Financial Condition Report

Sompo International Holdings Ltd.

For the year ended December 31, 2019

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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 (the "BMA"). 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"). In line with our BMA reporting requirements for 2019, the financial information, consolidated financial results and financial position included in this report (inclusive of the enhanced capital requirement and minimum solvency margin) are those of Endurance Specialty Insurance Ltd. ("ESIL") and its subsidiaries on a consolidated basis. ESIL is the Bermuda domiciled, Class 4, designated insurer of the Group. All other information provided in this report for the Group refers to the entire group of companies of Sompo International. Refer to the Organizational Chart - Appendix A. All financial information reported is on the basis of International Financial Reporting Standards except where noted. The amounts reported in tables are expressed in thousands of United States dollars, except for ratios, share and per share amounts. The amounts reported in text are expressed in millions of United States dollars.

Part 1. Business & Performance

Item 1.b. Group Supervisor

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

Sompo Holdings, Inc. ("Sompo Holdings"), the parent company to Sompo International, is a publicly-owned holding company, formed under the laws of Japan, whose capital stock is traded on the Tokyo Stock Exchange. It is regulated by the Japanese Financial Services Agency (JFSA). On May 9, 2017, the BMA invoked sub-group supervision on Sompo International Group. JFSA will continue to be the Group Supervisor for Sompo Group.

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 regulated and non-regulated companies. Sompo International was incorporated in Bermuda in March 2017 and is a wholly owned subsidiary of Sompo Holdings.

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.

Item 1.e. Group Structure

As of May 31, 2020 the Group consists of sixty four various entities domiciled in across North America, South America, Europe and Asia, as noted in Appendix A. The Group underwrites property and casualty commercial insurance and reinsurance and personal lines insurance on a global basis.

Item 1.f. Business Written

ESIL monitors the performance of its underwriting operations through review of discrete information related to its two reportable segments, Insurance and Reinsurance. Within each of these segments, the Company writes a variety of different types of insurance and reinsurance. For reporting purposes, management has combined its many business units, including within the Insurance segment - agriculture, casualty and other specialty, professional lines and property, marine/energy and aviation; and within the Reinsurance segment - catastrophe, property, casualty, professional lines and specialty. Management believes that the businesses combined within these business lines have similarities that make it appropriate to evaluate each as a group.

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. ESIL 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 following table provides a summary of ESIL and subsidiaries' segment revenues and results for the year ended December 31, 2019:

	Insurance	Reinsurance	Total
Revenues			
Gross premiums written	$ 4,348,862	$ 2,439,056	$ 6,787,918
Ceded premiums written	(2,398,443)	(487,254)	(2,885,697)
Net premiums written	1,949,583	1,952,639	3,902,221
Net premiums earned	1,867,677	1,715,766	3,583,443
Expenses			
Net losses and loss expenses	1,330,524	1,027,767	2,358,291
Acquisition expenses	287,817	440,779	728,596
General and administrative expenses	190,110	98,509	288,619
Other underwriting income	(3,559)	(2,829)	(6,388)
	1,804,892	1,564,226	3,369,118
Underwriting gain (loss)	$ 62,785	$ 151,540	$ 214,325
Net investment income			305,894
Corporate expenses			(51)
Net foreign exchange gains			(5,162)
Net realized and unrealized losses			292,400
Amortization of intangibles			(50,555)
Financing costs			(16,333)
Loss on investment in associate			(707)
Loss before income taxes			$ 739,811
Net loss ratio	71.2%	59.9%	65.8%
Acquisition expense ratio	15.4%	25.7%	20.3%
General and administrative expense ratio (1)	10.2%	5.7%	8.1%
Combined ratio	96.8%	91.3%	94.2%

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

The following table provides ESIL and subsidiaries' gross premiums written by segment and line of business for the years ended December 31, 2019 and 2018:

Business Segment	2019	2018
Insurance		
Agriculture	$ 798,744	$ 831,846
Casualty and other specialty	1,279,054	1,340,882
Professional lines	934,237	638,439
Property, marine/energy and aviation	1,336,827	1,153,576
Total Insurance	4,348,862	3,964,743
Reinsurance		
Catastrophe	526,238	559,389
Property	332,743	254,220
Casualty	350,296	306,152
Professional lines	509,735	293,161
Specialty	720,045	583,083
Total Reinsurance	2,439,057	1,996,005
Total	$ 6,787,919	$ 5,960,748

Increases in gross premiums written for ESIL and subsidiaries for 2019 versus 2018 were driven by the following factors:

- An increase in gross premiums written in the Professional Lines business in the Insurance segment, due to the addition of teams in the US Professional Lines segment who are writing new business, in addition to rate increases;
- An increase in gross premiums written in the property, marine/energy & aviation line of business in the Insurance segment due to new business written and rate increases;
- An increase in gross written premiums written in the professional lines of business in the Reinsurance segment, due to new business written and certain premium adjustments from prior periods;
- An increase in gross premiums written in the specialty line of business in the Reinsurance segment due to increased line shares and new business written by SIIE.

Net premiums written in 2019 increased $582 million, or 17.5%, compared to 2018 as a result of growth in both the Insurance and Reinsurance segments. Insurance premiums grew due to the addition of new entities (i.e. SIIE), expanded underwriting teams writing new business and improvements in pricing. Reinsurance premium growth was from positive premium adjustments, modest price increases and new business in 2019. Net premiums earned in 2019 increased $497 million, or 16.1% compared to 2018, principally due to the increase in net premiums written.

