Refer to Part I, Item 1, Note 11 to the Consolidated Financial Statements, "Share capital," for further details and discussion on the Company's preferred shares.

<sup>(c)</sup> Total capitalization equals total shareholders' equity plus redeemable noncontrolling interests and total debt.

<sup>(d)</sup> Total capitalization available to Validus equals total capitalization (as per (c)) less redeemable noncontrolling interests and noncontrolling interests.

## Shareholders' Equity

Shareholders' equity available to Validus common shareholders at March 31, 2018 and December 31, 2017 was \$3.5 billion. Including the liquidation value of preferred shares, shareholders' equity available to Validus at March 31, 2018 and December 31, 2017 was \$3.9 billion.

On February 7, 2018, the Company announced a quarterly cash dividend of \$0.38 per common share, payable on March 29, 2018 to shareholders of record on March 15, 2018. The Company also announced a cash dividend of \$0.3671875 and \$0.3625000 per depository share on the outstanding Series A and Series B Preferred Shares, respectively. The Series A and Series B Preferred Share dividends are payable on March 15, 2018 to shareholders of record on March 1, 2018.

The timing and amount of any future cash dividends, however, will be at the discretion of the Board and will depend upon results of operations and cash flows, the Company's financial position and capital requirements, general business conditions, legal, tax, regulatory, rating agency and contractual constraints or restrictions and any other factors that the Board deems relevant.

The Company may from time to time repurchase its securities, including common shares, Junior Subordinated Deferrable Debentures and Senior Notes. The Company has repurchased 81,035,969 common shares for an aggregate

purchase price of \$2.7 billion from the inception of the share repurchase program to April 30, 2018. The Company had \$293.4 million remaining under its authorized share repurchase program as of April 30, 2018.

The Company may make purchases under its share repurchase program from time to time in the open market or in privately negotiated transactions. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. The repurchase program may be modified, extended or terminated by the Board of Directors at any time.



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## Debt and financing arrangements

For additional information about our debt, including the terms of our financing arrangements, basis for interest rates and debt covenants, refer to Part I, Item 1, Note 13 to the Consolidated Financial Statements, “Debt and financing arrangements,” and Part II, Item 8, Note 19 to the Consolidated Financial Statements, “Debt and financing arrangements,” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

## Noncontrolling interests

Investors in certain of the AlphaCat and BetaCat ILS funds have rights that enable them, subject to certain limitations, to redeem their shares. Such investments held by third parties are therefore recorded in the Company’s Consolidated Balance Sheets as redeemable noncontrolling interests, a mezzanine item between liabilities and shareholders’ equity. If and when a redemption notice is received, the fair value of the redemption is reclassified to accounts payable and accrued expenses. As at March 31, 2018 and December 31, 2017, the amount of the Company’s total capitalization owed to third parties as redeemable noncontrolling interests was \$1.4 billion and \$1.0 billion, respectively.

The AlphaCat sidecars and one of the AlphaCat ILS funds have no shareholder redemption rights. Therefore, the third party equity is recorded in the Company’s Consolidated Balance Sheets as noncontrolling interests. As at March 31, 2018 and December 31, 2017, the amount of the Company’s total capitalization owed to third parties as noncontrolling interests was \$334.4 million and \$16.7 million, respectively. Refer to Part I, Item 1, Notes 6 and 7 to the Consolidated Financial Statements, “Variable Interest Entities,” and “Noncontrolling interests,” respectively, for further details.

## Ratings

The following table summarizes the financial strength ratings of the Company and its principal (re)insurance subsidiaries from internationally recognized rating agencies as of May 2, 2018:

