Sompo International Holdings Ltd.
Financial Condition Report
For the financial year ended December 31, 2017

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SOMPO INTERNATIONAL

Introduction

This report has been prepared in compliance with the public disclosure requirements of the Insurance (Group Supervision) Rules 2011 of the Bermuda Monetary Authority. In fulfillment of the public disclosure rules, this report contains information regarding Sompo International Holdings, Ltd. ("Sompo International") and its group of companies ("the Group"). This report has been prepared on a group consolidated basis and thus the information provided is reflective and inclusive of all entities within the Group. In this report where indicated, information specific to Endurance Specialty Insurance Ltd. ("ESIL"), the Bermuda domiciled, Class 4, designated insurer of the Group has been provided to meet the disclosure requirements of the Bermuda Monetary Authority. All financial information reported is on the basis of United States generally accepted accounting principles except where noted. The amounts reported (including tables) are expressed in thousands of United States dollars, except for ratios, share and per share amounts.

Part 1. Business & Performance

Item 1.b. Group Supervisor

Bermuda Monetary Authority
BMA House
43 Victoria Street
Hamilton HM 12
BERMUDA

ESIL is also regulated by the Bermuda Monetary Authority.

Item 1.c. Group Auditor

Ernst & Young Ltd
3 Bermudiana Road
Hamilton HM 08
BERMUDA

Item 1.d. Ownership Details

Sompo International, a Bermuda domiciled holding company, is the parent company for the Group consisting of forty-nine regulated and non-regulated companies. Sompo International was incorporated in Bermuda in March 2017 and is a wholly owned subsidiary of Sompo Holdings, Inc. ("Sompo Holdings"). Sompo Holdings is a Japanese domiciled holding company registered on the Tokyo Stock Exchange.

ESIL is a wholly owned subsidiary of Sompo International.

ESIL was previously the wholly owned subsidiary of Endurance Specialty Holdings Ltd. ("Endurance") which through its operating subsidiaries focused on underwriting specialty lines of personal and commercial property and casualty insurance and reinsurance on a global basis. Endurance announced on October 5, 2016 that it had entered into a definitive merger agreement (the "Merger") pursuant to which it would be acquired by Sompo Holdings. The Merger was completed on March 28, 2017 resulting in Sompo Holdings becoming the ultimate beneficial owner of Endurance. Pursuant to a Stock and Asset Purchase and Sale Agreement by and between Sompo International and Endurance, dated September 27, 2017, Sompo International purchased substantially all the assets and liabilities of Endurance resulting in Sompo International being the parent company of ESIL.

Prior to the Merger, ESIL together with its affiliates and Endurance were registered with the Bermuda Monetary Authority as the Endurance Group for the purposes of the supervision requirements of the Insurance (Group Supervision) Rules 2011. Any reference to the Group relating to the period prior to the completion of the Merger refers to the Endurance Group.

In this report, where annual financial information is provided it relates to the twelve month period ended December 31, 2017, regardless of the aforementioned change in ownership to Sompo Holdings.

Item 1.e. Group Structure

The Group consists of forty-nine various entities domiciled in Bermuda, Mexico, the United States, France, Italy, Luxembourg and the United Kingdom with branch operations in Switzerland, Spain, Germany and Singapore, as noted in Appendix A. Sompo International is a holding company headquartered in Bermuda with fourteen wholly-owned insurance operating entities based in Bermuda, Mexico, the United States and the United Kingdom. The Group underwrites property and casualty insurance and reinsurance on a global basis.

Item 1.f. Business Written

The Group focuses on the underwriting of specialty lines of insurance and reinsurance, which require dedicated, specialized underwriting skills and resources in order to be profitably underwritten. Our operations are organized into two business segments - Insurance and Reinsurance.

- Insurance – This segment is comprised of four lines of business: agriculture, casualty and other specialty, professional lines, and property, marine/energy and aviation. The agriculture line of business is comprised of multi-peril crop insurance, crop hail, livestock risk protection and other agriculture risk management products. The casualty and other specialty line of business is comprised of the insurance and facultative reinsurance of third party liability exposures, including casualty and healthcare liability. The professional line of business includes directors' and officers' liability, errors and omissions, employment practices liability, environmental liability and pension trust liability insurance. The property, marine/energy and aviation line of business is comprised of the insurance and facultative reinsurance of commercial properties, inland marine and ocean marine insurance, energy insurance, and general liability and property coverages for a wide range of general aviation risks.

- Reinsurance – This segment is comprised of five lines of business: catastrophe, property, casualty, professional lines, and specialty. The catastrophe line of business includes reinsurance for catastrophic perils on a treaty basis. The property line of business includes proportional and excess of loss reinsurance of personal and commercial exposures. The casualty line of business is comprised of third party liability exposures, clash and workers' compensation coverages. The professional line of business includes directors' and officers' liability, errors and omissions, employment practices liability, environmental liability and pension trust liability reinsurance. The specialty line of business includes the reinsurance of aviation and space business and proportional and non-proportional reinsurance of hull and cargo insurance business, and proportional and excess of loss coverages of contract and commercial surety business, personal accident coverages, political risk coverages, weather risk management products and agriculture coverages for weather related perils as well as protection from yield and price risks.

Management measures Insurance and Reinsurance segment results on the basis of the combined ratio, which is obtained by dividing the sum of the net losses and loss expenses, acquisition expenses and general and administrative expenses by net premiums earned. When purchased within a single line of business, ceded reinsurance and recoveries are accounted for within that line of business. When purchased across multiple lines of business, ceded reinsurance and recoveries are allocated to the lines of business in proportion to the related risks assumed. The Group does not manage its assets by segment; accordingly, investment income and total assets are not allocated to the individual business segments. General and administrative expenses incurred by segments are allocated directly. Remaining general and administrative expenses not incurred by the segments are classified as corporate expenses and are not allocated to the individual business segments. Ceded reinsurance and recoveries are recorded within the business segment to which they apply.

The nature of business written and the organization of operations for ESIL is the same as that for the Group.

The following table provides a summary of the Group's segment revenues and results for the year ended December 31, 2017:

	Insurance	Reinsurance	Total
Revenues			
Gross premiums written	$ 2,991,257	$ 1,716,122	$ 4,707,379
Ceded premiums written	(1,687,982)	(331,530)	(2,019,512)
Net premiums written	1,303,275	1,384,592	2,687,867
Net premiums earned	1,169,909	1,349,792	2,519,701
Expenses			
Net losses and loss expenses	1,088,965	984,035	2,073,000
Acquisition expenses	181,353	327,197	508,550
General and administrative expenses	158,147	111,468	269,615
Other underwriting loss	—	663	663
	1,428,465	1,423,363	2,851,828
Underwriting loss	$ (258,556)	$ (73,571)	$ (332,127)
Net investment income			221,584
Corporate expenses			(109,314)
Net foreign exchange losses			(11,102)
Net realized and unrealized gains			59,866
Net impairment losses recognized in earnings			(2,908)
Amortization of intangibles			(63,727)
Interest expense			(41,749)
Losses on debt repurchase			(27,247)
Loss before income taxes			$ (306,724)
Net loss ratio	93.1%	72.9%	82.3%
Acquisition expense ratio	15.5%	24.2%	20.2%
General and administrative expense ratio (1)	13.5%	8.3%	15.0%
Combined ratio	122.1%	105.4%	117.5%

(1) Total general and administrative expense ratio includes general and administrative expenses and corporate expenses.

The following table provides Group's gross premiums written by segment and line of business for the years ended December 31, 2017 and 2016:

Business Segment	2017	2016
Insurance		
Agriculture	$ 819,448	$ 760,877
Casualty and other specialty	825,510	657,558
Professional lines	578,194	461,552
Property, marine/energy and aviation	768,105	690,507
Total Insurance	2,991,257	2,570,494
Reinsurance		
Catastrophe	507,938	506,300
Property	227,875	250,447
Casualty	268,415	245,092
Professional lines	302,779	256,337
Specialty	409,115	373,500
Total Reinsurance	1,716,122	1,631,676
Total	$ 4,707,379	$ 4,202,170

Increases in gross premiums written for the Group and ESIL for 2017 versus 2016 were driven by the following factors:

- An increase in gross premiums written in the property, marine/energy and aviation line of business in the Insurance segment, due primarily to business generated by the expansion in our underwriting teams in the U.S. and the U.K., including new premiums generated in our global aviation, global risk hospitality and London marine and energy businesses;
- An increase in gross premiums written in the casualty and other specialty and professional lines of business in the Insurance segment, due to the expansion of the Group's Insurance underwriting personnel in the U.S. and U.K., including new premiums generated in our Global Risk Solutions general liability and workers compensation businesses, our U.S. D&O and management/legal liability businesses and our London political risk business;
- An increase in gross premiums written in the agriculture line of business in the Insurance segment due to higher commodity prices for cotton, corn, fall wheat and soybeans in the current year partially offset by a drop in policy count;
- An increase in gross premiums written in the specialty line of business in the Reinsurance segment, primarily due to growth in our global trade credit and surety and global engineering businesses;
- An increase in gross premiums written in the professional lines of business in the Reinsurance segment compared to 2016 due to increased participation in targeted programs.

Net premiums written in 2017 increased $317.9 million, or 13.4%, compared to 2016 as a result of growth in gross premiums written in both the Insurance and Reinsurance segments. Partially offsetting this increase was growth in ceded premiums written in 2017 compared to 2016. Net premiums earned in 2017 increased $156.1 million, or 6.6% compared to 2016, principally due to the increase in net premiums written.

Business written by ESIL in 2017 and 2016 was materially the same as that for the Group.

Item 1.g.(i). Investments

The Group and its subsidiaries' investments are governed by its investment policy which provides guidelines and limits on the weighting of investments by class. The application of the prudent person principle within the Group's investment policy is discussed in *Item 3.d. Asset Investing*. Fixed maturity investments are the predominant asset class with the balance consisting of equity securities and alternative funds.

The fair value of the Group's investments by class as of the years ended December 31, 2017 and 2016 was as follows:

	December 31, 2017	December 31, 2016
Fixed maturity investments		
U.S. government and agencies securities	$ 1,242,927	$ 1,001,882
U.S. state and municipal securities	254,493	18,357
Foreign government securities	271,338	178,919
Government guaranteed corporate securities	15,842	3,917
Corporate securities	2,453,697	2,147,693
Residential mortgage-backed securities	1,607,252	1,461,286
Commercial mortgage-backed securities	611,418	618,848
Collateralized loan and debt obligations	372,941	371,256
Asset-backed securities	597,754	510,663
Total fixed maturity investments	7,427,662	6,312,821
Short-term investments	103,518	408,704
Total fixed income investments	$ 7,531,180	$ 6,721,525
Equity securities		
Equity investments	$ 558,306	$ 500,968
Preferred equity investments	—	173
Total equity securities	$ 558,306	$ 501,141
Alternative Funds		
Hedge funds	$ 431,674	$ 482,865
Private investment funds	99,682	76,451
Other investments funds	34,388	28,992
Total alternative funds	565,744	588,308
Total other investments	565,744	588,308
Total Investments	$ 8,655,230	$ 7,810,974

Net investment income for the Group by asset class for the years ended December 31, 2017 and 2016 and was as follows:

	2017	2016
Fixed income investments	$ 180,008	$ 165,210
Equity securities	10,180	12,640
Other investments	42,885	12,442
Cash and cash equivalents	5,497	2,823
	238,570	193,115
Investment expenses	(16,986)	(16,525)
Net investment income	$ 221,584	$ 176,590

During the years ended December 31, 2017 and 2016 the Group recognized net realized and unrealized gains on its investments and derivatives of:

	2017	2016
Gross realized gains on investment sales	$ 75,373	$ 39,033
Gross realized losses on investment sales	(33,358)	(61,752)
Net unrealized gains on trading securities	12,637	12,480
Change in fair value of derivative financial instruments	5,214	(2,180)
Net realized and unrealized (losses) gains	$ 59,866	$ (12,419)

The annualized net earned yield and total return of the Group's investment portfolio for the years ended December 31, 2017 and 2016 and market yield and portfolio duration as of December 31, 2017 and 2016 were as follows:

	2017	2016
Annualized net earned yield(1)	2.45%	1.98 %
Total return on investment portfolio(2)	4.14%	2.56 %
Total return on investment portfolio analyzed:		
Short term investments	2.91%	(4.46)%
Fixed maturity investments	3.11%	2.47 %
Equity securities	19.49%	8.65 %
Other investments	8.15%	0.90 %
Market yield(3)	2.57%	2.61 %
Portfolio duration(4)	3.21 years	3.04 years

(1) The actual net earned income from the investment portfolio after adjusting for expenses and accretion of discount and amortization of premium from the purchase price divided by the average book value of assets.
(2) Net of investment manager fees; includes realized and unrealized gains and losses.
(3) The internal rate of return of the investment portfolio based on the given market price or the single discount rate that equates a security price (inclusive of accrued interest) for the portfolio with its projected cash flows. Excludes other investments and operating cash.
(4) Includes only cash and cash equivalents and fixed income investments managed by the Group's investment managers.

ESIL's investment portfolio and performance measures were the same as the Group's for the year ended December 31, 2017.

Investment portfolio total return was 4.14% in 2017. The increased positive return compared to 2016 was driven by improved performance across investment grade fixed income, high yield, and equity markets. During 2017, fixed income markets continued to benefit from tightening credit spreads. Equity markets rallied on the back of favorable economic data and strong earnings coming out of the US. The Federal Reserve raised rates 3 times during 2017 and announced the start of their balance sheet normalization plan.

Item 1.g.(ii) Material Income and Expenses

Gross and Net premiums Written and Earned

See discussion of premium movements in *Item 1. f.* above.