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 ESIL and subsidiaries investments by class as of the years ended December 31, 2019 and 2018 was as follows:

	December 31, 2019	December 31, 2018
Short-term investments, at FVTPL (designated as such upon initial recognition)	$ 35,380	$ 80,805
Equity securities, at FVTPL (designated as such upon initial recognition)	195,802	245,443
Alternative funds, at FVTPL (designated as such upon initial recognition)	627,334	698,720
Fixed maturity investments, at FVTPL (designated as such upon initial recognition)		
U.S. government and agencies securities	1,123,713	1,012,978
U.S. state and municipal securities	96,285	96,386
Foreign government securities	315,366	469,150
Government guaranteed corporate securities	23,978	59,582
Corporate securities	3,099,878	2,503,763
Residential mortgage-backed securities	2,339,020	1,866,947
Commercial mortgage-backed securities	725,376	733,298
Collateralized loan and debt obligations	433,615	396,226
Asset-backed securities	566,488	615,949
Total fixed maturity investments	8,723,719	7,754,279
Total investments	$ 9,582,235	$ 8,779,247

December 31, 2019	December 31, 2019	December 31, 2018
Hedge funds	$ 293,721	$ 443,744
Private investment funds	188,715	142,895
Other investment funds	144,898	112,081
Total alternative funds	$ 627,334	$ 698,720

Net investment income for ESIL and subsidiaries by asset class for the years ended December 31, 2019 and 2018 and was as follows:

	2019	2018
Cash and cash equivalents	$ 22,719	$ 14,622
Fixed income investments[(1)] at FVTPL	266,663	235,797
Equity securities at FVTPL	6,625	9,012
Alternative funds at FVTPL	28,141	(28,737)
Sub-total	$ 324,148	$ 230,694
Investment management expenses	(18,254)	(19,566)
Net investment income	$ 305,894	$ 211,128

(1) Fixed income investments comprises of short-term investments and fixed maturity investments.

During the years ended December 31, 2019 and 2018 ESIL and subsidiaries recognized net realized and unrealized gains on its investments and derivatives of:

	2019	2018
Fixed income investments at FVTPL	$ 29,310	$ (41,738)
Equity securities at FVTPL	13,617	3,471
Derivative financial instruments	118	(3,023)
Disposal of subsidiary	(959)	—
Net realized gains (losses) on investments	$ 42,086	$ (41,290)

	2019	2018
Fixed income investments at FVTPL	$ 239,420	$ (112,628)
Equity securities at FVTPL	11,829	(40,309)
Derivative financial instruments	(935)	966
Net unrealized gains (losses) on investments	$ 250,314	$ (151,971)

The annualized net earned yield and total return of ESIL and subsidiaries investment portfolio for the years ended December 31, 2019 and 2018 and market yield and portfolio duration as of December 31, 2019 and 2018 were as follows:

	2019	2018
Annualized net earned yield(1)	3.18%	2.69 %
Total return on investment portfolio(2)	6.41%	0.17 %
Total return on investment portfolio analyzed:		
Short term investments	1.94%	1.64 %
Fixed maturity investments	6.65%	0.49 %
Equity securities	28.16%	(2.71)%
Other investments	3.81%	0.33 %
Market yield(3)	2.48%	3.47 %
Portfolio duration(4)	2.88 years	3.48 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 market 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.

Investment portfolio total return was 6.41% in 2019. The increased positive return compared to 2018 was driven by falling interest rates within the fixed income portfolio and overall higher returns on alternatives.

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

ESIL and subsidiaries' reported net losses and loss expenses by segment and line of business for the years ended December 31, 2019 and 2018 are as follows:

Business Segment		**2019**		**2018**
Insurance				
Agriculture	$	353,136	$	260,341
Casualty and other specialty		423,928		400,533
Professional lines		211,484		190,183
Property, marine/energy and aviation		341,976		318,257
Total Losses Incurred		1,330,524		1,169,314
Prior Year Favorable (Adverse) Loss Development		(17,786)		13,507
Current Accident Year Losses Incurred	$	1,312,738	$	1,182,821
Net loss ratio		71.2%		72.2%
Reinsurance				
Catastrophe	$	103,462	$	252,934
Property		173,700		182,213
Casualty		221,820		192,610
Professional lines		244,683		171,405
Specialty		284,103		162,259
Total Losses Incurred		1,027,768		961,421
Prior Year Favorable (Adverse) Loss Development		(20,982)		4,509
Current Accident Year Losses Incurred	$	1,006,786	$	965,930
Net loss ratio		59.5%		65.6%

In the Insurance segment the net loss ratio decreased by 0.9 percentage points in 2019 compared to 2018. The general decrease in loss ratio relates to the lower loss ratio of U.S Property and Specialty business units, along with lower attritional losses for Professional Lines.

In the Reinsurance segment, the net loss ratio decreased by 5.7 percentage points in 2019 compared to 2018. The current accident year loss ratio decreased in 2019 due to lower levels of catastrophe related activity, with minor offsetting adverse development.

ESIL and subsidiaries participate 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 ESIL's own loss reporting patterns and loss history related to its short tail business, including catastrophe reinsurance and property insurance and reinsurance business lines, ESIL 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 actuaries, approved by the Group's Loss Reserve Committee and reflect management's best estimate of ultimate losses.

Acquisition Expenses

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.

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.

Item 2.a. Parent Board and Senior Executives

Sompo International Holdings Ltd.

Sompo International's Board of Directors currently consists of five directors as follows:

- John R. Charman, Chairman of the Board
- Katsuyuki Tajiri
- Mikio Okumura
- Christopher B. Gallagher
- Yuji Kawauchi (appointed January 2020)

Effective January 2020, Nigel Frudd resigned from the Board of Directors and as a senior executive.

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

- Mikio Okumura, Chief Executive Officer
- John V. Del Col, General Counsel and Secretary
- Christopher B. Gallagher, CEO, Commercial P&C
- Michael J. McGuire, Chief Financial Officer
- Christopher A. Donelan, Chief Executive Officer, Global Reinsurance (appointed March 2020)
- Carrie Rosorea, Chief Accounting Officer

Effective March 2020, Stephen H.R. Young resigned as a senior executive.

Endurance Specialty Insurance Ltd. ("ESIL")

ESIL's Board of Directors currently consists of three members. The current directors are as follows:

- John R. Charman
- John V. Del Col
- Christopher B. Gallagher

There are four senior executives of ESIL as follows:

- John V. Del Col, General Counsel
- Christopher B. Gallagher, CEO Commercial P&C
- Michael J. McGuire, Chief Financial Officer
- Carrie Rosorea, Chief Accounting Officer

Effective March 2020, Stephen H.R. Young resigned as a senior executive.