|  | A.M. Best                 | S&P      | Moody’s Fitch |          |
|--|---------------------------|----------|---------------|----------|
| <b>Validus Holdings, Ltd.</b>                                  |                           |          |               |          |
| Issuer credit rating   | bbb                       | BBB+     | Baa1          | A-       |
| Senior debt  | bbb                       | BBB+     | Baa1          | BBB+     |
| Subordinated debt  | bbb-                      | —        | —             | BBB      |
| Preferred stock  | bb+                       | BBB-     | Baa3          | BBB      |
| Outlook on ratings   | Developing <sup>(a)</sup> | Negative | Stable        | Stable   |
| <b>Validus Reinsurance, Ltd.</b>                               |                           |          |               |          |
| Financial strength rating                                      | A                         | A        | A2            | A        |
| Outlook on ratings   | Stable                    | Stable   | Stable        | Stable   |
| <b>Lloyd’s of London</b>                                       |                           |          |               |          |
| Financial strength rating applicable to all Lloyd’s syndicates | A                         | A+       | —             | AA-      |
| Outlook on ratings   | Stable                    | Negative | —             | Negative |
| <b>Validus Reinsurance (Switzerland) Ltd</b>                   |                           |          |               |          |
| Financial strength rating                                      | A                         | A        | —             | —        |
| Outlook on ratings   | Stable                    | Stable   | —             | —        |
| <b>Western World Insurance Company</b>                         |                           |          |               |          |
| Financial strength rating                                      | A                         | —        | —             | —        |
| Outlook on ratings   | Stable                    | —        | —             | —        |

A.M. Best has placed all Validus Holdings, Ltd. ratings “under review with developing implications” following the announcement by the Company of the entry into a definitive agreement and plan of merger with AIG on January 22, 2018. The ratings will remain under review until the transaction closes and A.M. Best completes its evaluation of organizational changes and strategic position within the new structure.



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## Recent Accounting Pronouncements

For information relating to relevant recent accounting pronouncements, refer to Part I, Item 1, Note 2 to the Consolidated Financial Statements, “Recent accounting pronouncements,” for further details.

## Critical Accounting Policies and Estimates

There are certain accounting policies that the Company considers to be critical due to the judgment and uncertainty inherent in the application of those policies. In calculating financial statement estimates, the use of different assumptions could produce materially different estimates. The Company believes the following critical accounting policies affect significant estimates used in the preparation of the Company’s Consolidated Financial Statements:

- the reserve for losses and loss expenses;
- the premium written on a line slip or proportional basis;
- the valuation of goodwill and intangible assets;
- the loss reserves recoverable, including the provision for uncollectible amounts; and
- the valuation of invested assets and other financial instruments.

Critical accounting policies and estimates are discussed further in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements. Any prospectus, prospectus supplement, the Company’s Annual Report to shareholders, any proxy statement, any other Form 10-K, Form 10-Q or Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements that reflect the Company’s current views with respect to future events and financial performance. These projections, goals, assumptions and statements are not historical facts but instead represent only the Company’s belief regarding future events, many of which, by their nature, are inherently uncertain and outside the Company’s control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as “will,” “believe,” “anticipate,” “expect,” “intend,” “plan,” “focused on achieving,” “view,” “target,” “goal,” or “estimate.” All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Company’s actual results and financial condition to differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements and, therefore, you should not place undue reliance on any such statement.

We believe that these factors include, but are not limited to, the following:

- unpredictability and severity of catastrophic events;
- our ability to obtain and maintain ratings, which may affect by our ability to raise additional equity or debt financings, as well as other factors described herein;
- adequacy of the Company’s risk management and loss limitation methods;
- cyclicality of demand and pricing in the (re)insurance markets;
- the Company’s ability to implement its business strategy during “soft” as well as “hard” markets;
- adequacy of the Company’s loss reserves;
- continued availability of capital and financing;
- the Company’s ability to identify, hire and retain, on a timely and unimpeded basis and on anticipated economic and other terms, experienced and capable senior management, as well as underwriters, claims professionals and support staff;
- acceptance of our business strategy, security and financial condition by rating agencies and regulators, as well as by brokers and (re)insureds;
- competition, including increased competition, on the basis of pricing, capacity, coverage terms or other factors;
- potential loss of business from one or more major insurance or reinsurance brokers;