Net Losses and Loss Expenses

The Group's reported net losses and loss expenses by segment and line of business for the years ended December 31, 2017 and 2016 are as follows:

Business Segment		2017		2016
Insurance				
Agriculture	$	282,520	$	184,433
Casualty and other specialty		231,537		159,581
Professional lines		150,218		111,498
Property, marine/energy and aviation		424,690		228,666
Total Losses Incurred		1,088,965		684,178
Prior Year Favorable (Adverse) Loss Development		14,650		57,013
Current Accident Year Losses Incurred	$	1,103,615	$	741,191
Net loss ratio		93.1%		67.9%
Reinsurance				
Catastrophe	$	367,855	$	108,033
Property		167,100		145,931
Casualty		152,808		129,563
Professional lines		137,944		119,106
Specialty		158,328		134,241
Total Losses Incurred		984,035		636,874
Prior Year Favorable (Adverse) Loss Development		98,008		116,983
Current Accident Year Losses Incurred	$	1,082,043	$	753,857
Net loss ratio		72.9%		47.1%

In the Insurance segment, the net loss ratio increased by 25.2 percentage points in 2017 compared to 2016. Current accident year losses increased in 2017 due to increases in the property, marine/energy & aviation, casualty & other and agriculture lines from catastrophe related losses and higher than expected attritional losses. In addition, favorable prior year loss reserve development decreased in 2017 compared to 2016 with the loss ratio benefiting by 1.3 percentage points in 2017 and 5.6 percentage points in 2016.

In the Reinsurance segment, the net loss ratio increased by 25.8 percentage points in 2017 compared to 2016. The current accident year loss ratio increased in 2017 due to the significant catastrophe activity in the year including Hurricanes Harvey, Irma and Maria which made landfall in the U.S. in the third quarter and two California wildfire events which were the main drivers of $432.0 million in catastrophe event related losses net of reinstatements in the year. In 2016 the Group incurred $127.6 million of losses net of reinstatements from Hurricane Matthew, the Fort McMurray wildfires in Canada, the convective storms in Texas and Europe and Kumamoto earthquake in Japan. In addition, there were lower levels of prior year favorable reserve development in 2017 compared to 2016.

The Group participates in lines of business where claims may not be reported for many years. Accordingly, management does not believe that reported claims are the only valid means for estimating ultimate obligations. Ultimate losses and loss expenses may differ materially from the amounts recorded in the Group's consolidated financial statements. These estimates are reviewed regularly and, as experience develops and new information becomes known, the reserves are adjusted as necessary. As a result of the incorporation of the Group's own loss reporting patterns and loss history related to its short tail business, including catastrophe reinsurance and property insurance and reinsurance business lines, the Group would expect its prior year loss reserve development and adjustments for short tail business to be less than recorded in prior years. Reserve adjustments, if any, are recorded in earnings in the period in which they are determined. The overall loss reserves were established by the Group's actuaries, approved by the Group's Loss Reserve Committee and reflect management's best estimate of ultimate losses.

Loss expenses incurred by ESIL in 2017 and 2016 were materially the same as that for the Group.

Acquisition Expenses

For both the Group and ESIL, acquisition expenses consist of commissions and brokerage expenses that are typically a percentage of the premiums on insurance policies or reinsurance contracts successfully written. General and administrative expenses consist primarily of personnel expenses and general operating expenses directly attributable to insurance and reinsurance operations. Corporate expenses are expenses not allocated directly to the insurance and reinsurance operations.

The acquisition expenses of the reinsurance segment of the business written are generally higher than those in the insurance segment.

Merger Related Expenses

As a result of the Merger transaction between Sompo Holdings and Endurance and subsequent restructuring efforts, Sompo International incurred one-off general and administrative expenses and corporate expenses of $57.2 million in the year ended December 31, 2017 and losses from the repurchase of debt of $27.2 million.

Approximately half of the Merger related general and administrative expenses and corporate expenses were incurred by ESIL and its subsidiaries.

Part 2. Governance Structure

The governance structure of the Group stems from the Board of Directors of Sompo International (the "Board of Directors" or "Board"). The Board of Directors is selected to oversee and guide the Group's management and business. The Board has adopted a set of Corporate Governance Guidelines to assist in the exercise of its responsibilities. The Board of Directors, its committees and the senior executives of the Group have incorporated various levels of governance and reviews to ensure that the Group's Enterprise Risk Management ("ERM") framework and best practices are implemented properly to meet its various regulatory and corporate requirements.

See Appendix A for the Group's Organizational Chart as at May 1, 2018.

Item 2.a. Parent Board and Senior Executives

Sompo International Holdings Ltd.

Sompo International's Board of Directors as at December 31, 2017 consisted of 3 directors as follows:

- John R. Charman, Chairman of the Board
- Shigeru Ehara
- Nigel Frudd

Effective March 1, 2018, Shigeru Ehara retired from the Board of Directors and was replaced by Junichi Tanaka.

The Group has nine senior executives (the "Executive Team") as follows:

- John R. Charman, Chief Executive Officer
- Nigel Frudd, Chief Strategy Officer
- John V. Del Col, General Counsel and Executive Vice President
- Christopher B. Gallagher, Chief Risk Officer and Group Actuary
- Brian W. Goshen, Chief Administrative Officer
- John A. Kuhn, Chief Underwriting Officer and Chief Executive Officer, Global Insurance
- Takashi Kurumisawa, Chief Operations Officer, London Market Insurance
- Michael J. McGuire, Chief Financial Officer
- Stephen H. R. Young, Chief Executive Officer, Global Reinsurance

Endurance Specialty Insurance Ltd.

ESIL's Board of Directors consisted of five members as at December 31, 2017, two of which are members of the Group's Board, two are senior executives of the Group's parent, Sompo Holdings, and one is a senior executive of the Group. The directors as at December 31, 2017 were:

- John R. Charman
- John V. Del Col
- Nigel Frudd
- Yoshitaka Abe
- Atsushi Mizuguchi

There are eight senior executives of ESIL as follows:

- John R. Charman, Chief Executive Officer
- John V. Del Col, General Counsel
- Christopher B. Gallagher, Chief Risk Officer and Group Actuary
- John A. Kuhn, Chief Underwriting Officer and Chief Executive Officer, Global Insurance
- Michael J. McGuire, Chief Financial Officer
- Stephen H. R. Young, Chief Executive Officer, Global Reinsurance
- Carrie Rosorea, Chief Accounting Officer

Item 2.a.(i) Structure, Roles, and Responsibilities

The Board oversees management's performance on behalf of Sompo Holdings. The Board's primary responsibilities are (1) to select, oversee and determine compensation for the Chief Executive Officer who, with senior management, run the Group's affairs on a day-to-day basis, (2) to monitor management's performance to assess whether the Group is creating value for Sompo Holdings in an effective, efficient and ethical manner and (3) to periodically review the Group's long-range plan, business initiatives, capital management and budget matters. The Board appoints the Chairman of the Board, who may be an officer or former officer of the Group if the Board determines that it is in the best interests of the Group and Sompo Holdings. The roles of Chairman and Chief Executive Officer may be held by the same person or may be held by different people.

Various operational and corporate risk governance responsibilities of the Board have been delegated to Board Committees as defined within the respective Committee charters. Typical responsibilities include ensuring that each significant operational area maintains appropriate policies and procedures, and that these policies and procedures are reviewed on at least an annual basis. In addition, the Audit Committee Charter empowers the committee to review any accounting and internal control policies and procedures within the Group. Governance activities of the Board are documented within Board minutes, drafted and maintained in accordance with applicable law.

The Board and its committees meet throughout the year on a set schedule, and also hold special meetings and act by written consent from time to time as necessary. The Board has delegated certain responsibilities and authority to the committees as noted above and described below. Committees report regularly on their activities and action to the Board.

The Board of Directors and its committees and the membership of each committee as at December 31, 2017 is noted as follows:

Board of Directors:	Board Committees:			
Board	Audit & Governance Committee	Nomination & Compensation Committee	Finance Committee	Risk Committee
• John Charman • Shigeru Ehara • Nigel Frudd	• Koichi Yoshikawa • Nigel Frudd	• John Charman • Shigeru Ehara • Nigel Frudd • Brian Goshen • Satoshi Kasai	• John Charman • Nigel Frudd • Shinichi Hara • Michael McGuire • Kenichi Yoshida	• John Charman • Nigel Frudd • Masato Fujikura • Chris Gallagher • Takashi Izuhara

The Audit & Governance Committee oversees and focuses on risks related to the Group's financial statements, the financial reporting process, and the Group's corporate governance policies and practices. The Audit & Governance Committee has responsibility for monitoring risks within the following categories:

- Significant accounting policies, changes & restatements
- Taxation & adherence to tax operating guidelines
- Third party solvency (credit risk); transfer pricing; management of run-off business
- External auditor relationship
- Segregation of relationship
- Code of business conduct & ethics
- Charitable contributions & political actions
- Legislative affairs
- Corporate governance structure & reputational matters

Additionally in conjunction with the Risk Committee, the Audit & Governance Committee has responsibility for the monitoring of:

- Underwriting - controls & financial reporting
- Loss Reserving - adequacy & financial reporting
- Ceded Reinsurance - credit risk & financial reporting
- Regulatory reporting requirements

The Nomination and Compensation Committee oversees and is responsible for the nomination of members and evaluation of the policies and processes of the Board. In addition, it has responsibility to evaluate the risks and rewards associated with the Group's compensation and benefits programs.

Vacancies on the Board of Directors are filled by the election of candidates selected by the Nomination and Compensation Committee. Nominees for the Group's Board of Directors may be recommended by members of the Group's directors, Chief Executive Officer, members of senior management, and the Group's parent organization, Sompo Holdings. During the nomination process, the Nomination and Compensation Committee will report to and receive feedback from the Board, its members, the Chief Executive Officer, and other members of senior management.

The Group's Board of Directors nomination policy seeks candidates with the following attributes and characteristics:

- Record of sound business decisions
- Understanding of management "best practices"
- Skills and experience to provide strategic and management oversight, and maximize long term value of the Group
- Demonstrated high ethical standards and integrity in professional dealings
- High intelligence and wisdom
- Financially literate

The Nomination and Compensation Committee evaluates the risks and rewards associated with the Group's compensation and benefits programs. The committee is also responsible for monitoring risks in these categories:

- Compensation & benefits
- Succession planning
- Human resources
- Culture & behavior
- Employee relations

The Finance Committee is charged with overseeing the risks within the Group's investment portfolio and capital structure. The Committee is responsible for monitoring risk within the following categories:

- Capital management
- Liquidity
- Interest rate/inflation changes
- Commodity price volatility
- Credit/default risks
- Financial strength ratings
- Foreign exchange

Additionally in conjunction with the Risk Committee, the Finance Committee is responsible for monitoring the policies and procedures of the Group's investments.

The Risk Committee of the Group oversees the Group's risk management framework, with the purpose of identifying and managing the risks that threaten the Group and its solvency, optimizing the Group's risk based capital position, monitoring the Group's risk adjusted returns on capital and reviewing with management the Group's underwriting, investment and operational volatility. The Risk Committee in conjunction with the Audit & Governance Committee is responsible for monitoring risks in the following categories:

- Underwriting limits and risk appetite
- Loss reserving leverage and risk appetite
- Ceded reinsurance strategy and risk appetite
- Regulatory reporting requirements

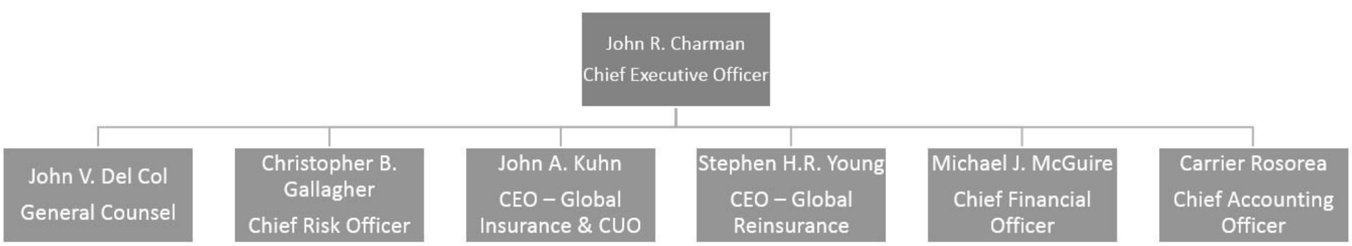
The Risk Committee also works in tandem with the Finance Committee in monitoring the risks associated with the Group's investment correlations. In additional the Risk Committee is responsible for monitoring the risk of Catastrophe Risk Correlation & Aggregation.

Sompo International Holdings Ltd.

The exhibit below depicts the structure as well as the major roles and responsibilities of the Group's senior executives:

Endurance Specialty Insurance Ltd.

The exhibit below depicts the structure as well as the major roles and responsibilities of the ESIL's senior executives:



Item 2.a.(ii) Remuneration Policies and Performance-Based Criteria

The Compensation and Performance based criteria for the senior executives of the Group and ESIL consists of four principal elements of compensation: base salary, annual incentive compensation, long-term incentive compensation, and employee benefits/ other compensation. Base salary is the guaranteed element of the Group's compensation structure and is paid to its employees for ongoing performance throughout the year. The Group's annual incentive compensation program supports the Group's strategy by linking a significant portion of its employees' total compensation to the achievement of critical business goals on an annual basis. All of the Group's employees, (other than John Charman, the Group's Chairman and Chief Executive Officer), are eligible to earn annual incentive compensation.

The Compensation Committee believes the inclusion of long-term incentive compensation in the Group's compensation structure fosters the appropriate perspective in management, given that the ultimate profitability of the insurance or reinsurance underwritten by the Group may not be fully known for years. In addition, the Compensation Committee seeks to align the interests of the

Group's employees with the Group's shareholders to the greatest extent practicable. Finally, long-term incentive compensation, which potentially is forfeited in the event of the departure of an employee from the Group, has the ability to retain valuable executive talent within the organization. Each of the Senior Executive Officers (other than Mr. Charman) is eligible to earn long-term incentive compensation.

The Group offers a core set of employee benefits in order to provide its employees with a reasonable level of financial support in the event of illness or injury and enhance productivity and job satisfaction through programs that focus on employees' health and well-being. The benefits provided are similar for all of the Group's employees, subject to variations as a result of local market practices. The Group's basic benefits include medical, dental and vision coverage, disability insurance and life insurance. The Group also offers all employees the opportunity to participate in the Group's defined contribution retirement savings plans.