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 & Governance 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 current Board of Directors and its committees and the membership of each committee is noted as follows:

Board	Audit & Governance Committee	Nomination & Compensation Committee	Finance Committee	Risk Committee
• John R. Charman • Christopher B. Gallagher • Yuji Kawauchi • Katsuyuki Tajiri • Mikio Okumura	• John R. Charman • Yuji Kawauchi • Takashi Izuhara	• John R. Charman • Brian W. Goshen • Shinichi Hara • Katsuyuki Tajiri • Mikio Okumura	• John R. Charman • Mikio Okumura • Michael McGuire • Katsuyuki Tajiri • Kenichi Yoshida	• John R. Charman • Christopher B. Gallagher • Mikio Okumura • Takashi Izuhara • Yuji Kawauchi

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 & 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 & 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 & 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 & 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.

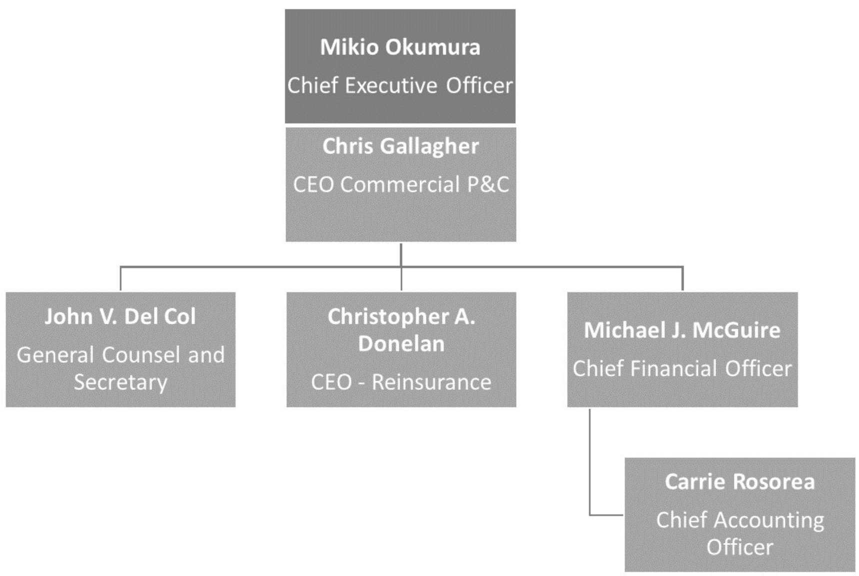
The Risk Committee of the Group oversees the Group's risk management framework, with the purpose of identifying and managing the risks that threaten the Group and its solvency, optimizing the Group's risk based capital position, monitoring the Group's risk adjusted returns on capital and reviewing with 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 addition, the Risk Committee is responsible for monitoring the risk of Catastrophe Risk Correlation & Aggregation.

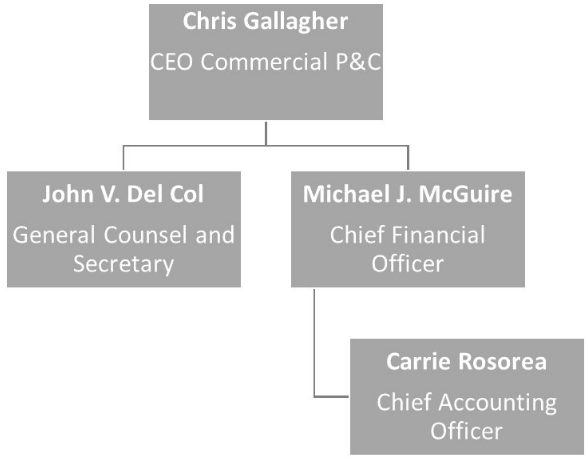
Sompo International Holdings Ltd.

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:



<u>Item 2.a.(ii) Remuneration Policies and Performance-Based Criteria</u>

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), are eligible to earn annual incentive compensation.

The Nomination & 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 ultimate 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.

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

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.

<u>Item 2.a.(iv) Shareholder Controllers and Material Transactions</u>

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 & 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 & 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 & 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 & 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 & 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 & 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 & 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 - 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 founder and served as the Chief Executive Officer and President of Axis Capital Holdings Limited from its inception in 2001 until 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.

Katsuyuki Tajiri - Board Member

Katsuyuki Tajiri was appointed an Executive Director of Sompo International in January 2019. He joined Sompo Holdings in 1990 and has held various management positions during his almost 30 years of service to the company, including planning roles in new product development, direct marketing, global strategy and more recently as Executive Director and COO of Sompo Holdings (Asia) which manages Sompo's retail business in the ASEAN countries. In 2018, he was appointed Executive Officer of a new division of Sompo International responsible for laying the foundation for an integrated retail platform, which primarily focuses on personal lines products. Mr. Tajiri holds a Bachelor of Arts degree from Sophia University.

Mikio Okumura - Chief Executive Officer of Sompo International Holdings Ltd. and Board Member

Mikio Okumura was appointed an Executive Director of Sompo International in March 2019. An executive officer of Sompo Holdings, Inc. since April 2015 and director since June 2016, he was appointed Group Chief Strategy Officer in April 2019. Previously, he served as business owner of Nursing Care & Healthcare at Sompo Holdings since April 2017 and Chairman and Executive Officer of Sompo Care Inc. Mr. Okumura joined the company in Brazil in 1989 and, throughout his thirty year tenure with Sompo Holdings, has held leadership roles within investment banking, the overseas insurance business, and corporate planning.

Christopher B. Gallagher - Chief Executive Officer, Sompo International Commercial P&C and Board Member

Christopher Gallagher was named Chief Risk Officer and Group Actuary, effective September 2015, responsible for Sompo International's Enterprise Risk Management and Actuarial Functions. He was also appointed Executive Director of Sompo International Holdings Ltd. in February 2019 and Chief Executive Officer of Sompo International's Commercial Property and Casualty Business. 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.

Yuji Kawauchi - Board Member

Yuji Kawauchi is a Non-Executive Director and currently serves as Executive Vice President, General Manager, Global Business Planning Department of Sompo Holdings, Inc. Mr. Kawauchi joined Sompo Holdings in 1988 and has held various management positions in his over 30 years of service to the company, primarily in the areas of corporate planning and global business strategy and in executive leadership roles in the company's South Asia and East Asia regions. In 2019, he was appointed to his current role leading business planning for Sompo Holdings on a global basis. Mr. Kawauchi holds a degree from Tokyo Metropolitan University, Faculty of Law.

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

Mikio Okumura
(*as noted above*)

Christopher B. Gallagher
(*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.