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the Company's ability to implement, successfully and on a timely basis, complex infrastructure, distribution capabilities, systems, procedures and internal controls, and to develop accurate actuarial data to support the business and regulatory and reporting requirements;

general economic and market conditions (including inflation, volatility in the credit and capital markets, interest rates and foreign currency exchange rates) and conditions specific to the (re)insurance markets in which we operate;

the integration of businesses we may acquire or new business ventures, including overseas offices, we may start and the risk associated with implementing our business strategies and initiatives with respect to the new business ventures;

accuracy of those estimates and judgments used in the preparation of our financial statements, including those related to revenue recognition, insurance and other reserves, reinsurance recoverables, investment valuations, intangible assets, bad debts, taxes, contingencies, litigation and any determination to use the deposit method of accounting, which, for a relatively new (re)insurance company like our company, are even more difficult to make than those made in a mature company because of limited historical information;

the effect on the Company's investment portfolio of changing financial market conditions including inflation, interest rates, liquidity and other factors;

acts of terrorism, political unrest, outbreak of war and other hostilities or other non-forecasted and unpredictable events;

availability and cost of reinsurance and retrocession coverage;

the failure of reinsurers, retrocessionaires, producers or others to meet their obligations to us;

the timing of loss payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;

changes in domestic or foreign laws or regulations, or their interpretations;

changes in accounting principles or the application of such principles by regulators;

statutory or regulatory or rating agency developments, including as to tax policy and reinsurance and other regulatory matters such as the adoption of proposed legislation that would affect Bermuda-headquartered companies and/or Bermuda based insurers or reinsurers;

termination of or changes in the terms of the U.S. MPCI program and termination or changes to the U.S. Farm Bill, including modifications to the SRA put in place by the Risk Management Agency of the U.S. Department of Agriculture;

the inability to complete the proposed transaction with AIG (the "proposed transaction") because, among other reasons, conditions to the closing of the proposed transaction may not be satisfied or waived;

uncertainty as to the timing of completion of the proposed transaction;

the inability to complete the proposed transaction due to the failure to satisfy conditions to completion of the proposed transaction, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the transaction;

the occurrence of any event, change or other circumstances that could give rise to the termination of the proposed transaction;

risks related to disruption of management's attention from the Company's ongoing business operations due to the proposed transaction;

the effect of the announcement of the proposed transaction on the Company's relationships with its clients, operating results and business generally;

the outcome of any legal proceedings to the extent initiated against the Company or others following the announcement of the proposed transaction; and

the other factors set forth herein under Part I Item 1A "Risk Factors" and under Part II Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other sections of this Annual Report on Form 10-K for the year ended December 31, 2017, as well as the risk and other factors set forth in the Company's other filings with the SEC, as well as management's response to any of the aforementioned factors.

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In addition, other general factors could affect our results, including: (a) developments in the world's financial and capital markets and our access to such markets; (b) changes in regulations or tax laws applicable to us, and (c) the effects of business disruption or economic contraction due to terrorism or other hostilities.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included herein or elsewhere. Any forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, us or our business or operations. Except as required by law, we undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

For quantitative and qualitative disclosures about market risk, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The Company’s exposure to market risks has not changed materially since December 31, 2017.

**ITEM 4. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures as defined and in pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that all material information relating to the Company required to be filed in this report has been recorded, processed, summarized and reported when required and the information is accumulated and communicated, as appropriate, to allow timely decisions regarding required disclosures.

**Changes in Internal Control Over Financial Reporting**

There have been no changes in internal control over financial reporting identified in connection with the Company’s evaluation required pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

During the normal course of business, the Company and its subsidiaries are subject to litigation and arbitration. Legal proceedings such as claims litigation are common in the insurance and reinsurance industry in general. The Company and its subsidiaries may be subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on reinsurance treaties or contracts or insurance policies.

Litigation typically can include, but is not limited to, allegations of underwriting errors or misconduct, employment claims, regulatory activity, shareholder disputes or disputes arising from business ventures. These events are difficult, if not impossible, to predict with certainty. It is Company policy to dispute all allegations against the Company and/or its subsidiaries that management believes are without merit.

As at March 31, 2018, the Company was not a party to, or involved in any litigation or arbitration that it believes could have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

**ITEM 1A. RISK FACTORS**

The Company’s results of operations and financial condition are subject to numerous risks and uncertainties described in “Risk Factors” included in Item 1A in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The Company, from time to time, repurchases its shares in the open market, or in privately negotiated transactions, under its share repurchase program. The timing, form and amount of the share repurchases under the program will depend on a variety of factors, including market conditions, the Company's capital position relative to internal and rating agency targets, legal requirements and other factors. Share repurchases may also include repurchases by the Company of shares from employees in order to facilitate the payment of withholding taxes on restricted shares that have vested. The Company repurchases these shares at their fair market value, as determined by reference to the closing price of its common shares on the day the restricted shares vested. The Company's share repurchase program may be modified, extended or terminated by its Board of Directors at any time.