Item 2.a.(iii) Supplementary Pension and/or Early Retirement Schemes

The Group does not have any supplementary pension programs or early retirement schemes for any of the members of its Board of Directors nor any of the senior executives.

Item 2.a.(iv) Shareholder Controllers and Material Transactions

As a wholly owned subsidiary of Sompo Holdings, the Group does not have any external shareholders and therefore does not have any shareholder controllers.

The Group did not have any material transactions in the reporting period with persons who exercise significant influence or senior executives other than those associated with the compensation arrangements previously disclosed.

ESIL is a wholly owned subsidiary of the Group and therefore does not have any shareholder controllers.

ESIL did not have any material transactions in the reporting period with persons who exercise significant influence or senior executives other than those associated with the compensation arrangements previously disclosed.

Item 2.b. Fitness & Propriety

Item 2.b.(i) Parent Board and Senior Executives

The Board of Directors' Nomination and Compensation Committee oversees the process utilized by the Group inclusive of ESIL in assessing the fitness and propriety of a member of its Board. In connection with each Annual General Meeting, and at such other times as it may become necessary to fill one or more seats on the Board of Directors, the Nomination and Compensation Committee will consider in a timely fashion potential candidates for director that have been recommended by the ultimate parent company, the Company's directors, the Chief Executive Officer and members of senior management.

The Nomination and Compensation Committee may also determine to engage a third-party search firm as and when it deems appropriate to identify potential director candidates for its consideration. The Nomination and Compensation Committee will meet as often as it deems necessary to narrow the list of potential candidates, review any materials provided in connection with potential candidates and cause appropriate inquiries to be conducted into the backgrounds and qualifications of each candidate. During this process, the Nomination and Compensation Committee also reports to and receives feedback from other members of the Board of Directors and meets with and considers feedback from the Chief Executive Officer and other members of senior management. Interviews of potential candidates for nomination are conducted by members of the Nomination and Compensation Committee, the Chief Executive Officer and other members of senior management.

The personal characteristics, attributes, bases for evaluation, process for renomination of current directors are set forth in the Director Nomination Policy and are discussed below. The Director Nomination Policy is intended as a component of the framework within which the Board, assisted by the Nomination and Compensation Committee, nominates candidates to serve as members of the Board.

Under the Director Nomination Policy, candidates for the Board of Directors should possess personal characteristics consistent with those who:

- have demonstrated high ethical standards and integrity in their personal and professional dealings;

- possess high intelligence and wisdom;
- are financially literate (i.e., who know how to read a balance sheet, an income statement, and a cash flow statement, and understand the use of financial ratios and other indices for evaluating company performance);
- ask for and use information to make informed judgments and assessments;
- approach others assertively, responsibly, and supportively, and who are willing to raise tough questions in a manner that encourages open discussion; and/or
- have a history of achievements that reflect high standards for themselves and others, while retaining the flexibility to select those candidates whom it believes will best contribute to the overall performance of the Board of Directors.

In addition, under the Director Nomination Policy, candidates for the Board of Directors should have one or more of the following attributes:

- a record of making good business decisions;
- an understanding of management "best practices";
- relevant industry-specific or other specialized knowledge;
- a history of motivating high-performing talent; and
- the skills and experience to provide strategic and management oversight, and to help maximize the long-term value of the Company for its shareholders.

The composition of the current Board includes directors with diverse backgrounds, including seasoned insurance and reinsurance industry executives, investment management veterans, investment professionals, financial experts and those with significant experience operating global enterprises at the executive level.

In the case of current directors being considered for renomination, the director's history of attendance at Board of Directors and committee meetings, the director's tenure as a member of the Board of Directors and the director's preparation for and participation in such meetings are also taken into consideration under the Director Nomination Policy.

Similarly the Board of Directors applies the same concepts and ideologies in evaluating the fitness and propriety of the senior executives. Potential candidates are sought who exhibit the same personal characteristics and attributes as noted for Board of Directors nominees.

Item 2.b.(ii) Professional Qualifications

The professional qualifications and expertise of the members of the Sompo International Group's Board of Directors are described as follows:

John R. Charman - Chief Executive Officer and Chairman of the Board

John R. Charman joined Endurance in May 2013 as Chairman and Chief Executive Officer. He has four decades of global experience in the insurance industry and has been in a senior underwriting position since 1975 and a CEO role since 1981. Most recently, Mr. Charman was a founding partner and served as the Chief Executive Officer and President of Axis Capital Holdings Limited from its inception in 2001 until he retired in the middle of 2012. From 2000 to 2001, Mr. Charman served as Deputy Chairman of ACE INA Holdings and President of ACE International and also served as Chief Executive Officer at ACE Global Markets from 1998 to 2001. Prior to that, Mr. Charman was the Chief Executive Officer of Tarquin plc (a joint venture company among Insurance Partners, Harvard University and the Charman Group), the parent company of the Charman Underwriting Agencies at Lloyd's, which was sold to Ace Limited in 1998. Between 1995 and 1997, he was also a Deputy Chairman of the Council of Lloyd's and a member of the Lloyd's Core Management Group and Lloyd's Market Board. Mr. Charman is also an active contributor to Bermuda business and cultural organizations. He held the position of Second Deputy Chair for Association of Bermuda Insurers and Reinsurers (ABIR) from January 2011 to June 2012 and was on the Board of HSBC Bank Bermuda Limited as a Non-Executive Director from 2004 to 2013. In addition, Mr. Charman joined the Board of the Masterworks Museum of Bermuda Art in July 2009 and, every year since 2008, he has sponsored the annual Charman Prize for the Museum. He is a member of the Finance Committee and the Risk Committee.

Shigeru Ehara - Board Member

Mr. Shigeru Ehara has been a Representative Director, Senior Managing Executive Officer of Sompo Holdings since 2016. He joined the Sompo Holdings organization in 1981 and has extensive experience in commercial underwriting and international business through various management positions in London, Singapore and Tokyo. He holds a B.A. in Economics from Waseda University.

Nigel Frudd - Board Member

Nigel Frudd is Managing Executive Officer of Sompo Holdings, where he also holds the titles of Head of Global M&A and Group Counsel. In these capacities, he has led the acquisition of Endurance by Sompo Holdings. He has been a director of Sompo Canopius AG since 2014 and Sompo Canopius Reinsurance AG since 2015. Previously Mr. Frudd has held senior executive positions in leading UK insurance companies as well as in the past being a partner in four London law firms and a Partner in the Corporate Finance division of a leading UK firm of Chartered Accountants. Mr. Frudd has an LLB (Hons) from the University of Leeds, qualified as a Barrister (Gray's Inn) and as a Solicitor of the Supreme Court.

Junichi Tanaka - Board Member as of March 1, 2018

Mr. Junichi Tanaka is Managing Executive Officer of Sompo Holdings, in charge of European and South America Region since 2016 and Overseas Insurance Business Owner since April 2018. He joined Sompo in 1984 and has held various management positions through his more than 30 years of services to the company mainly in commercial lines and international business. He holds a B.A. Political Science from Keio University.

In addition to the directors noted above, the qualifications of the Group's senior executives are:

John R. Charman - Chief Executive Officer
(*as noted above*)

Nigel Frudd - Chief Strategy Officer
(*as noted above*)

John V. Del Col

John V. Del Col has been the Group's General Counsel and Secretary since January 2003 and Executive Vice President, Acquisitions since February 2007. From October 1999 until January 2003, Mr. Del Col served as Executive Vice President, General Counsel, and Secretary of Trenwick Group Ltd. and its predecessor company, Trenwick Group Inc., a property and casualty reinsurer. Mr. Del Col was Vice President, General Counsel, and Secretary of Chartwell Re Corporation, a property and casualty reinsurer, from January 1998 until its merger with and into Trenwick Group Inc. in October 1999. From July 1994 until December 1997, Mr. Del Col was the Deputy General Counsel and Assistant Secretary at MeesPierson Holdings Inc., a Dutch merchant bank. From November 1991 until July 1994, Mr. Del Col was an associate in the law firm of LeBoeuf, Lamb, Greene & MacRae, L.L.P. Prior thereto, Mr. Del Col was an associate in the law firm of Sullivan & Cromwell.

Christopher B. Gallagher

Christopher Gallagher was named Chief Risk Officer and Group Actuary, effective September 2015. Mr. Gallagher is responsible for Sompo International's Enterprise Risk Management and Actuarial Functions. Prior to joining the Group, Mr. Gallagher was the Chief Risk Officer of the Insurance segment at Axis Capital Holdings from 2007 to 2015. Prior thereto, he served from 2001 to 2007 as a Senior Manager in Ernst & Young LLP's insurance and actuarial advisory practice in London. Mr. Gallagher holds a Bachelor of Science (Honours) degree in Mathematics and Statistics from the University of Glasgow and is a Fellow of the Institute and Faculty of Actuaries in the UK.

John A. Kuhn

John A. Kuhn was named Chief Executive Officer, Global Insurance, effective November 2012. Mr. Kuhn joined the Group from Axis Capital where his most recent role was Chief Underwriting Officer, Axis Insurance, responsible for the worldwide insurance operations and, prior to that, Chief Executive Officer, North American Division, Axis Insurance. He joined Axis Capital in 2003 when the company acquired Kemper Insurance's Financial Insurance Solutions business which Mr. Kuhn had built as President of that business unit. Mr. Kuhn started his insurance career at Chubb Group of Insurance Companies, where he assumed increasing responsibility, culminating in the role of Chief Underwriting Officer for Chubb/Executive Protection. Mr. Kuhn holds a B.A. degree from Wesleyan University.

Michael J. McGuire

Michael J. McGuire has been Chief Financial Officer of the Group since January 2006. Mr. McGuire joined the Group in 2003 to lead its external reporting, treasury and Sarbanes-Oxley compliance initiatives from Deloitte & Touche LLP where he spent over nine years working in a variety of audit and advisory roles in the United States, Bermuda and Europe. In his last role at Deloitte & Touche, Mr. McGuire served as a senior manager in their merger and acquisition advisory practice, providing transaction accounting, structuring and due diligence services to private equity and strategic investors. Since August 2015, Mr. McGuire has served as a director of Blue Capital Reinsurance Holdings Ltd. ("BCRH"), a New York Stock Exchange listed, Bermuda-based exempted limited liability holding company of which Sompo International is a 33.2% owner. BCRH provides fully-collateralized property catastrophe reinsurance and invests in various insurance-linked securities through its wholly-owned Bermuda-based subsidiaries, with its underwriting decisions and operations managed by Bermuda-based affiliates utilizing Sompo International's reinsurance underwriting expertise and infrastructure to conduct its business. Mr. McGuire is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

Stephen H.R. Young

Stephen Young was named Chief Executive Officer, Global Reinsurance of the Group, effective January 2016. Prior to being appointed to this role, Mr. Young was Executive Vice President, Chief Underwriting Officer, and Head of Global Catastrophe Reinsurance of the Group since September 2011. Mr. Young joined Endurance's Bermuda-based reinsurance team in 2002 as an underwriter, assumed responsibility for Endurance's U.S. catastrophe reinsurance business in 2005 and later served as Senior Vice President responsible for Property Catastrophe underwriting in the Americas. Prior to his tenure at Endurance, Mr. Young held various underwriting positions in the industry. A native of Bermuda, he graduated from Babson College with a Bachelor of Science degree in Finance.

Brian W. Goshen

Brian Goshen is Chief Administrative Officer. Mr. Goshen joined the Group in May 2014 and is responsible for our global Human Resources, Information Technology, Corporate Claims, Facilities and Corporate Communication and Marketing teams. He has over 30 years of experience as a Human Resources professional with more than 25 of those in the financial services industry. Mr. Goshen has held various management positions with responsibility across all human resource operations, and recently served as Chief Administrative Officer for a global insurance and reinsurance company. He holds a B.S. in Management and Organization from Central Washington University.

Takashi Kurumisawa

Takashi Kurumisawa is Chief Operations Officer for the London Market Insurance platform of Sompo International. Since assuming this role in March 2017, Mr. Kurumisawa provides coordination and oversight to shared functions and key initiatives including geographic and product expansion. He also serves as a key liaison with Sompo Holdings. As General Manager of the Global Strategy Office of Sompo Holdings, Mr. Kurumisawa led the transformation of their overseas business through a series of M&A transactions over the last 8 years, including the successful post-merger integration of the acquired companies. Since joining Sompo Holdings in 1995, he has held several insurance operations and management roles including international assignments.

ESIL

The professional qualifications and expertise of the members of ESIL's Board of Directors are described as follows:

John R. Charman
(*as noted above*)

Nigel Frudd
(*as noted above*)

John V. Del Col
(*as noted above*)

Yoshitaka Abe

Yoshitaka Abe as the General Manager of Sompo Holdings global reinsurance department, provides coordination and oversight for the Sompo Holdings organization global reinsurance platform. Mr. Abe also serves as the Head of Strategic Business Department of Sompo Japan Canopius Reinsurance AG and is a member of their Management Committee. He began his career in the Marketing Department of Yasuda Fire & Marine Insurance Co., Ltd. the predecessor to Sompo Japan Insurance Inc. Mr. Abe has held various positions within the Sompo Holdings organization, primarily within its reinsurance business. He has a Bachelor of Letters from Doshisha University in Kyoto, Japan.

Atsushi Mizuguchi

Atsushi Mizuguchi is a Managing Executive Officer of both Sompo Japan Nipponkoa Insurance Inc. and its parent, Sompo Holdings. Mr Mizuguchi began his career at Yasuda Fire & Marine Insurance Co., Ltd. a predecessor to Sompo Japan Insurance Inc. He has held various positions in the Sompo Holdings organization within the areas of Automotive Business, Corporate Marketing and Planning, and Global Business Planning. He was Chairman and Chief Executive Officer of Sompo American Holdings. Inc. prior to its merger with Endurance U.S. Holdings in December 2017. Mr. Mizuguchi holds a Bachelor of Political Science from Keio University in Japan.