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.

Christopher A. Donelan

Chris Donelan was appointed Chief Executive Officer, Global Reinsurance in March 2020, having previously served as the Deputy CEO for Global Reinsurance, Chairman of North America Reinsurance and CUO of Global Casualty Reinsurance. Prior to joining the company in October 2013, Mr. Donelan held senior underwriting, claims and reinsurance management positions with various insurance and reinsurance organizations. With nearly 30 years of industry experience, he has a successful track record of building and leading global reinsurance portfolios. Mr. Donelan holds a MBA in Insurance and Risk Management from St. John's University and holds both the Chartered Property Casualty Underwriter and Associate in Reinsurance designations.

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.

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*)

Christopher B. Gallagher
(*as noted above*)

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

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

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

Michael J. McGuire
(*as noted above*)

Christopher B. Gallagher
(*as noted above*)

Carrie Rosorea
(*as noted above*)

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

ERM framework is rooted in the Group's risk appetite and its system of governance with responsibilities for identifying, managing, monitoring and taking risk. Risk appetite, as authorized by the Board of Directors, represents the risk that the Group is willing to accept. The Group employs a system of quantitative risk limits of key risks both on an aggregated and stand-alone basis to provide transparency and understanding of its risk profile. To support the governance framework, the Group has developed and documented a risk policy that articulate the roles and responsibilities for risk management throughout the organization, including assigning key risks and associated controls to the various governance committees.

On a group basis, the Risk Team monitors the following:

- Any changes to the risk profile;
- Adherence to the risk appetites and tolerances;
- Capital position relative to internal requirements and the requirements of regulators and rating agencies;
- Full distribution of results from the Group Capital Model ("GCM");
- PMLs of significant underwriting activities;
- Accumulation of credit risk exposure;
- Reserve position under current and stressed scenarios;

- Ceded reinsurance arrangements by lines of business;
- Stress scenarios for investment portfolios against a variety of macro-economic conditions; and
- Any developments in operational risk, which includes Group, Strategic, Reputational and Legal Risk.

Any findings are reported to the Management Risk Committee (“MRC”) quarterly and the Board Risk Committee (“BRC”) semi-annually.

The Group maintains a central listing of the Group’s material risks in a risk register that will define the Group’s and the Group Companies’ Risk Universe. The key risk drivers documented within the risk register is updated annually or more frequently as required by the risk team in conjunction with the risk owners. These key risk drivers are mitigated by a documented control framework of policies, procedures, processes and controls used to manage risk. The control framework is assessed at least on an annual basis or more frequently as required.

Senior management of the Group has access to the risk register and uses it to monitor key developments which may affect the Group’s ability to reach its business goals. The assessment of the risks is performed using similar and common standards for evaluating risks, proper control of such risks, and the reporting of all risks that have a significant potential to have a material adverse impact on the Group’s ability to reach its business goals. The MRC reviews the risk register no less frequently than quarterly and reports significant changes and the status of material risks to the BRC.

The Group assesses its risk profile at least on an annual basis that permits the Group to report its risks and risk management framework. This process is called the Own Risk & Solvency Assessment ("ORSA"). The Bermuda Monetary Authority refers to this process as the Group Solvency Self-Assessment (for Groups) or Commercial Insurer’s Solvency Self-Assessment (for licensed insurers).

Material risks and on-going capital needs in light of an evolving internal and external risk environment or arising from revisions to the business strategy or through marketplace changes are evaluated through the ORSA process.

The ORSA process assesses and describes the adequacy of the Group’s risk management and current and future solvency positions under normal and stressed scenarios and whether the Group’s risk management culture embeds in the Group’s business decision-making a forward looking assessment of business viability and the impact of business decisions on the Group’s risk profile.

In particular the ORSA process supports the Group’s: understanding of the risk profile of the Group and each Group Company; performance prospects of the Group and on-going solvency requirements of each Group Company; with regard to the Group’s stated strategy, whether the Group’s risk appetite and tolerances are consistent with such strategy; and with regard to potential shocks or risks the Group may face over a strategic planning horizon of five years and their impact on the Group’s strategy and goals. The process:

- Involves both a quantitative and qualitative evaluation of existing, strategic and emerging risks, including stress and scenario testing;
- Provides for the regular determination of the current and future solvency position and the determination of the quality and quantity of the funds necessary to ensure its capital needs are met at all times.
- Is appropriately evidenced, documented and described in the reporting that is prepared at least annually and reported to the BRC.

The Bermuda Solvency Capital Requirement ("BSCR"), which encompasses the primary risk exposure areas as stated in Item 3(a), 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 its business. The framework that has been developed applies a standard measurement format to the risk associated with the Group's assets, liabilities and premiums, including a formula to take account of catastrophe risk exposure.

The BRC has ultimate responsibility for the ORSA. The Risk function has day-to-day responsibility for conducting the ORSA process and reporting the results of such process with assistance from the actuarial and other supporting functions.

At least annually (or more frequently as required by the MRC or BRC), the Risk function compiles the outputs from the underlying processes within the scope of the ORSA to prepare a formal annual ORSA report to the MRC and BRC. The Risk function maintains a record of each report which documents the MRC and BRC conclusions and actions taken in response to the ORSA findings.

Key data used to support the ORSA process is subject to review by key function holders and key data sources. ORSA reporting provides transparency as to any uncertainty in the assessments associated with data deficiencies, biases or issues of timeliness.

The ORSA reporting is also used to demonstrate the results of self-assessment of the risks to the BMA, and also comply with laws and regulations applicable.

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 & Governance Committee. The Audit & Governance Committee's oversight of internal controls includes the following responsibilities, in accordance with the Group's Audit & Governance 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 purpose of the Internal Audit's (IA) function 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 & Governance 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 the Group Chief Reserving Officer are responsible for the oversight of these functions with the support of the 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, which consists of representatives of various disciplines from within the Group.

The Reserving analysis for the Group's business units uses data from the claims and underwriting data systems. This data is subject to review and quality checks by members of the Information Technology, Finance, and Actuarial teams. 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 summary of the reserving analysis and conclusions is presented to the Group's loss reserve committee.