The Company did not repurchase any common shares during the three months ended March 31, 2018. A summary of the common share repurchases made to date under the Company's previously announced share repurchase programs is as follows:

| (Dollars in thousands, except share and per share amounts) | Total shares repurchased under publicly announced repurchase program |   |  |  |
|--|--|---|--|--|
|  | Total number of shares repurchased                                   | Aggregate Purchase Price <sup>(a)</sup> | Average Price per Share <sup>(a)</sup> | Approximate dollar value of shares that may yet be purchased under the Program |
| Cumulative inception-to-date to April 30, 2018             | 81,035,969   | \$2,730,975                             | \$ 33.70                               | \$ 293,426   |

<sup>(a)</sup> Share transactions are on a trade date basis through April 30, 2018 and are inclusive of commissions. Average share price is rounded to two decimal places.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 5. OTHER INFORMATION****Disclosure of Certain Activities Under Section 13(r) of the Securities Exchange Act of 1934**

Section 13(r) of the Securities Exchange Act of 1934, as amended, requires an issuer to disclose in its annual or quarterly reports whether it or an affiliate knowingly engaged in certain activities described in that section, including certain activities related to Iran during the period covered by the report.

Effective January 16, 2016, the Office of Foreign Assets Control of the U.S. Department of the Treasury adopted General License H which authorizes non-U.S. entities that are owned or controlled by a U.S. person to engage in certain activities with Iran so long as they comply with certain specific requirements set forth therein.

Certain of the Company's non-U.S. subsidiaries provide global marine hull, war, cargo and liability policies that provide coverage for vessels navigating into and out of ports worldwide. In light of EU and U.S. modifications to Iran sanctions in 2016, including the issuance of General License H, and consistent with General License H, the Company has been notified that certain of its policyholders have begun to ship cargo to and from Iran, including transporting crude oil from Iran to another country and transporting refined petroleum products to Iran. Since these policies insure multiple voyages and fleets containing multiple ships, the Company is unable to attribute gross revenues and net profits from such marine policies to these activities involving Iran. The Company intends for its non-U.S. subsidiaries to continue to provide such coverage to the extent permitted by applicable law.

Certain of the Company's other non-U.S. subsidiaries have policies that provide excess of loss reinsurance coverage for various risks worldwide. In light of EU and U.S. modifications to Iran sanctions in 2016, including the issuance of General License H, and consistent with General License H, the Company has been notified by certain of its cedants that they either provide or intend to provide aviation spare parts coverage or marine and hull, war and related coverage for certain risks involving Iran. As the reinsurance coverage provided to these cedants covers multiple global risks and

multiple insureds, the Company is unable to attribute gross revenues and net profits from such policy to these activities involving Iran. The Company intends for its non-U.S. subsidiaries to continue to provide such coverage to the extent permitted by applicable law.

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ITEM 6. EXHIBITS

| Exhibit Number | Description of Document   |
|----------------|---|
| <u>2.1</u>     | <u>Agreement and Plan of Merger, dated as of January 21, 2018, by and among Validus Holdings Ltd., American International Group, Inc. and Venus Holdings Limited (Incorporated by reference to the Company's Current Report on Form 8-K filed with the SEC on January 22, 2018)</u> |
| <u>31.1</u>    | * <u>Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002</u>   |
| <u>31.2</u>    | * <u>Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002</u>   |
| <u>32</u>      | * <u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act of 2002</u>   |
| 101.1<br>INS   | *XBRL Instance Document   |
| 101.SCH        | *XBRL Taxonomy Extension Schema Document  |
| 101.CAL        | *XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.LAB        | *XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE        | *XBRL Taxonomy Extension Presentation Linkbase Document   |
| 101.DEF        | *XBRL Taxonomy Extension Definition Linkbase Document   |

\*Filed herewith

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VALIDUS HOLDINGS, LTD.

(Registrant)

Date: May 2, 2018 /s/ Edward J. Noonan

Edward J. Noonan

Chief Executive Officer

Date: May 2, 2018 /s/ Jeffrey D. Sangster

Jeffrey D. Sangster

Executive Vice President and Chief Financial Officer