In addition to the Directors noted above, the qualifications of the ESIL's senior executives are:

John R. Charman
(*as noted above*)

John V. Del Col
(*as noted above*)

Michael J. McGuire
(*as noted above*)

Christopher B. Gallagher
(*as noted above*)

Stephen H. R. Young
(*as noted above*)

John A. Kuhn
(*as noted above*)

Brian W. Goshen
(*as noted above*)

Carrie Rosorea

Carrie Rosorea was named Chief Accounting Officer of Endurance and of ESIL effective February 2013. Ms. Rosorea joined Endurance in 2005 and has held several financial reporting and controller positions of increasing responsibility, most recently Executive Vice President and Corporate Controller. Prior to joining Endurance, from October 2000 to April 2005, Ms. Rosorea served as a Controller at Alta Partners, a San Francisco-based private equity firm. Previously, Ms. Rosorea worked as an Assistant Controller at XL Mid Ocean Reinsurance Company Ltd. and as a Senior Accountant in the audit practice of Deloitte & Touche LLP, both in the United States and Bermuda. Ms. Rosorea is a Certified Public Accountant.

Item 2.c. Risk Management and Solvency Self-Assessment

Our ERM framework is rooted in our risk appetite and a system of governance with responsibilities for identifying, managing, monitoring and taking risk. Our risk appetite, as authorized by our Board of Directors, represents the risk that we are willing to accept. We employ a system of quantitative risk limits of our key risks both on an aggregated and stand-alone basis to provide transparency and understanding of our risk profile. To support our governance framework, we have developed and documented risk policies that articulate the roles and responsibilities for risk management throughout the organization, including assigning key risks and associated controls to our various governance committees.

On a group basis, we monitor our:

- Capital position relative to internal requirements, as measured by our economic capital model, and the requirements of our regulators and rating agencies;
- Underwriting risk exposure relative to limits for losses arising from Catastrophic Natural Peril and Man Made events;
- Reserve Risk though our exposure to medium and long tailed lines of business;
- Investment risk through a system of limits incorporating exposure to asset class, credit rating, duration and currency;
- Liquidity by stressing cash outflow scenarios relative to available cash and cash equivalents and other forms of liquidity; and
- Counterparty exposure nominally and to loss scenarios for ceded reinsurance and for non-reinsurance counterparties.

We continuously monitor adherence to our risk tolerances and report back to the Board Risk Committee each quarter.

The Risk Team manages the Group's risk register, which is a detailed repository of the Group's key risks and controls. The risk register assists in our objective to identify, assess, measure, monitor and manage risks. This is achieved through the following actions:

- Reviewing key strategies and objectives;
- Establishing risk owners and developing a risk universe;
- Ranking risks already known to us and identifying any new or emerging risks;
- Prioritizing and evaluating each risk (by assessing likelihood and impact);
- Reviewing and rating mitigating controls on their effectiveness;
- Reporting residual risks outside of appetite to the Executive Team and the Risk Committee of the Board each quarter; and
- Monitoring risks and controls on an ongoing basis.

Consistent with the three lines of defense model of risk management, the identification, monitoring and management of individual risks are performed primarily by the business units themselves. The materiality of risks is assessed and regularly discussed with management. Additionally, management tracks risks at an entity level through accumulation reports, risk register reports, and any risk metrics that may signal possible issues that may be present. Any exceptions in these reports are discussed between management and business units and action plans are devised for any needed remediation to reduce or prevent risks.

The Group conducts its Own Risk & Solvency Assessment ("ORSA") each year to assist the Board in making strategic decisions. The ORSA process allows us to assess the current and potential future risks facing the Group to better understand our risk profile and to ensure that the Group is operating within its risk profile. The ORSA also informs the Executive Team and the Board on the level of capital resources needed to support the business plan. The Bermuda Solvency Capital Requirement ("BSCR"), which encompasses the primary risk exposure areas as stated above, provides a risk-based capital tool in determining appropriate levels of capitalization. The BSCR employs a standard mathematical model that correlates the risk underwritten by the Group to the capital that is dedicated to our business. The framework that has been developed applies a standard measurement format to the risk associated with our assets, liabilities and premiums, including a formula to take account of catastrophe risk exposure.

The Group's ORSA process starts with the assessment of the risk appetite framework as it relates to the business strategy of the Group. This risk appetite framework provides the structure of how the Group evaluates risk from the entity level down to the individual businesses. Risk metrics support the risk appetite framework in evaluating risk exposure, and guide day-to-day decision making.

The current financial statement and financial forecast of the Group is analysed in relation to the risk appetite and the strategic plan. This step is critical in the Group's understanding of where the business is headed and how the risk profile of the Group can change in the medium term. This enables the Group to assess the current risk profile, and the health of the capital position in relation to this risk profile. The Group relies on the risk ranking provided by the BSCR to gauge the capital needs of the current risk profile and to ensure consistency with the business plan. This view of the risk profile is augmented with the assessment of key operational risk profiles and discussions of emerging risks that may impact the ongoing business.

Armed with the knowledge of the current risk profile, current and future solvency assessments are performed and compared against the Group's own view of adequate capital and regulatory capital. As the financial forecast is subject to a number of external and internal risks that may prevent the business from achieving its stated objectives, the base financial forecast undergoes a number of stress tests that may impact the solvency position, including a reverse stress test.

Headed by the Chief Risk Officer and Group Actuary, the Risk Function is responsible for conducting the annual ORSA process. The Risk Function works with the Compliance team and other operational functions to monitor changes in the global operating environment, regulatory requirements, and marketplace that could impact risk management practices and to assess the effectiveness of the risk management practices, policies and procedures.

The Board Risk Committee is informed of the capital at risk and any changes to our regulatory capital, and rating agency capital, each quarter. This ensures that the Committee continues to have a sound working knowledge of the BSCR formula, and the rating agency models, including their strengths and weaknesses. The annual process is culminated in the preparation of the Group Solvency Self-Assessment ("GSSA"), in which the various ORSA processes and results are presented to the Executive Team and the Board Risk Committee for appropriate challenge and approval. Once approved, the GSSA report is submitted to the Bermuda Monetary Authority for supervisory review.

Item 2.d. & 2.d.(i). Internal Controls

The Group operates an internal control system in accordance with its 'three lines of defense' model of internal control. Specifically:

- Operational Management Controls, being those operated within core business functions where risk is owned and managed (the first line of defense);
- A Risk Management Function and a Compliance Function, which monitor and facilitate the implementation of effective risk management and control practices and provides assistance and guidance to the first line of defense in reporting adequate risk information through the Group's operations (the second line of defense); and
- An (Internal) Audit Function, which provides assurance to the Group's Board as to the effectiveness of the first and second lines of defense through a risk-based program of testing, quality assurance, and assessment (the third line of defense).

The controls operated in the Group combine preventative controls and detection controls, designed to ensure that the Group operates within its stated risk appetites and tolerances.

The Group's internal control framework is overseen by the Group's Audit Committee. The Audit Committee's oversight of internal controls includes the following responsibilities, in accordance with the Group's Audit Committee charter:

- Review the adequacy and effectiveness of the Group's accounting and internal control policies and procedures on a regular basis, including the responsibilities, budget and staffing of the Group's internal audit function, through inquiry and discussions with the Group's independent auditors and management of the Group;
- Review with management the Group's administrative, operational and accounting internal controls, including any special audit steps adopted in light of the discovery of material control deficiencies, and evaluate whether the Group is operating in accordance with its prescribed policies, procedures and codes of conduct;
- Receive periodic reports from the Group's independent auditors and management of the Group to assess the impact on the Group of significant accounting or financial reporting developments that may have a bearing on the Group;
- Establish and maintain free and open means of communication between and among the Board, the Committee, the Group's independent auditors, the Group's internal audit department and management, including providing such parties with appropriate opportunities to meet separately and privately with the Committee on a periodic basis;
- Establish clear hiring policies by the Group for employees or former employees of the Group's independent auditors;
- Discuss guidelines and policies governing the process by which senior management of the Group and the relevant departments of the Group assess and manage the Group’s exposure to risk, as well as the Group’s major financial risk exposures and the steps management has taken to monitor and control such exposures;

Additionally, the Group assesses the effectiveness of internal controls over financial reporting in accordance with Sompo Holdings' Group Basic Policy on Internal Control over Financial Reporting for each fiscal year to confirm there are no material weaknesses.

Item 2.d.(ii) Compliance Function

The compliance function of the Group is overseen by a designated Compliance Officer. The Compliance Officer's role is to (a) act as an advisor to the Board of Directors, the Chief Executive Officer and the Risk Management Committee of senior management on matters relating to compliance and (b) monitor and report on the results of the compliance/ethics efforts of the Group to the Board of Directors, the Chief Executive Officer and the Risk Management Committee.

The Compliance Function exists within the Group in order to secure, inter alia, the following objectives, as set out in the Compliance Policy and Procedures:

- To advise the Board on compliance with all relevant regulations and legislation;
- To assess the impact on the Group of material changes in the legal or regulatory environment;
- To facilitate the identification, assessment and mitigation of compliance and regulatory risk;
- To oversee and monitor compliance with regulatory requirements by the Group; and
- To produce and implement a plan to achieve the objectives with which the Compliance Function is charged.

In order to achieve the objectives set out above the Compliance Function operates (alongside the Risk Function) as part of the Group's second line of defense and reports at least quarterly to the Group's Board on its operations and activities. The activities of the Compliance Function are divided into the following strands of activity:

- Business advisory: ensuring that the Board, senior management, and staff of the Group are aware of the obligations and requirements imposed on them by the applicable regulatory regimes.
- Compliance monitoring: providing regular and prompt identification and assessment of compliance risk and the day-to-day operation of compliance tools, policies and procedures.
- Regulatory affairs: managing the relationship of the Group with its regulators.
- Complaints handling: administering and operating the complaints handling process for the Group on a day-to-day basis.
- Reporting on all of the above strands of activity to the Group’s Board.

Supplementing the Compliance Officer's role are the Group's regulatory and operational compliance functions. The Regulatory Compliance function is charged with ensuring compliance within each of the jurisdictions the Group operates in. For each regulatory jurisdiction, the Chief Financial Officer, the General Counsel, or their respective delegates with responsibility for the pertinent geographic location, continually monitor the regulatory environment for requirements that may impact the Group. In the event of a new regulatory requirement being proposed, and depending upon the underlying nature of the regulatory requirement, all filings may be managed at the local level or, alternatively, the Chief Financial Officer and General Counsel may establish a dedicated project team at the corporate level to which the responsibility of creating and submitting the filing is delegated. The project team may include, but not be limited to specialists within the Finance, Legal, Internal Audit and Risk Management functions. As required, the Legal function drafts the necessary Group policies and procedures in accordance with the requirements of applicable laws and regulations. The Legal function is further charged with the responsibility to investigate and resolve all issues of non-compliance.

Operational Compliance is monitored and reported through the combined actions of the Internal Audit, Corporate Underwriting and Claims functions. The responsibilities of Internal Audit and its role in operational compliance are explained below in *Item 2.e. - Internal Audit*.

Corporate Underwriting is responsible for ensuring that all underwriting procedures/ guidelines related to the product line are followed, that business written is within an underwriter's authorized limits that a robust peer review process is followed and that pricing adequately compensates for the exposures detailed within the contract terms. Corporate Underwriting also performs operational and process audits on both the insurance and the reinsurance book of business. Underwriting audit reports provide an assessment of the overall effectiveness of the business unit being audited and recommends process improvements. The compliance component of the Claims function utilizes peer reviews to ensure the overall quality of the claims management process. Claims reviews include but are not limited to compliance with the claims operating guidelines, the decision making process, the adequacy of reserves, and the tracking and managing of recoveries.

Item 2.e. Internal Audit

The Internal Audit's (IA) function purpose is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Group by challenging the effectiveness of the framework of controls which enable risk to be assessed and managed. IA assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management and internal control. The internal audit activity's responsibilities are defined by the Audit & Governance Committee as part of their oversight role.

At least annually, the Chief Audit Executive will submit to Executive Management and the Audit & Governance Committee an internal audit plan for review and approval. The internal audit plan will consist of a schedule as well as budget and resource requirements for the next fiscal/calendar year. The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Audit & Governance Committee. The Chief Audit Executive will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to senior management and the Audit Committee through periodic activity reports.

The Chief Audit Executive or designee following the conclusion of each internal audit engagement will produce a written report that is distributed as appropriate. Internal audit results will also be communicated to the Audit & Governance Committee.

The internal audit report will include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response will include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All findings will remain in an open issues file until cleared.

The Chief Audit Executive will periodically report to Executive management and the Audit & Governance Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan.

The internal audit activity remains free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they do not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgment. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or processes being examined.

The Chief Audit Executive will confirm to the board, at least annually, the organizational independence of the internal audit activity.

Item 2.f. Actuarial Function

The Actuarial Functions at the Group operate in various segments of the organization. The Group Chief Risk Officer and Group Actuary are responsible for the oversight of these functions with the support of the Chief Reserving Actuary, Chief Pricing Actuaries for the two major business segments, and the Ceded Reinsurance Officer. Actuarial Functions are provided with the necessary authority to carry out their roles by the Board and are operationally independent of the Group's other key functions.

The Reserving actuaries review the Group's loss and loss expense reserves on a quarterly basis for both current and prior accident years using the most current claims data. The Group uses multiple methods, supplemented with its own actuarial and professional judgment, to establish its best estimate of loss and loss expense reserves. The estimate of the reserve for losses and loss expenses is reviewed each quarter by the Group's Loss Reserve Committee, consisting of the Group's Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Group Actuary, Chief Reserving Actuary, General Counsel and representatives of various disciplines from within the Group, such as Underwriting, Claims, Actuarial Pricing and Legal.

The Reserving analysis for the Group's business units uses data from the claims and underwriting data systems. Data entry into the claims and underwriting applications is subject to peer review and quality checks. Upon receipt of the data, Actuarial will perform reasonability checks. The Actuarial reserving function performs the quarterly reserving analysis, using approved reserving techniques, by reserving segment. This is then consolidated within the quarterly Loss Reserve Study. Each quarter a reserving memo documents the underlying assumptions, the quantitative analysis performed, and conclusions.

Reserve estimates are adjusted for any ceded reserves, which generally are estimated based on the underlying characteristics of the ceded treaty terms.