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 Loss Reserve Committee 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. The Reinsurance segment pricing roll-up is used as a key input to the Reserving team's selection of initial expected loss ratios. In addition, the Insurance segment's rate monitoring is distributed to the Company's management on a monthly basis.

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's 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 Group is exposed to a broad landscape of risks which are summarized into the following groups:

- Catastrophe ("Cat") Risk: Cat Risks are split between natural catastrophes and manmade events, e.g., cyber, marine, aviation, terrorism, or credit default. The Group's major natural Cat exposures are U.S. hurricane, California earthquake, Pacific Northwest earthquake, U.S. tornado/hail, European wind, UK flood, Japan wind and Japan earthquake. Modelled Cat risks consider extreme events and adverse scenarios including the risk of aggregation. The Group also considers process and parameter risk for modelled risk, as well as unmodelled regions and perils.

- Underwriting Risk: Underwriting Risk encompasses exposures derived from underwriting new or renewal (re)insurance business including the management of concentration (aggregation) of these exposures within and across business units. The primary risks underlying Underwriting 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 across the business lines.

- Underwriting Risk broadly encompasses the risks of estimation error and estimation bias throughout pricing activities. Pricing-related risks include, for example, misestimation arising from incorrect, inadequate or inappropriate data; incorrect or inappropriate application or operation of models; incorrect expert actuarial judgment; incorrect parameterization of models; unexpected changes in the legal environment; and incorrect reporting or interpretation of results.

- Loss Reserving Risk: Reserving-related risks include those risks listed for Underwriting Risk, but also include misestimation arising from latent sources of risk and delays in the emergence of loss information. Reserving risk encompasses all aspects of the loss reserve estimation process in terms of the potential for an adverse change in the valuation of (re)insurance liabilities including the impact of adverse events and exogenous developments, inflation, foreign exchange and their correlating effects across accident and calendar years.

- Investment Risk: Investment Risk includes all facets of risk related to the Group's invested assets. These are traditionally split into market risks (i.e. interest rate movements, bond spread volatility, equity and alternative investments price volatility), credit risk (i.e. bond default), liquidity risk, foreign exchange risk, and asset concentration risk.

- Counterparty Risk: Counterparty 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.

- 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 employee or third-party fraud, business interruptions, inaccurate processing or transactions, IT failure, the loss of key employees without appropriate successor, and non-compliance with reporting obligations.

- Group Risk: Group Risk represents the risk associated with being a member of the group. These are additional risks to which the Group is exposed which arise from the interrelationships that form due to ownership and management structure of the Group, including its relationship to its ultimate corporate parent, Sompo Holdings. Types of risks include material intra-group transactions and exposures, and managing accumulation and contagion risks within the Group.

- Strategic Risk: Strategic risk is the risk of an unexpected negative change in the Group's value, arising from the adverse effect of management decisions on both business strategies and their implementation. This includes the failure to devise or adapt a business strategy in the light of changes in internal or external environment. Strategic risk includes the risk of missed business opportunities, non-achievement of corporate strategy and impact on competitive positioning and the value of the Group brand. It includes the risk of rating agency downgrades from poor risk management and inadequate capitalization.

- Reputational Risk: Reputational risks include failure to meet stakeholders' reasonable expectations of the organization's performance and behavior.

- Legal Risk: Legal risk includes the risk of failing: (i) to identify new or modified laws and regulations applicable to the business segments, corporate, and the Group; or (ii) to follow external laws/regulations and internal policies, processes, and standards. This risk is mitigated and controlled by compliance with the Group's internal controls and procedures.

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. The Group seeks third party reinsurance, among other circumstances, to ensure the Group's risk profile stays within its 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 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 the Sompo International Enterprise Risk Management Policy and the Enterprise Risk Management Framework.

The BRC 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 BRC is the MRC which is chaired by the Group Chief Risk Officer. The purpose of the MRC 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 MRC reports on these activities on a semi-annual basis to the BRC.

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.

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

- Underwriting Risk: Underwriting authority is delegated to the managers of the Group's lines of business in each business segment and to underwriters in accordance with corporate risk tolerances, prudent practice and underwriting capabilities. Detailed letters of authority are issued to each underwriter. These letters of authority reference the Group's operating guidelines and a description of the analytic process to be followed. The letters of authority include, as appropriate, referral requirements specific to each line of business, terms, conditions, risk exposures, transactional situations, limits and premium capacity. The Group's pricing guidelines are communicated to all business units and each individual underwriter and are include maximum combined ratio targets and minimum returns on risk-based capital, by line of business, with exceptions permitted only upon approval of senior management as noted in the guidelines. This includes criteria for referral of transactions to the Chief Risk Officer for review.

The Group has a disciplined approach to underwriting and risk management that relies heavily upon the collective underwriting expertise of the Group's management and staff. This expertise is in turn guided by the following underwriting principles:

- the Group will underwrite and accept only those risks it knows and understands;
- the Group establishes pricing parameters, set its own independent pricing and conduct a risk review on risks it accepts; and
- the Group generally accepts those risks that are expected to earn a return on capital commensurate with the risk they present.

Before the Group reviews any natural catastrophe exposed insurance or reinsurance proposal, it considers the appropriateness of the client, including the quality of its management and its risk management strategy. In addition, the Group prefers those proposals that include significant information on the nature of the perils to be underwritten and detailed aggregate information as to the location or locations of the risks covered. The Group further requests information on the client's loss history for the perils being insured or reinsured, together with relevant underwriting considerations. If a proposal meets the preceding underwriting criteria, the Group then evaluates the proposal in terms of its risk/reward profile to assess the adequacy of the proposed pricing and its potential impact on its overall return on capital as well as its corporate risk objectives and tolerances.

The Group has fully integrated its internal pricing actuarial staff into the underwriting and decision-making process. The Group uses in-depth actuarial and risk analyses to evaluate contracts prior to authorization. In addition to internal actuaries and risk professionals, the Group makes use of outside consultants as necessary to develop appropriate analyses for pricing.

Separate from the Group’s natural catastrophe exposed businesses, it underwrites and accepts property, casualty and specialty insurance and reinsurance business. The Group performs actuarial and risk analysis on these businesses using commercial data and models. As with the Group’s natural catastrophe exposed businesses, it seeks to identify those casualty and specialty exposures that are most likely to be simultaneously influenced by significant events. These exposures are then jointly tracked to ensure that the Group does not develop an excessive accumulation of exposure to that particular type of event.

In addition to the above technical and analytical practices, the Group’s underwriters use a variety of tools, including specific contract terms, to manage its exposure to loss. These include occurrence limits, aggregate limits, reinstatement provisions and loss ratio caps. Additionally, the Group’s underwriters use appropriate exclusions and terms and conditions to further eliminate particular risks or exposures that the Group’s underwriting team deems to be outside of the intent of the coverage it is willing to offer.

In certain cases, the insurance and reinsurance risks written and assumed by the Group are partially reinsured with third party reinsurers. The amount of reinsurance protection varies by segment and line of business based on a number of factors, including market conditions. The benefits of reinsuring the Group’s risks include reducing exposure on individual risks, improving the balance of the Group's portfolio, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. Reinsurance ceded does not legally discharge the Group from its liabilities to the original policyholder in respect of the risk being reinsured.

- Reserving Risk: Establishing reserves for losses and loss expenses, in particular reserves for the Group's long-tail lines of business, constitutes a significant risk for the Group. Loss reserves do not represent an exact calculation of liability, but instead are estimates of what the Group expects the ultimate settlement and administration of claims will cost. To the extent the Group determines that losses and loss expenses are estimated to exceed the loss reserves recorded in the Group’s financial statements, the Group will be required to increase its reserve for losses and loss expenses, which in turn could cause a material reduction in the Group's profitability and capital.

The Group manages the risk inherent in estimating the Group's reserves for losses and loss expenses in a variety of ways. First, the Group underwrites a balanced and diversified portfolio of business, which reduces the Group's susceptibility to reserving errors that may be associated with any one line or type of business. Second, where loss development uncertainty exists, the Group may use purchased reinsurance to reduce the Group's exposure to such loss development uncertainty. Finally, in the Reinsurance segment, the Group conducts active, regular audits of its ceding company clients with the intent of quickly and thoroughly identifying losses assumed by the Group.

The Group’s reserving process also serves to mitigate the risk associated with the Group's loss and loss expense reserve estimates. The Group seeks to base its loss reserve estimates upon actuarial and statistical projections derived from the most recently available data, as well as current information on future trends in claims severity and frequency, judicial theories of liability and other factors. The Group continually refines both its loss reserve estimates and the means by which its loss reserve estimates are derived, continually integrating developing loss experience, reported claims and claims settlements.

- Catastrophe ("Cat") Risk: To achieve the Group’s catastrophe risk management objectives, it utilizes a variety of proprietary and commercially available tools to quantify and monitor the various risks it accepts.

The Group’s catastrophe modeling tools, which include both proprietary and licensed software, use exposure data provided by the Group’s insureds and ceding company clients to simulate catastrophic losses. The Group takes an active role in the evaluation of a commercial catastrophe model, providing feedback to the modeling company to improve the effectiveness of their model. The Group uses modeling not just for the underwriting of individual transactions but also to optimize the total return and manage the aggregate risk of the Group’s underwriting portfolio. The Group has specific requirements as to the quality and levels of detailed exposure data to be provided by the Group's clients and have an expressed preference for data at the zip code or postal code level or finer. Data provided at more summary levels, such as counties or Catastrophe Risk Evaluation and Standardizing Target Accumulations (CRESTA) zones, is surcharged for increased uncertainty, where appropriate. The Group declines business in which it believes the data provided is insufficient to make an appropriate analysis.

Data output from the software described above is incorporated in the Group's proprietary models. The Group's proprietary systems include those for modeling a variety of insurance and reinsurance risks including those associated with property, catastrophe, agriculture, and other specialty risks, various casualty and specialty pricing models, as well as the Group's proprietary portfolio risk management and capital allocation models. These systems allow the Group to monitor its pricing and risks on a contract by contract basis in its segments and business lines.

Data output from both the Group's licensed and proprietary software models is used to estimate the amount of premium that is required to pay the long-term expected losses under the proposed contracts. The data output is also used to estimate correlation between both new business and the Group's existing portfolio. The degree of correlation is used to estimate the incremental capital required to support the Group's participation on each proposed risk, allowing it to calculate a return on consumed capital. Finally, the data output is used to monitor and control the Group's cumulative exposure to individual perils across all of the Group's businesses.

The Group's pricing of catastrophe reinsurance contracts is based on a combination of modeled loss estimates, actual ceding company loss history, charges for potential unmodeled exposures, fixed and variable expense estimates and profit requirements. The profit requirements are based on incremental capital usage estimates described above and on the Group's required return on consumed capital.

- Investment Risk: Investment risk encompasses the risk of loss in the Group's investment portfolio potentially caused by the adverse impact on its invested assets from fluctuations in interest rates, equity prices, credit spreads, foreign currency rates, inflation and other market changes.

The Group manages its investment risks through both a system of limits and a strategy to optimize expected risk and reward. To ensure diversification of the Group's investment portfolio and to avoid excessive aggregation of risks, 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 manages its interest rate risk through an asset liability management strategy that involves the selection of investments with appropriate characteristics, such as duration, yield, currency and liquidity that are tailored to the anticipated cash outflow characteristics of the Group's liabilities and the anticipated interest rate environment. The Group manages foreign currency risk by seeking to match the Group's liabilities under insurance and reinsurance policies that are payable in foreign currencies with assets, such as cash and investments or currency options and forwards, that are denominated in such currencies. In order to limit the Group's exposure to credit risk, the Group's Investment Policy is to invest primarily in debt instruments of high credit quality issuers and to limit exposure to any one issuer. The Group's Investment Policy sets limits for individual credit exposures based on credit rating. The Group manages equity risk by maintaining a diversified portfolio and limiting the overall size of its investment in equities.

The Group uses a number of capital-at-risk models, which include scenario based analysis, value-at-risk ("VaR") and credit impairment calculations to evaluate its investment portfolio risk. Additionally, the Group's capital-at-risk models also include the measures of risk capital applied by Standard & Poor's ("S&P") and A.M. Best Company ("A.M. Best") in their risk based capital assessments of the Group. Scenario-based analytics are used in order to stress test the portfolio for expected changes in specific market scenarios. VaR is a probabilistic method of measuring the potential loss in portfolio value over a given time period and for a given distribution of historical returns. Portfolio risk, as measured by VaR, is affected by four primary risk factors: asset concentration, asset volatility, asset correlation and systematic risk. The Group adjusts its investment risk scenarios for a variety of extremes as well as expected outcomes. Management continuously evaluates the applicability and relevance of the models used and makes adjustments as necessary to reflect actual market conditions and performance over time.