Each quarter an internal peer review is performed of the loss reserve estimates to determine whether they reasonably represent the contractual liabilities to which the Group is exposed. The nature and findings of the peer review are documented within a memo. To confirm that the approved reserves have been booked correctly to the general ledger, the loss reserve study is reconciled back to the general ledger. This process is documented in the Management Best Estimate memo, which is reviewed by the Chief Reserving Actuary.

All reserve estimates are presented to the Board for review and approval on a quarterly basis.

Pricing analysis at the business unit level is overseen by the respective CEOs of Global Insurance and Reinsurance who are ultimately responsible for ensuring business written by the Group is adequately priced.

To achieve this objective, actuarial pricing models have been developed, by line of business, to provide a standardized means by which submissions can be consistently and objectively rated. All models require peer review and user testing as part of the standard pricing model development process. Prior to deployment within the business, all models require sign-off by the relevant lead actuary. Guidelines have been developed and disseminated identifying the triggering premium thresholds (by line of business) at which actuarial pricing and/or peer reviews are required.

As part of the Insurance segment monthly and quarterly management reporting processes, rate changes are monitored. The Reinsurance segment pricing actuaries produce rate monitoring and a pricing roll-up, which is monitored to determine the adequacy of the pricing for those risks for which the Group is contractually liable. On a quarterly basis, the rate monitoring, and Reinsurance segment pricing roll-ups are presented to the both senior management's Loss Reserve Committee and the Risk Committee of the Board.

The purchase of ceded reinsurance is coordinated by the Ceded Reinsurance Officer who works with the business and various functional areas to determine coverage needs. An appropriate reinsurance structure is developed and the submission is built to present to market. The Ceded Reinsurance Officer ensures that the data contained within the submission is both accurate and that the narrative outlining the business' strategy is relevant. All draft contracts undergo a legal review. The reinsurance also undergoes a risk transfer analysis based on final terms and conditions. All purchases are made through a pre-approved counterparty panel with the constituents selected on the basis of their financial strength rating and other background criteria. In the event of credit downgrades, approved counterparties are removed from the panel. Ceded Reinsurance formally advises the Claims and Finance functions of all in force ceded reinsurance treaties to ensure that appropriate recoveries are obtained and reinsurance cessions properly recorded.

Item 2.g. Outsourcing

Item 2.g.(i) Outsourcing Policy

The Group has established standards, processes, roles and responsibilities for our arrangements of services to be provided by unaffiliated third parties ("outsourcers"). Outsourcing arrangements are supported by individual contracts and/or service level agreements ("SLA's"). Before an outsourcing arrangement is entered into, the Group assesses the impact of the proposed arrangement, including reviewing the qualifications of the service provider. For all material outsourcing arrangements based on the size and criticality of service, the Group applies the following due diligence and selection criteria.

The Group's outsourcing due diligence includes three main components:

- Formal reviews of the proposed outsourcing arrangements by the appropriate internal departments, including Legal and Procurement.
- Request For Proposal ("RFP") requirements provided that single source procurement may be permitted with the approval of Legal and Procurement.
- Reviews by requester and the key management personnel to ensure that no conflicts of interest exist in engaging the outsourcer.

The selection criteria process is agreed in advance by the requester and other reviewing parties (Legal, Procurement, IT) and considers the following factors, among others:

- demonstrated quality (financial and technical abilities);
- specialized knowledge and resources;
- control framework;
- conflicts of interest;
- value-add services as differentiators;
- long-term viability and pricing;
- availability of an adequate Business Continuity Plan;
- risks from outsourcing and mitigation.

Outsourcing arrangements that have cleared due diligence and met the appropriate selection criteria are reviewed to determine if an RFP is applicable. Where an RFP process is deemed appropriate, a reasonable number of competitive bids should be obtained to ensure quality services are being received at an appropriate price.

For any proposed outsourcing arrangement not subject to an RFP process, the requester must provide formal justification for single source procurement and obtain approval from Legal and Procurement.

In all outsourcing situations where outsourcers will access the Group's non-public information and/or systems, outsourcers will be required to sign a non-disclosure agreement.

The Group has defined key management personnel within its members that are authorized to approve an outsourcing arrangement should the arrangement satisfy the due diligence and selection criteria. The key management personnel are prescribed in the Group's "Authorized Approvers" policy document and include the requirements for adequate specifications for the services to be entered into and a general ledger account and activity code where appropriate.

The major service arrangements the Group has under its outsourcing policy are with BlackRock Inc., Clearwater Analytics and Computer Sciences Corporation. Blackrock, Inc. provides the Group with various investment management and risk analysis services, while Clearwater Analytics provides investment accounting services. Computer Sciences Corporation provides various information technology support services.

Item 2.g.(ii) Intra-group outsourcing

The Group has various intra-group reinsurance, loans, and other arrangements amongst its members. These arrangements are overseen by the Group's Intercompany Contract Governance Committee ("ICGC") of senior management. The ICGC establishes, maintains, and authorizes intercompany agreements and includes members from the Finance, Legal, Tax and Underwriting departments. It meets at least twice a year and more often as necessary to review specific transactions.

The ICGC has established the following key controls:

- All agreements and material modifications are reviewed and agreed by the ICGC. Approval is then obtained from the Chief Financial Officer and General Counsel.
- Communication of agreements and material changes is made to the CEO and the Executive Team.

All intra-group outsourcing functions are also reviewed by the Audit Committee of the Board of Directors. Additionally the Group has an intra-group administrative services agreement amongst its entities. The primary services agreements are a consolidated tax sharing agreement amongst its US Holding company and its various US entities; and an administrative services agreement which allows for the provision of certain administrative services between and among the wholly-owned entities of the Group, including, but not limited to: general management; finance-related services; information technology; and facilities and equipment.

Part 3. Risk Profile

Sompo International views the components of its risk profile of the Group as a whole rather than an aggregate of the risks of each member of the Group. The risk profile categories have been designed based upon the commonality of those used by the various regulatory and rating agencies. There are six primary categories within which Sompo International has grouped their risk exposures.

Item 3.a. Material Risk Exposures

The six primary risk profile exposure categories developed by the Group are:

- *Underwriting Risk*: Underwriting Risk encompasses exposures derived from underwriting new or renewal (re)insurance business including the management of the concentration (aggregation) of these exposures within and across business units. The primary risks underlying Underwriting Risk include loss volatility, exposure volatility, rate level volatility, expense volatility, parameter uncertainty, risks of inflation and changes in foreign exchange on the underwriting portfolio, and the correlation of the business lines. Underwriting Risk broadly encompasses the risks of estimation error and estimation bias throughout our pricing activities. Pricing-related risks include misestimation arising from incorrect, inadequate or inappropriate data; incorrect or inappropriate application or operation of models; incorrect expert actuarial judgment; incorrect parameterization of models; and incorrect reporting or interpretation of results.

  The Risk Management Committee is responsible for overseeing the design and implementation of an underwriting control environment to ensure the integrity of the underwriting process and risk assessment and assumption framework is maintained. Risk tolerances are set, aligning underwriting and business strategy with appropriate levels of risk assumption. These risk tolerances are promulgated down to the individual business units and ultimately individual underwriters through their delegated authority. The compliance to these risk tolerances are tracked through various reporting, including projections of expected premiums and claims, rate change reports, and renewal rate reports. Deviations of these projections against those expected are identified, and where required, corrective actions are set forth.

  The Group utilizes the solvency capital requirement to assess exposure to the risk, as the BSCR guides the quantification of underwriting risk.

- *Reserving Risk:* Reserving Risk includes those risks listed for Underwriting Risk but also includes misestimation arising from latent sources of risk and delays in the emergence of loss information. For the purposes of this categorization, both model related sources of risk and information emergence related sources of risk are conflated into the Reserving elements of Actuarial Risk. Reserving Risk therefore encompasses all aspects of the loss reserve estimation process in terms of the potential for an adverse change in the valuation of our (re)insurance liabilities including the impact of adverse events and exogenous developments, inflation, foreign exchange and their correlating effects across accident and calendar years.

- *Catastrophe ("Cat") Risk*: Cat Risks are split between natural catastrophes and manmade events, e.g., industrial accident, marine, aviation, terrorism, casualty, economic/financial events. The Group's major natural Cat exposures are US hurricane, California earthquake, Pacific Northwest earthquake, US tornado/hail, European wind, UK flood, Japan wind, Japan earthquake and Australian earthquake. Modelled Cat risks take into account extreme events and the concentration/aggregation of risks. We also consider model inadequacy and error for modelled risks as well as unmodelled regions and perils. Catastrophe risk also includes the premiums and expenses associated with the writing of the business.

- *Investment Risk:* Investment Risk includes all facets of risk related to the assets we hold. These are traditionally split into Market Risks (interest rate movements, bond spread volatility, equity and alternative investments price volatility), Credit Risks (bond default, i.e., other than third party reinsurance), Liquidity Risk, Foreign Exchange Risk and Concentration Risk.

  The Group monitors and manages its market risks by adhering to its Investment Policy. Limits on asset types, economic sector exposure, industry exposure and individual security exposure are placed on the Group's investment portfolio and monitored on an ongoing basis.

  The Group assesses liquidity needs, allowing for encumbered assets and the restricted fungibility of assets. The Group's ERM perspective is to provide sufficient liquidity to satisfy the needs of business partners and clients. Limited liquidity analyses are performed regularly with a full analysis performed annually to assess whether the Group is in danger of failing its objectives. In these analyses, the Group reviews cash outflow scenarios of varying degrees of severity relative to available cash and cash equivalents and other forms of liquidity. Any event which might change the outcome of these analyses (such as a large catastrophic loss or significant asset encumbrance) would cause the analyses to be re-run.

- *Credit (Counterparty) Risk*: Credit Risk arises from exposure to default by a third party to whom the Group has exposure. Primarily these parties would comprise reinsurers to whom the Group has ceded or retroceded business, parties holding premiums due to the Group, banks providing letters of credit to the Group's benefit and derivative counterparties.

  The Ceded Reinsurance function performs the monitoring of the ceded reinsurance portfolio. This includes the tracking and identification of triggering events, the monitoring of results, and ensuring that all counterparty accounts remain within the concentration tolerances of the ceded portfolio. These findings are reported via a series of reports updated or verified on a quarterly basis. The treaty structure once entered into the underlying underwriting system is reviewed by the Ceded Reinsurance Officer.

- *Operational Risk*: Operational Risk represents the risk of loss as a result of inadequate or failed internal processes, system failures, human error or external events. Operational risk includes, for example, employee or third party fraud, business interruptions, inaccurate processing of transactions, system failures, the loss of key employees without appropriate successor and non-compliance with reporting obligations.

  If not properly managed, operational risk can cause significant losses for the Group. It is virtually impossible to eliminate these risks entirely; therefore, the Group aims to limit its operational risks to an acceptable tolerance, recognizing the trade-off between the benefits and costs of risk mitigation.

  The Group generally aims to minimize both the frequency and severity of operational risk losses to the extent practical. Critical to this approach is the Group's three lines of defense model, in particular the notion that all individuals in the Group are responsible for risk management activities.

These same categories form the basis of the risk exposures utilized in our economic capital model risk profile.

Item 3.b. Risk Mitigation and Monitoring

Although in certain instances the Group may seek other methods to offset underwriting risks (e.g., crop price hedging), the Group's primary method of risk mitigation is the purchase of third party reinsurance or retrocession. We seek third party reinsurance, among other circumstances, to ensure our risk profile stays within our established risk tolerances, whether at an individual risk or aggregated risk level.

In addition to the Group's primary risk mitigation method as noted above, the Group has developed and implemented various risk policies and may also in certain instances perform additional reviews and analyses to quantify its risk exposures. The key risk policies of the Group are:

- Actuarial Risk Policy
- Asset Liability Management Policy
- Ceded Reinsurance Risk Policy
- Corporate Governance and Governance Mechanism Framework
- Enterprise Risk Policy
- Human Resources Risk Policy
- Information Technology Risk Policy
- Investment Risk Policy
- Legal & Litigation Risk Policy
- Operational Risk Policy
- Outsourcing Risk Policy
- Underwriting Risk Policy

The Risk Committee of the Group's Board of Directors is charged with the responsibility of monitoring the Group's major risk exposures and the steps taken by senior management to monitor and control the exposures. Supporting the Board Risk Committee is the Risk Management Committee ("RMC") of senior management, which is chaired by the Chief Risk Officer and Group Actuary. The purpose of the RMC is to review, evaluate, and on certain matters, approve those aspects of the Group's operations and activities which have the potential to have an impact on its risk position, including but not limited to Underwriting, Catastrophe, Credit, Reserving, Investment, and Operational risks. In addition to these risks, the Committee reviews any risks identified from time to time by the Board of Directors or any enterprise risk assessment of the Group conducted by or on behalf of the Committee, the Group's Internal Audit Department or any third party, e.g., a rating agency. The RMC reports on these activities on a semi-annual basis to the Board Risk Committee.

Through other management committees - investment, loss reserving, ceded reinsurance, and intercompany governance, the Group monitors the other risk exposures of underwriting/reserving, investments, credit/counterparty, and operational risk. While the membership of these committees is that of senior management, they are subject to oversight by the Group's Board of Directors.

On a regular basis, the committees monitor the following items in relation to their respective risk exposures:

- Any changes in our risk profile;
- Adherence to the risk appetites and tolerances;
- Our capital position relative to our internal requirements and the requirements of our regulators and rating agencies;
- The full distribution of results from our Economic Capital Model ("ECM") and component tools thereof for the material risk categories identified above;
- PMLs of our significant underwriting activities;
- Our accumulation of credit risk exposure;
- Reserve position under current and stressed scenarios;
- Our ceded reinsurance arrangements by lines of business;
- Stress scenarios for our investment portfolios against a variety of macro-economic conditions; and
- Any developments in operational risk.

The above analyses are reviewed by the CRO and, at a minimum, are presented to both the RMC and the Board Risk Committee.

Through periodic (quarterly, monthly) monitoring, Sompo International manages both our capital and business plans in response to changes (anticipated and/or unanticipated) in both the internal and external environment. Plan to actual is updated on a quarterly basis and discussed with the respective management committees.

Reviews and analyses are also performed at the business unit level. Analyses of capital allocations through quarterly profitability studies which highlight risk-adjusted capital deployed to the businesses and the associated returns, expected premium and profit relative to plan, and catastrophe PML usages relative to pre-determined tolerances are examples of some of the additional business unit level analyses. These reports are typically produced on a quarterly basis by the Finance, Risk Management Group and distributed to the RMC and Risk Committee of the Board of Directors.

Specific risk mitigation strategies with regards to the risk profile are as below:

- *Underwriting/Catastrophe/Reserving Risk*: The Group's primary method of risk mitigation is the purchase of third party reinsurance or retrocession. Third party reinsurance, among other activities, is utilized to ensure the Company's risk profile stays within established risk tolerances, whether at an individual risk or aggregated risk level. The full details of the Ceded Reinsurance program are maintained in the Group's Ceded Re Vault.

  Additionally, to mitigate the risk from new product lines, the Group maintains an 'on-boarding' process prior to business being written. This process ensures the control framework of the new venture is aligned with the overarching risk tolerances, that it operates within all applicable legal and regulatory stipulations and that the new business will not lead to breaches in the overall tolerance levels. The Group also ensures pricing targets for the lines of business are adequate relative to the contractual exposure, that the underwriting process design is appropriate and supported by the underwriting applications, and that the underwriting application interfaces with the core accounting systems.

  Compliance with tolerance limits and the underwriting process (as defined within various underwriting guidelines and/or underwriter authorities and the peer review framework) is maintained through an active internal underwriting audit program and the monitoring of actual business unit accumulation and peak underwriting risks relative to the tolerance targets. Overall underwriting strategy is reviewed on an on-going basis and adjusted where appropriate.

- *Investment Risk:* The Group maintains strict controls with regards to investment risk. The risk is controlled through maximum reported equity percentage drawdown limitations under both a stressed scenario of potential credit impairments and an environmental scenario analysis as required by the Investment Policy. The environmental scenarios stress the yield curve, sector spreads, and equity and hedge fund returns. The anticipated portfolio return under the defined scenarios must be within the limits set within the Investment Policy. Investment risk is also controlled within the Investment Policy through maximum duration variances from the target portfolio duration and limitations on net currency exposure. External investment management activities are regulated by the Externally Managed Portfolio Guidelines. These guidelines permit the various investment managers to enter into derivative transactions to hedge risks, and in some cases to hedge risks associated with the aggregate investment portfolio.

  The above analysis is collated and regularly presented to the Board. This analysis includes performance updates, deviations of performance from target (along with the attribution for the deviation), investment market developments, stress and scenario testing and, if appropriate, proposed amendments in the investment strategy.

  The Asset Liability Management Policy outlines the risk control framework as applied to the Investment, Finance, Actuarial Pricing, Claims, Underwriting and Group Risk activities performed so that liquidity risk is effectively managed through identification, management and mitigation and is aligned with the overall Group's strategy (including the appropriate investment strategy and risk tolerance levels). As such, cash flow generated by payment of principal and interest, plus sale of government and agency holdings, is required to exceed projected liability cash flows as calculated over a three-year period by a set percentage.

  In addition to the procedures outlined above, the Investment function continuously monitors investment risk arising from both internal and external market developments.

- *Credit (Counterparty) Risk*: To ensure proper controls are in place to minimize the risk, the purchase of ceded reinsurance is coordinated by the Ceded Reinsurance Officer who works with the business and various functional areas to determine coverage needs, develop an appropriate reinsurance structure and build the submission to present to market. The Ceded Reinsurance Officer ensures that the data contained within the submission is both accurate and that the narrative outlining the business strategy is relevant. All draft contracts undergo a Legal review. The reinsurance also undergoes a risk transfer analysis based on final terms and conditions. All purchases are made through a pre-approved counterparty panel with the constituents selected on the basis of their financial strength rating (minimum A- rating required) and other background criteria. In the event of credit downgrades, approved counterparties are removed from the panel. Ceded Reinsurance formally advises the Claims and Finance functions of all in-force ceded reinsurance treaties to ensure that appropriate recoveries are obtained and reinsurance cessions properly recorded.

- *Operational Risk:* The Group utilizes the three lines of defense model to guard against operational risks. This framework consists of the following:

  a. As the first line of defense, the underwriters and functional employees (the "risk owners") are responsible for ensuring that the risk and control environment is established as part of day to day operations. This entails the risk owners regularly identifying the risks related to their area and ensuring that they are appropriately recorded within the Group's risk registers, along with the risks' perceived frequencies and severities. The risk owners are also responsible for reviewing and rating the effectiveness of the mitigating controls, as well as assisting in their remediation when necessary.
  b. As the second line of defense, the Risk function is responsible for oversight of the identification, evaluation, mitigation, and reporting of the Group's risk universe. More specifically, the Risk function will establish and update the operational risk policy, oversee the operational risk management framework, maintain the risk registers, build tools to help the Group identify, measure, monitor, manage and report on operational risks, model operational risk by way of the Group's internal capital model, the rating agency models, and the relevant regulatory standard formula models, study the potential interaction of various operational risks and of operational risks with other risk categories (e.g. market risk), develop key risk indicators and keep the Board and the RMC informed as to the performance of the risk management framework.
  c. As the third line of defense, the Internal Audit function provides for independent and objective assurance as to the effectiveness of the internal risk control framework.

In addition to the three lines of defense, the RMC also provides regular oversight of the management of operational risks, supporting the Risk function.

Item 3.c. Material Risk Concentrations

The primary material risk exposure for the Group is insurance/underwriting risk. Insurance/underwriting risk incorporates those risks associated with premium, reserve and catastrophe risks. Premium risk broadly encompasses the risks of estimation error and estimation bias throughout our pricing and reserving activities. Reserving risk includes the same risks as those of premium risks with the addition of misestimation arising from latent sources of risk and delays in the emergence of loss information. Catastrophe risk includes the premiums and expenses surrounding the writing of business for both natural catastrophes and manmade events. The Group conducts annual risk assessments which review the current strategies for identifying and managing these risks. An objective of the risk assessment process is to highlight any increases in risk exposures as well as any deficiencies in the Group's strategies to address these risks. The results of these assessments are reviewed by the RMC. As of year-end 2017, the largest concentration of the Group's underwriting exposure arises out of natural catastrophe events, and more specifically, European windstorm. To minimize the exposure to such a concentration risk, the Group monitors and controls its catastrophe risk exposure through aggregate and occurrence catastrophe tolerances.

The secondary risk exposures areas, other than underwriting and catastrophe risk, by which the Group might be subject to concentration of risk would be investments and credit or counterparty risks. In order to minimize its subjectivity to investment concentration risk, the Group has designed its investment portfolio to diversify risks, including interest rate, credit, structure and equity risks. To ensure diversification and to avoid excessive aggregation of risks, the Group has placed limits on asset types, economic sector exposure, industry exposure and individual security exposure, which are monitored on an ongoing basis. The Finance Committee of the Board of Directors is charged with the responsibility to monitor the Group's compliance with the policies, guidelines and risk limits governing its investment portfolios. The weighted average credit rating of the Group's investment portfolio is AA as of year-end 2017, and the exposures due to investment concentration are within internal tolerances.

Credit or counterparty risk exposures other than those associated with investments, as noted above arise from exposure to default by a third party. The Group is subject to credit risk with respect to our reinsurers because the transfer of risk to a reinsurer does not relieve us of our liability to our clients. If our reinsurers experience financial difficulties, they may be unable to pay us. In addition, reinsurers may be unwilling to pay us, even though they are able to do so. The failure of one or more of our reinsurers to honor their obligations to us in a timely fashion would impact our cash flow and reduce our net income and, depending upon the amount of reinsurance we have purchased, could cause us to incur a significant loss. When reinsurance or retrocessional reinsurance is purchased, the Group requires its reinsurers to have strong financial strength ratings. The Group evaluates the financial condition of its reinsurers and monitors its concentration of credit risk on an ongoing basis. The Group manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound and, if necessary, may hold collateral in the form of cash, trust accounts and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. As noted above in *Item 3.b. Risk Mitigation and Monitoring*, the Group has developed and implemented a Ceded Reinsurance Risk Policy to minimize potential credit risks associated with third party reinsurance. Additionally, the Group's RMC regularly reviews and monitors potential impacts of credit or counterparty defaults. As of year-end 2017, the largest counterparty risk exposure comes in the form of ceded reinsurance, and exposure to each reinsurer is monitored and controlled to be within tolerances.

Item 3.d. Asset Investing

The Group's investment strategy is designed to protect book value and generate appropriate risk adjusted returns to grow book value, while providing sufficient liquidity to meet our operating cash needs. The investment portfolio is designed to diversify risks, including interest rate, credit, structure and equity risks. Our investment portfolio is managed by our Chief Investment Officer and a team of investment professionals. Our investment team is experienced in direct portfolio management, asset allocation, managing external investment manager relationships and risk management. Our investment team uses specialized analytical tools to evaluate risk and opportunity in investments to facilitate a risk managed, opportunity oriented approach to investing consistent with the requirements of our Investment Policy. We utilize external portfolio managers to oversee most of the day-to-day activities of our investment portfolio, and our investment professionals actively monitor our investment managers' performance and compliance with our Investment Policy and with the specific investment guidelines applicable to each investment manager. We use quoted values and other data provided by nationally recognized third-party pricing sources as inputs to our process for determining the value of our investment portfolio that is carried at fair value in our financial statements.

Our Investment Policy establishes authority for our investment activities and specifies risk tolerances and minimum criteria on the overall credit quality and liquidity characteristics of the portfolio. This includes limitations on the size of certain holdings as well as restrictions on purchasing certain types of securities or investing in certain industries. Our investment managers may be instructed to invest some of the investment portfolio in currencies other than U.S. dollars based upon the business we have written, the currency in which our loss reserves are denominated or regulatory requirements.

Our Investment Policy incorporates a traditional policy limit approach to each type of risk, thus setting a maximum amount of capital that may be exposed at any one time to particular types of securities and investment vehicles. We develop and maintain an investment risk profile, including the establishment of risk limits, which is reviewed and revised by the Finance Committee of the Board of Directors based on market conditions and our developing needs and includes estimates of the maximum and expected levels of investment risk relative to shareholders' equity that will be taken over a 12 month period. In determining our investment decisions, we consider the impact of various catastrophic events on our invested assets, particularly those to which our insurance and reinsurance portfolio may also be exposed, in order to protect our financial position. In addition, as part of our risk management processes, we maintain a watch list of securities that management considers to be at risk due to industry and/or issuer specific issues or securities potentially subject to future impairments. These securities are subjected to further internal analysis to evaluate their underlying structures, credit characteristics and overall industry and security specific fundamentals until they are sold, mature or it is deemed that further review is no longer necessary.

In managing the Group's invested and assets, the Group applies the Investment Philosophy and Principles within our investment policy. Our Investment Philosophy and Principles state that all investment decisions will be made within the context of their impact on shareholder value and in accordance with the Prudent Person Principle. The Finance Committee ("FC") of the Board of Directors is charged with the oversight and governance of the Group's investment strategies, policies and guidelines, and limits as noted above in *Item 2.a.(i) Structure, Roles, and Responsibilities.*

Item 3.e. Stress Testing and Sensitivity

The Group performs stress testing and sensitivity analysis to fulfill various risk performance needs. The purpose of these tests vary from internal business segment performance and risks, to the two key external purposes of regulatory reporting and rating agency capital management requirements. The Group's risk exposures (noted above in item 3.a.) are stressed and subjected to sensitivity analysis.

The Group uses a number of capital-at-risk models, which include volatility-scenario based measures, value-at-risk ("VaR") and credit impairment calculations to evaluate its Investment, Underwriting, and Catastrophe portfolio risks. Details of the Underwriting and Catastrophe portfolio VaR curves in terms of the distribution of losses for the Group are provided to the RMC and the Board of Directors on a quarterly basis. The same detail is provided for the Investment VaR to the Management Investment Committee and Finance Committee of the Board on a quarterly basis.

The following lists some of the examples of stress and sensitivity that were conducted:

- Impact of various financial market scenarios;
- Impact of variation of loss ratios;
- Impact of adverse reserve development;
- Impact of various catastrophe events at different occurrence return periods;
- Impact of credit failures after a catastrophe event.

The Group also performs reverse stress testing to identify scenarios that could result in significant capital depletion. One such test examined is a scenario in which the Group suffers capital depletion that decreases its capital to the BMA's Target Capital Level (TCL). After ranking the Group's Economic Capital Model results, only the second most extreme scenario of 25,000 exhibited a loss of this size. As such, this is equivalent to 1 in 12,500 year event, and this particular trial was driven by an 8.2 magnitude San Andreas Fault earthquake that would cause $3.7 billion of losses on a gross of reinsurance basis and $1.9 billion of losses on a net of reinsurance basis. This scenario also exhibited higher than expected reserve development of $612 million, driven mainly by the professional liability and casualty classes of business. It should be noted that insolvency was not chosen as a reverse stress test event because none of the model's 25,000 simulated trials resulted in such an outcome; thus, the Group does not foresee an extreme loss event compromising its ability to pay its policyholders or meet its other obligations.

The stress and sensitivity tests are developed using a wide range of assumptions about loss ratios, potential catastrophe events, the economic environment, and many other factors. As such, the scenarios presented do not represent the full range of possible outcomes, but rather, they allow management to develop a comprehensive assessment of the Company's risk levels and to design their risk taking strategy accordingly.

Part 4. Solvency Valuation

The Group is supervised by the BMA (see *Item 1.b.* above) and is required to meet certain solvency requirements on a group basis. During 2016, the BMA achieved Solvency II regulatory equivalency with the European Union, and as such the BMA instituted a solvency valuation basis or Economic Balance Sheet ("EBS") as a key component of its regulatory reporting requirements. Except where specifically noted by the BMA, assets and liabilities should be valued at fair value in line with generally accepted accounting principles ("GAAP") for EBS valuations. The BMA's EBS framework applies prudential filters to certain balance sheet classes and non-admits certain assets to form the basis for their solvency valuations.