- Credit (Counterparty) Risk: Counterparty risk encompasses risk that a counterparty will not uphold its contractual obligations. The Group's counterparty risk arises mainly from external ceded reinsurance, and the reinsurer's ability to pay liabilities due.

The Group mitigates this risk through the management's Ceded Reinsurance Committee, which is responsible for ensuring that the Group's underwriting strategy is properly balanced with the Group's risk tolerance strategy. This is achieved through the determination, at a group level and in conjunction with group risk management, of all underwriting limits and tolerances, which are then promulgated down to the individual entities.

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. 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. The ceded reinsurance function formally advises the claims and finance functions of all in-force ceded reinsurance treaties to ensure that appropriate recoveries are obtained and reinsurance cessions are properly recorded.

- 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 risks include, for example, employee or third-party fraud, business interruptions, inaccurate processing of transactions, information technology failures, the loss of key employees without appropriate successors, and non-compliance with reporting obligations.

The Group seeks to mitigate operational risks through ongoing training and the application of strong process controls throughout its business. Key process controls include underwriting letters of authority, underwriting referral protocols, claims procedures guidelines, financial reporting controls and procedures, information technology procedures, succession planning, disaster recovery planning and business continuity planning. The Group's internal audit department tests the Group's policies and various process controls on a regular basis.

The use by the Group of the services of unaffiliated third parties exposes the Group to heightened operational risks, including the risk of information technology and physical security breaches, fraud, non-compliance with laws, regulations or internal guidelines and inadequate service to its clients. The Group mitigates the operational risk posed by the use of third-party vendors by verifying, among other items, a potential third party vendor’s financial stability, ability to provide ongoing service, business continuity planning and its business reputation as well as monitoring any significant third party relationships.

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 the Group’s pricing and reserving activities. Reserving risk includes the same risks as those of premium risks with the addition of mis-estimation 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 Risk Management Committee. As of year-end 2019, the largest concentration of the Group’s underwriting exposure arises out of natural catastrophe events, and more specifically, Florida hurricane. 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 2019, 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 the Group’s reinsurers because the transfer of risk to a reinsurer does not relieve the Group of its liability to its clients. If the Group’s reinsurers experience financial difficulties, they may be unable to pay. In addition, reinsurers may be unwilling to pay, even though they are able to do so. The failure of one or more of the Group's reinsurers to honor their obligations to the Group in a timely fashion would impact its cash flow and reduce its net income and, depending upon the amount of reinsurance it has purchased, could cause the Group 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 the Enterprise Risk Management Policy to minimize potential credit risks associated with third party reinsurance. Additionally, the Group's Risk Management Committee regularly reviews and monitors potential impacts of credit or counterparty defaults. As of year-end 2019, 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 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 a reverse stress test (“RST”) which involves a hypothetical situation in which the Group suffers a rating downgrade which significantly impacts its ability to conduct business. Financial strength ratings have become an increasingly important factor in establishing the competitive position of insurance and reinsurance companies.

If the Group’s ratings are reduced from their current level by A.M. Best, S&P or Moody's, our competitive position in the insurance and reinsurance industry would suffer. Such a downgrade may have a material negative impact on the Group’s ability to expand its insurance and reinsurance portfolio and renew its existing insurance and reinsurance policies and agreements, require the Group to establish trusts or post letters of credit for ceding company clients, and could trigger provisions allowing some ceding company clients to terminate their reinsurance contracts on terms disadvantageous to the Group. In addition, a downgrade of our A.M. Best rating below "BBB+" (three levels below our current rating) would constitute an event of default under our bank credit facility. Each of the effects of a downgrade of our financial strength rating described above could make it more expensive or otherwise difficult for us to compete in certain business segments in which we would otherwise desire to operate.

The specific scenario chosen for the RST is based on a scenario where the financial strength rating of ESIL is downgraded from its current S&P rating of “A+” to a rating level below “A-". Based on the S&P capital model, this is equivalent to a capital depletion of $1.5 billion. The assumptions behind the RST are crude and do not consider the other factors that a rating agent may use to determine a financial strength rating (e.g. ERM capability, management team, financial strength of parent).

By ranking the simulation results from the Company’s GCM, the 24,638th ranked trial (out of 25,000) was the first to exhibit a $1.5 billion loss. The estimated return period of this trial is 1 in 69 years, and the key driver of the loss is a California Earthquake (net loss of $1.4 billion with estimated return period of 1 in 379). The trial also included moderate prior year reserve deterioration, partially offset by investment income and underwriting income on the non-catastrophe lines of business.

It should be noted that insolvency was not chosen as an RST event because none of the modelled 25,000 simulated trials resulted in such an income. As such, while the Company may require a moderate capital injection under certain extreme scenarios, like the RST above, management cannot discern any risks / scenarios that would jeopardize the Company’s ability to pay its policyholders and meet its other obligations.

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 International Financial Reporting Standards ("IFRS") in our audited financial statements.

ESIL and subsidiaries designates its fixed maturity investments, short-term investments and equity securities as at fair value through profit or loss ("FVTPL") because they are managed on a fair value basis and their performance is monitored on this basis. Securities designated as FVTPL are carried at estimated fair value, with related net unrealized gains or losses recognized on the Consolidated Statements of Profit and Comprehensive Income (Loss). Investment transactions are recorded on a trade date basis.

Equity securities are carried at estimated fair value, with related net realized and unrealized gains or losses included in net loss.

ESIL and subsidiaries determines the fair value of its trading investments and equity securities 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 ESIL and subsidiaries seek to maximize observable inputs and minimize the use of unobservable inputs.

ESIL and subsidiaries determines the estimated fair value of each individual security utilizing the highest level inputs available.