Item 4.a. Asset Valuations

For solvency valuation purposes, cash, cash equivalents, investments, and accrued income on investments are recorded on the same valuation basis as they are under GAAP in our audited financial statements.

The Group currently classifies its fixed maturity investments, short-term investments and equity securities as trading or available for sale. Trading securities are carried at estimated fair value, with related net realized and unrealized gains or losses included in earnings.

Available for sale securities are carried at estimated fair value, with related net unrealized gains or losses excluded from earnings and included in shareholders' equity as a component of accumulated other comprehensive loss. Investment transactions are recorded on a trade date basis. The Group determines the fair value of its trading and available for sale investments in accordance with current accounting guidance, which defines fair value and establishes a fair value hierarchy based on inputs to the various valuation techniques used for each fair value measurement. The use of valuation techniques for any given investment requires a significant amount of judgment and consideration of factors specific to the underlying investment. Fair value measurements determined by the Group seek to maximize observable inputs and minimize the use of unobservable inputs.

If the Group has the intent to sell a fixed maturity or short-term security classified as available for sale in an unrealized loss position or it is more likely than not that the Group will be required to sell the available for sale security, the Group deems the security to be other-than-temporarily impaired and writes down the carrying value of the security to fair value, thereby establishing a new cost basis. The amount of the write-down is recognized in earnings as an other-than-temporary impairment ("OTTI") loss.

For fixed maturity and short-term investments classified as available for sale in an unrealized loss position for which a decision to sell has not been made and it is not more likely than not that the Group will be required to sell the security, the Group performs additional reviews to determine whether the investment will recover its amortized cost. If the amortized cost of the Group's fixed maturity and short-term investments classified as available for sale is, based upon the judgment of management, unlikely to be recovered, the Group writes down the investment by the amount representing the credit related portion of the decline in value, thereby establishing a new cost basis. The amount of the write-down is recognized in earnings as an OTTI loss. The new cost basis is not changed for subsequent recoveries in fair value.

To the extent the Group determines that the amortized cost of the Group's fixed maturity and short-term investments classified as available for sale is likely to be recovered and the decline in value is related to non-credit factors (such as interest rates, market conditions, etc.) and not due to credit related factors, that remaining non-credit portion of the unrealized loss is recorded as a part of accumulated other comprehensive loss in the shareholders' equity section of the Group's Consolidated Balance Sheets.

For equity securities classified as available for sale, the Group considers its ability and intent to hold the equity security in an unrealized loss position for a reasonable period of time to allow for a full recovery. When the Group determines that the decline in value of an equity security is other-than-temporary, the Group reduces the cost of the equity security to its fair value and recognizes the loss in the Consolidated Statements of Income and Comprehensive Income. The new cost basis is not changed for subsequent recoveries in fair value.

Other investments within the Group's investment portfolio are comprised of hedge funds, private investment funds and other investment funds that generally invest in senior secured bank debt, high yield credit securities, distressed debt, macro strategies, multi-strategy, equity long/short strategies, distressed real estate, and energy sector private equity ("alternative funds"). Other investments are accounted for using the equity method of accounting whereby the initial investment is recorded at cost. The carrying values of these investments are increased or decreased to reflect the Group's share of income or loss, which is included in net investment income, and are decreased for dividends. Due to the timing of the delivery of the final valuations reported by the managers of certain of our alternative funds, our investments in those funds are estimated based on the most recently available information including period end valuation statements, period end estimates, or, in some cases, prior month or quarter valuation statements.

Cash equivalents include highly liquid short-term deposits and securities with maturities of ninety days or less at the time of purchase. Cash equivalents are valued at amortized cost, which approximates fair value due to the short-term, liquid nature of these securities. Deposits and securities with maturities greater than ninety days and less than one year are classified as short-term investments.

Insurance premiums receivable (net of any allowance for bad debts) on a GAAP basis are analyzed to determine the amount of premiums actually due at the balance sheet date or currently due, versus those due in the future. The net amounts currently due are deemed to be received within one year and are recorded in the EBS at their GAAP values. The net amounts which have been deemed as not yet due are deducted from the premiums receivable asset and included in the valuation process noted below for determining the technical provisions.

Reinsurance balances recoverable represent monies due to the Group from third parties for insurance losses paid or unpaid by the Group on their behalf. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreements and consistent with the establishment of the Group's reserve for losses and loss expenses. Reinsurance recoverables are segregated into those which are recoverable on paid losses and those which are based upon estimates or unpaid losses. Reinsurance recoverables on paid losses are deemed as more than likely to be received within the next fiscal year and are reported at their GAAP valuation in the EBS. Reinsurance recoverables on unpaid losses and estimates are included in the valuation process noted below for determining the technical provisions.

The insurance and reinsurance balances receivable on the GAAP balance sheet represent funds withheld by ceding reinsurers. The funds withheld relate to premiums, profit commissions, claims and/or funds advanced for claims. The receivables are analyzed to determine which amount if any are deemed as more than likely to be received in a period greater than one year. Amounts that are deemed as such are discounted using the BMA's prescribed discount rates for the reporting period. Differences between the original balance and the discounted values are deducted from insurance and reinsurance balances receivable and offset against the Group's statutory capital and surplus.

Prepaid reinsurance premiums and deferred acquisitions costs are considered as a component in determining the technical provisions in the EBS. Therefore these amounts in their entirety are deducted from the Group's total assets and included in the base amounts utilized to calculate the technical provisions as noted below in *Item 4.b*.

The Group's remaining assets includes the value of its derivative instruments, balances due from investment sales, intangible assets, deferred tax assets, and other assets. Unless noted in other assets, fixed assets are not an admissible asset and are excluded from the EBS.

Derivative assets in the EBS are reported at the same valuation basis as they are under GAAP in the Group’s audited financial statements. Current accounting guidance requires the recognition of all derivative financial instruments including embedded derivative instruments, as either assets or liabilities in the Consolidated Balance Sheets at fair value. The Group may use various derivative instruments such as foreign exchange forward, future and option contracts; industry loss warranty swaps; interest rate futures, swaps, swaptions, and options; credit default swaps; LIBOR swaps; commodity futures and options; weather swaps and options; loss development covers; and to-be-announced mortgage-backed securities. These derivative instruments are used to manage exposure to interest rate and currency risk, to enhance the efficiency of the Group's investment portfolio, to economically hedge certain risks, and as part of its weather risk management business. These derivative instruments do not qualify, and are not designated, as hedges. Derivatives are recorded at fair value with changes in fair value and any gains or losses are recognized in net realized and unrealized gains losses, net foreign exchange gains losses, or other underwriting loss in the Consolidated Statements of Income and Comprehensive Income. Where the Group has entered into master netting agreements with counterparties, or the Group has the legal and contractual right to offset positions, the derivative positions may be netted by the counterparty.

Balances due from investment sales represent the net funds to be received from the sale of investments and are usually attributable to timing differences between sales dates and settlement dates which are typically 2-3 days. As such the reported value is the fair value measurement on a GAAP basis.

In general, goodwill and intangible assets are not considered admitted assets in the EBS. However, the BMA's EBS guidance does allow for intangible assets to be admitted as recognized if it is probable that the expected future economic benefits will flow to the insurer and that their value can be measured reliably. The assets must be separable, and there should be evidence of exchange transactions for the same or similar assets indicating they are saleable in the market place. If a fair value measurement of an intangible asset is not possible, then such an asset should be excluded. The Group has reviewed and analyzed the nature of the items included within its intangible asset balance and determined that the US state licenses at its US insurance entities and its Lloyds Syndicate capacity meet this criteria. The Group enlists the services of an independent third party to determine the economic values of these assets. The aggregate of the mid-point of the valuation ranges for each license is recognised and reported as an intangible asset in the EBS.

The Group's deferred tax assets ("DTAs") on a GAAP basis are reviewed and analysed within the following EBS criteria. DTAs are ascribed a positive value where it is probable that future taxable profit will be available against which the DTA can be utilised, taking into account any legal or regulatory requirements on the time limits relating to the carry-forward of unused tax losses or the carry-forward of unused tax credits. Should a DTA meet this criteria the actual value to be recognized is the aggregate of the deferred tax asset matched by future profits discounted to their net present value based upon the discount rates as published by the BMA.

Other assets include receivables and other recoverable balances from our weather risk management operations, rent deposits, current tax receivable, and other fixed assets. As with goodwill, prepayments or prepaid expenses are not admissible assets under the EBS basis and therefore are excluded. Weather assets, rent deposits and current tax receivables are deemed as readily realizable and therefore are valued and reported at their GAAP valuation basis with no applicable prudential filters for EBS reporting purposes. The Group's other fixed assets consist of a building, vehicles and a transportation lease which are wholly owned or leased by the Group and its subsidiaries. These assets are analyzed and valued to determine whether or not a readily realisable value exists.

Item 4.b. Technical Provisions

General insurance business technical provisions are to reflect values based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure. Under the BMA's EBS framework, general insurance business (non-life) technical provisions are comprised of three main components:

- Best estimate of premium provisions
- Best estimate of loss and loss expense provisions
- General Insurance business risk margin

Under the EBS regime, the best estimate of premium provisions reported is the EBS valuation of the gross and net unearned premium reserve ("UPR") on the GAAP balance sheet. The UPR is adjusted by the asset value (as noted above in *Item 4.a.*) of the prepaid reinsurance premiums and the deferred acquisition costs associated with those premiums. The deferred acquisition costs include the unearned ceding commissions from ceded reinsurance contracts. The UPR is additionally adjusted by premiums not yet due and the value of the premiums that are bound but not incepted ("BBNI"). BBNI premiums include advance premium payables associated with ceding arrangements. BBNI and premiums not yet due are discounted by the discount risk free rates as published by the BMA. The result is the best estimate of net premiums provisions which have been discounted at the BMA prescribed risk free rates.

The best estimate of the loss and loss expense provisions reported in the EBS reflect the probability-weighted average of future cash flows, discounted using the relevant risk-free interest rate term structure. The provisions consider the full potential range of possible outcomes, each weighted to reflect their respective probability of occurrence. The best estimate of recoverable amounts are calculated and shown separately.

The last component of the technical provision is the risk margin. The risk margin is intended to represent the uncertainty associated with the probability-weighted cash flows or the compensation the Group would require in order to bear the risk of holding additional funds to meet cash flows. The risk margin for the Group is calculated using the BMA's prescribed cost of capital approach. This approach calculates a cost of capital by applying a BMA prescribed factor against the enhanced capital requirement ("ECR") of the BSCR discounted over a 21 year period at the risk free discount rates as determined by the BMA.

The Group and ESIL's EBS technical provisions and risk margin as at December 31,2017 were as follows:

	Group	ESIL
	(U.S. dollars in thousands)	
Net Premium Provisions	$ (247,133)	$ (244,060)
Net Loss and Loss Expense Provisions	4,145,853	4,051,382
Risk Margin	382,013	393,218
Total General Business Insurance Technical Provisions	$ 4,280,733	$ 4,200,540

Item 4.c. Reinsurance Recoverables

As noted above in *Item 3 b. Risk Mitigation and Monitoring*, the Group utilizes third party reinsurers as part of its underwriting risk management strategy. Included as part of that strategy, the Group has established a Ceded Reinsurance Policy which provides governance over our ceded reinsurers and their selection.

The Group purchases quota share, facultative and excess of loss reinsurance across most Insurance lines of business. In the Reinsurance segment, the Group purchases proportional and excess of loss retrocessional coverage on the catastrophe line of business, and proportional coverage on the specialty line of business. The Group's U.S., U.K. and Bermuda insurance operating subsidiaries use proportional and excess reinsurance to protect larger limits on certain business written by the Insurance segment. Our agriculture Insurance line of business participates in a crop reinsurance program sponsored by the U.S. federal government and utilizes third party reinsurance covers. Excess reinsurance coverage is often purchased in relation to the property Insurance line of business to protect against catastrophic events.

The Group 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 agriculture line of business. Accordingly, the Group has evaluated the reinsurers and retrocessionaires that are providing reinsurance and retrocessional protection and will continue to monitor the stability of its reinsurers and retrocessionaires. At December 31,2017, the Group and ESIL held collateral of $770.2 million and $760.2 million respectively, related to its ceded reinsurance agreements. The balance of ceded reinsurance recoverables for the Group at December 31, 2017 was distributed as follows based on the ratings of the reinsurers:

Rating	2017
	(U.S. dollars in thousands)
U.S. Government sponsored program	$ 219,169
A+ and above	1,468,764
A	1,146,652
A- and below	91,521
Not rated	52,680
Total	$ 2,978,786

The balances reported in the table above are on a GAAP basis. The balances are discounted at the BMA prescribed risk free rates as noted above in *Item 4.b. Technical provisions* to determine their valuation on an EBS basis. Reinsurance recoverables for ESIL were materially the same as for the Group.

Item 4.d. Other Liabilities Valuations

Insurance and Reinsurance balances payable and commissions, expenses, fees and taxes payable represent amounts due to insurers and reinsurers under current insurance contracts. The amounts payable include premiums, taxes, underwriting expenses, fees, taxes, and profit commissions. As noted in *Item 4.b.* above the amount of unearned ceding commission (or deferred ceding commission) plus advanced premiums payable are included in the calculation of the best estimate of premium provisions. The components of the Group’s insurance and reinsurance payables are reviewed and analysed to determine which amounts if any are deemed as not readily realisable within the next fiscal year. Those amounts deemed as such are discounted at the risk free discounted rates as published by the BMA.

Loans and Notes Payable balances are comprised of Senior Notes that bear a rate of interest equal to 4.7% per annum. The 4.7% Senior Notes mature on October 15, 2022. Loans and Notes Payable balances are recorded at fair value in line with GAAP principles. In the EBS, the Group’s 7% Senior Notes maturing in July 2034 are reported as eligible capital. See *Item 5.a.(ii) Eligible Capital by Tiers* below.

The Group’s tax liabilities on a GAAP basis include current income tax and deferred tax liabilities. The values are reviewed and analyzed using the BMA's EBS guidance which states that current tax liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period and in conformity with our GAAP financial statements. Deferred tax liabilities are valued on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with the EBS requirements and the values ascribed to assets and liabilities as recognized and valued for tax purposes.

Accounts Payable and Accrued Liabilities include accrued operating expenses, accrued interest expenses, accrued miscellaneous tax expenses, general accounts payable related to our weather risk management business, salary related payables and general other payables. The Group's payables are reviewed and analyzed to determine which amounts if any are deemed as not readily realizable within the next fiscal year. Those amounts deemed as such are discounted at the risk free discounted rates as published by the BMA. Those amounts deemed as a readily realizable within the next fiscal year are recorded at their GAAP value.

Sundry liabilities of the Group include derivative liabilities, investments pending settlement, and deposit liabilities for contracts which have assessed as not having risk transfer. Our derivative liabilities are valued in accordance with our audited GAAP financial statements as noted above in Item 4. a. above.

Investments pending settlement represent the net funds to be paid from the purchase of an investment and are usually attributable to timing differences between purchase and settlement dates which are typically 2-3 days. As such the reported value is the fair value measurement on a GAAP basis.

Our deposit liabilities are based upon insurance contracts which we have assessed as not transferring significant risk. Since these deposit liabilities are net reserves on these contracts, the reserves have been discounted using the risk free discount rates as provide by the BMA with their EBS valuation reflective of the discounted values.

Part 5. Capital Management

Sompo International is a holding company which relies primarily upon the dividends and other distributions from its various entities. As a result the Group proactively manages its capital base through the utilization of underwriting revenues, reinsurance and prudent risk management.

Item 5.a. Eligible Capital

Item 5.a.(i) Capital Management Policy

The Group's capital management policy is aimed at ensuring we maintain sufficient levels of risk based capital and financial flexibility as required by our clients, our various regulatory bodies, rating agencies, and our strategic business purposes. The Group assesses the various capital level requirements and internally establishes an appropriate minimum capital level that satisfies all. Incorporated within this assessment is the focus on retaining earnings to build capacity and reinvest in our business.

Item 5.a.(ii) Eligible Capital by Tiers

The Group and ESIL's eligible capital as at December 31, 2017 is comprised of the following capital tiers as per the Bermuda Monetary Authority's classifications:

		Group	ESIL
Tier	**Description**	**Amount (in 000's)**	
1 Basic	Total Tier 1	$ 4,368,596	$ 4,620,046
2 Basic		219,056	8,792
2 Ancillary	7% Senior Notes (1)	409,506	—
	Total Tier 2	628,562	8,792
	Total Eligible Capital	$ 4,997,158	$ 4,628,838

(1)The Group's 7.5% Senior notes were approved by the Bermuda Monetary Authority as Tier 2- Ancillary capital under the Insurance (Group Supervision) Rules 2011 for the transitional period ending January 1, 2024.

Item 5.a.(iii) Eligible Capital by Tier for Regulatory Capital Levels

The Group's eligible capital composition by Tier available to meet its minimum solvency margin ("MSM") and ECR as at December 31, 2017 is as follows:

Tier	Amount (in 000's)	Applicable to MSM	Applicable to ECR
1	$ 4,368,596	$ 4,368,596	$ 4,368,596
2	628,562	628,562	628,562
	$ 4,997,158	$ 4,997,158	$ 4,997,158

ESIL's eligible capital composition by Tier available to meet its MSM and ECR as at December 31,2017 is as follows:

Tier	Amount (in 000's)	Applicable to MSM	Applicable to ECR
1	$ 4,620,046	$ 4,620,046	$ 4,620,046
2	8,792	8,792	8,792
	$ 4,628,838	$ 4,628,838	$ 4,628,838

Item 5.a.(iv) Eligible Capital Transition

The Group's 7% Senior notes were approved by the Bermuda Monetary Authority as Tier 2- Ancillary capital under the Insurance (Group Supervision) Rules 2011 for the transitional period ending January 1, 2024.

Item 5.a.(v) Eligible Capital Encumbrances

The Group's Tier 1 Basic eligible capital is reduced by the amount of assets which are encumbered for other than securing policyholder obligations, such as funds held by regulatory bodies. The regulatory requirements also provide an adjustment between tiers in respect of assets encumbered where those assets held are in excess of the policyholder obligations. See *Item 5. a.(ii)*.

Item 5.a.(vi) Ancillary Capital Instruments

See *Item 5.a.(iv)*.

Item 5.a.(vii) Adjustments to Statutory Capital and Surplus

The Group's shareholders' equity on a GAAP basis is adjusted by various prudential filters to arrive at the Group's statutory capital and surplus as per the Bermuda regulatory requirements. The Group currently applies eight types of primary adjustments to the Group's GAAP shareholders' equity to produce the Bermuda statutory capital and surplus on an EBS basis described as follows:

- Technical Provisions: adjustments for the impact of the revaluation of the GAAP premium receivables, UPR, loss and loss expense provisions and related items to reflect values based on best-estimate cash flows, adjusted to reflect the time value of money using a risk-free discount rate term structure.
- General Business Risk Margins: adjustments under the cost of capital approach for the impact of the uncertainty associated with the probability-weighted cash flows or the compensation the Group would require in order to bear the risk of holding additional funds to meet cash flows.
- Deferred Tax Assets: the aggregate of the deferred tax asset matched by future profits discounted to their net present value based upon the discount rates for EBS as published by the BMA.
- Intangible Assets: the aggregate fair value of intangible assets deemed as saleable in the market place, such as our insurance licenses and syndicate capacity.
- Fixed Assets: adjustments to eliminate those fixed assets which are deemed as not having a readily realizable value.
- Reinsurance Balances Payable, Accounts Payable and Accrued Liabilities: adjustments for the impact of payable amounts deemed as not readily realizable within the next fiscal year.
- Non-Admitted Assets: adjustments for the impact of goodwill and prepayments which are not admitted under the BMA's statutory regulations.
- Additional Approved Capital Instruments: as noted above in *Item 5 a. (vi)*, the Group has received approval from the BMA to include certain debt instruments as capital which are reflected as an addition to GAAP shareholders' equity.

Item 5.b. Regulatory Capital Requirements

Under the group supervision rules promulgated by the Bermuda Monetary Authority, the Group is required to maintain available statutory capital adequacy and surplus at a level equal to or in excess of its ECR, which is established by reference to either the BSCR or an approved internal capital model. In addition, under the group supervision rules the Group is required to maintain available statutory capital adequacy and surplus at a level equal to or in excess of the MSM.

Item 5.b.(i) ECR and MSM for the Reporting Period

As of the year ended December 31, 2017 the Group's ECR was $2.0 million and its MSM was $1.7 million.

For the year ended December 31, 2017, ESIL's ECR was $2.0 million and its MSM was $0.7 million.

Item 5.b.(ii), (iii) and (iv) Compliance

The Group and its designated insurer, ESIL has consistently remained in compliance with the ECR and MSM requirements.

Item 5.c. Approved Capital Model

The Group utilizes the regulatory capital model as prescribed by the BMA (the BSCR) in determining its ECR. This same approach is utilized for regulatory reporting purposes for ESIL.

Part 6. Subsequent Event

Acquisition of Lexon Security Group LLC

On January 3, 2018, Sompo International announced it had reached an agreement to purchase the operating subsidiaries of Lexon Surety Group LLC ("Lexon") for $200.0 million plus the Undistributed Earnings from January 1, 2017 through the date of close. Lexon, the second largest independent surety insurer in the U.S., is comprised of Lexon Insurance Company, Bond Safeguard Insurance Company and Fortress National Group LLC. Lexon has been offering a broad array of commercial and contract surety bonds, court and probate bonds, and U.S. custom bonds through a nationwide network of agents since 2001. The transaction is expected to be completed on June 1, 2018.

Acquisition of A&A, S.r.l.

On February 8, 2018, Sompo International announced that it had reached an agreement to purchase A&A, S.r.l. ("A&A"), a leader in the Italian agriculture insurance market since 1996, for a base purchase price of Euro 10.0 million plus one or more variable contingent amounts in accordance with the Sales and Purchase Agreement. The transaction closed on March 27, 2018.

Establishment of SI Insurance (Europe), SA

On March 27, 2018, Sompo International received regulatory approvals from the Ministry of Finance of Luxembourg to establish a new subsidiary, SI Insurance (Europe), SA (SIIE). The formation of SIIE provides the company with a well-capitalized underwriting platform to service its clients across the European Economic Area after Brexit and a foundation for strategic expansion across Continental Europe. Headquartered in Luxembourg, SIIE will extend operations to include Belgium, France, Germany, Italy and Spain, subject to regulatory approvals.

Integration of Sompo Japan Nipponkoa Insurance Company of Europe Limited and European Operations

Effective May 1, 2018, Sompo Japan Nipponkoa Insurance Company of Europe Limited ("SJNKE"), a UK registered insurance company, became a wholly-owned subsidiary of Sompo International. The integration of SJNKE was completed to align Sompo Holdings' European insurance and reinsurance subsidiaries under one umbrella. Once SIIE becomes operational later in 2018, SJNKE's continental European business will transfer to SIIE. Sompo International will maintain its presence in the Lloyd's market and its current offices in London and continental Europe.

Change of Director

Effective March 1, 2018, Shigeru Ehara retired from the Sompo International Board of Directors and was replaced by Junichi Tanaka. *See Item 2.a. Parent Board and Senior Executives and Part 2.b.(ii). Professional Qualifications.*

There are no other material events.

This document is dated May 30th, 2018.

Part 7. Declaration

We, the Chief Executive Officer and Chief Financial Officer of the Group do hereby certify that to the best of our knowledge and belief, this financial condition report fairly represents the financial condition of Sompo International Holdings Ltd. and Endurance Specialty Insurance Ltd. in all material respects.

CHIEF EXECUTIVE OFFICER

/s/ JOHN R. CHARMAN May 30, 2018
John R. Charman

CHIEF RISK OFFICER

/s/ CHRISTOPHER B. GALLAGHER May 30, 2018
Christopher B. Gallagher

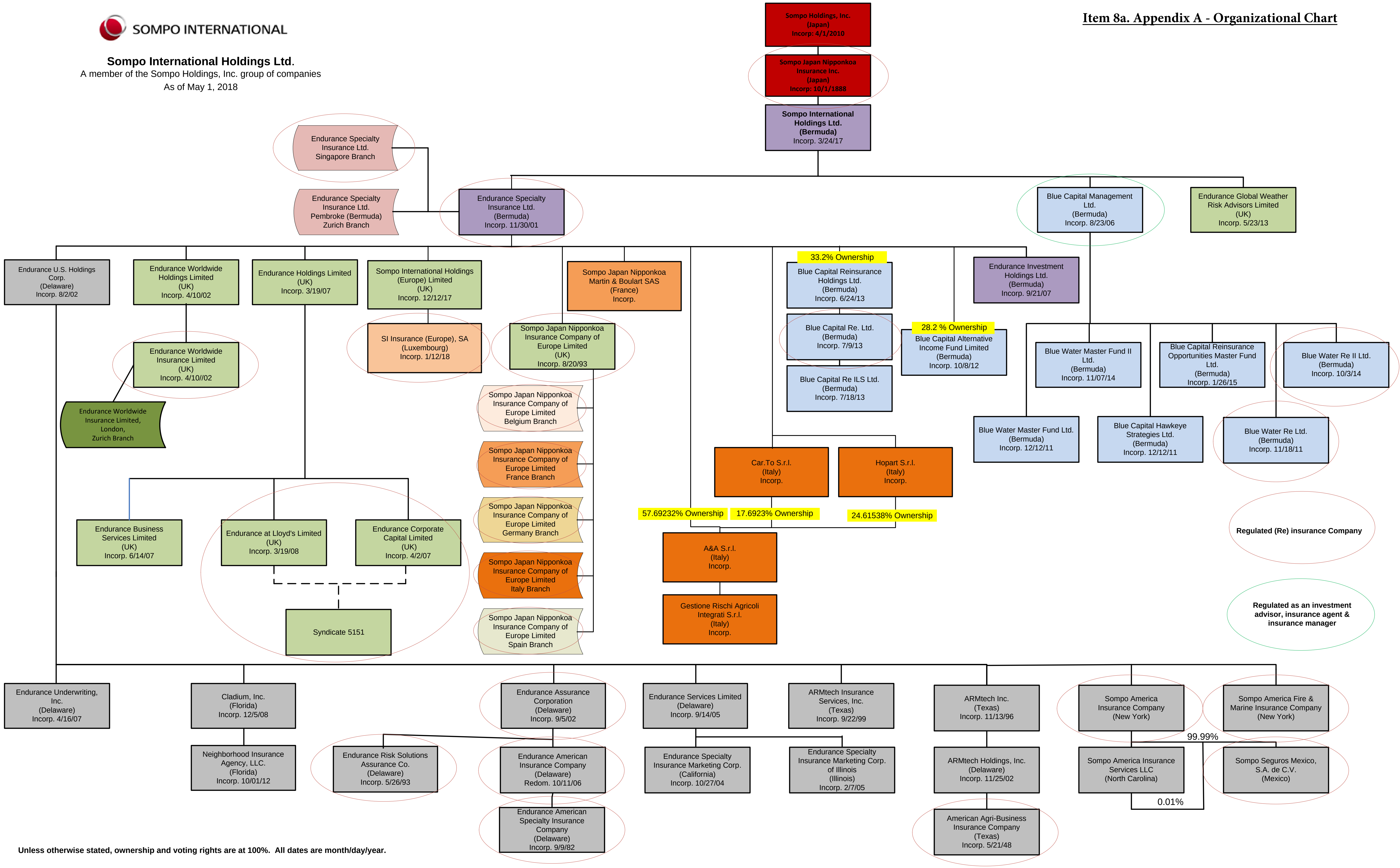
Part 8. Appendix

Item 8.a. Appendix A - Organizational Chart

SOMPO INTERNATIONAL

Item 8a. Appendix A - Organizational Chart

Sompo International Holdings Ltd.
A member of the Sompo Holdings, Inc. group of companies
As of May 1, 2018



Unless otherwise stated, ownership and voting rights are at 100%. All dates are month/day/year.