Other investments within the investment portfolio are comprised of (i) 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") and (ii) an investment in a non-public entity where the Group has significant influence ("investments in associates"). Interests in associates are accounted for using the equity method. Under this method, the investment in an associate is initially recognized at cost. Subsequent to initial recognition, the carrying amount of the investment is adjusted to recognize changes in the Company's proportionate share of net assets of the associate since the acquisition date. Adjustments are made to the investee's accounting policies, where necessary, to be consistent with the Group’s accounting policies. 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.

ESIL has entered into investment repurchase agreements whereby ESIL sells securities and repurchases them at a future date for a predetermined price. These investment repurchase agreements are accounted for as secured borrowings and are recorded at the contractual repurchase price plus accrued interest. The securities to be repurchased are the same, or substantially the same, as those sold. The fair value of the underlying securities is included in fixed maturity investments in ESIL's Consolidated Balance Sheet. The use of the cash received from the counterparty pursuant to the repurchase agreement is not restricted. The obligation to return the cash is included in payable under repurchase agreements in the Consolidated Balance Sheet. In these repurchase transactions, the securities sold by ESIL (pledged collateral) may be sold or repledged by the counterparties with whom the repurchase agreement is executed.

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

Insurance premiums receivable and payable (net of any allowance for bad debts) on a IFRS 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 IFRS values. The net amounts which have been deemed as not yet due are deducted from the premiums receivable asset/ premiums payable liability and included in the valuation process noted below for determining the technical provisions.

Reinsurance balances recoverable represent monies due to ESIL and subsidiaries from third parties for insurance losses paid or unpaid by ESIL and subsidiaries 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 ESIL'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 IFRS 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 IFRS 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 ESIL'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 ESIL's total assets and included in the base amounts utilized to calculate the technical provisions as noted below in *Item 4.b*.

ESIL's remaining assets includes the value of its derivative instruments, balances due from investment sales, particular 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 IFRS in the 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. ESIL and subsidiaries 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 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 ESIL and subsidiaries have entered into master netting agreements with counterparties, or 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 IFRS 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. ESIL 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 aggregate of the mid-point of the valuation ranges for each license is recognised and reported as an intangible asset in the EBS.

ESIL's deferred tax assets ("DTAs") on a IFRS 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 IFRS valuation basis with no applicable prudential filters for EBS reporting purposes. ESIL's other fixed assets consist of a building, vehicles and a transportation lease which are wholly owned or leased by ESIL 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 IFRS 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. ESIL has elected to use the permitted simplification of assuming a 100% combined ratio of the BBNI.

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.

ESIL 's consolidated EBS technical provisions and risk margin as at December 31, 2019 were as follows:

		ESIL
		(U.S. dollars in thousands)
Net Premium Provisions	$	646,213
Net Loss and Loss Expense Provisions		4,953,696
Risk Margin		520,183
Total General Business Insurance Technical Provisions	$	6,120,092

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, 2019, the ESIL and subsidiaries held collateral of $1,083 million, related to its ceded reinsurance agreements. The balance of ceded reinsurance recoverables for ESIL and subsidiaries at December 31, 2019 was distributed as follows based on the ratings of the reinsurers:

Rating		**2019**
		(U.S. dollars in thousands)
AAA	$	89,918
AA+, AA, AA-		325,329
A+, A, A-		3,294,556
BBB+, BBB, BBB-		134,370
Other / Not rated		532,490
Total	$	4,376,663

The balances reported in the table above are on a IFRS 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.

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 ESIL'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.

Tax liabilities on a IFRS 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 IFRS 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. 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 IFRS value.

Sundry liabilities 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 IFRS 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 IFRS 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

ESIL's eligible capital as at December 31, 2019 is comprised of the following capital tiers as per the Bermuda Monetary Authority's classifications:

		ESIL
Tier	**Description**	
1 Basic	Total Tier 1	$ 4,061,749
2 Basic	Total Tier 2	178,251
	Total Eligible Capital	$ 4,240,000

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

ESIL's eligible capital composition by Tier available to meet its minimum solvency margin ("MSM") and ECR as at December 31, 2019 is as follows:

Tier	Amount (in 000's)	Applicable to MSM	Applicable to ECR
1	$ 4,061,749	$ 4,061,749	$ 4,061,749
2	178,251	178,251	178,251
	$ 4,240,000	$ 4,240,000	$ 4,240,000

Item 5.a.(iv) Eligible Capital Transition

Not applicable.

Item 5.a.(v) Eligible Capital Encumbrances

ESIL'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

ESIL's shareholders' equity on a IFRS basis is adjusted by various prudential filters to arrive at ESIL's statutory capital and surplus as per the Bermuda regulatory requirements. ESIL currently applies eight types of primary adjustments to ESIL IFRS 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 IFRS 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 IFRS shareholders' equity.

Item 5.b. Regulatory Capital Requirements

Under the supervision rules promulgated by the Bermuda Monetary Authority, ESIL and subsidiaries are 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 supervision rules ESIL and subsidiaries are 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, 2019, the ESIL Consolidated ECR was $2,756 million and its MSM was $736 million.

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

ESIL has consistently remained in compliance with the ECR and MSM requirements.

Item 5.c. Approved Capital Model

ESIL utilizes the regulatory capital model as prescribed by the BMA (the BSCR) in determining its ECR.

Part 6. Subsequent Event

Management has reviewed all events occurring since the date of the financial statements to May 31, 2020, the date at which this document was issued, to determine if any such events should be disclosed.

Any material events subsequent to the issuance of this document will be posted publicly on the Sompo International website [https://www.sompo-intl.com/media-center/press-releases/].

COVID-19 pandemic
Subsequent to December 31, 2019, there has been a global coronavirus outbreak ("COVID-19") that may have a significant impact on the Company. The extent of the impact, which could result in the Company experiencing insurance and reinsurance claims activity and investment losses, will depend on future developments. In addition, the Company's operations could be materially and adversely impacted as a result of office closures, quarantine measures, travel restrictions, and the disease's impact on the health of the Company's employees. As of the date of issuance of the Financial Condition Report, the outbreak is still evolving, and thus there is significant uncertainty as to its ultimate impact on the Company.

Part 7. Declaration

We, the Chief Executive Officer and Chief Risk 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/ MIKIO OKUMURA May 29, 2020
Mikio Okumura

CHIEF RISK OFFICER

/s/ SATYAN SAWHNEY May 29, 2020
Satyan Sawhney

Part 8. Appendix

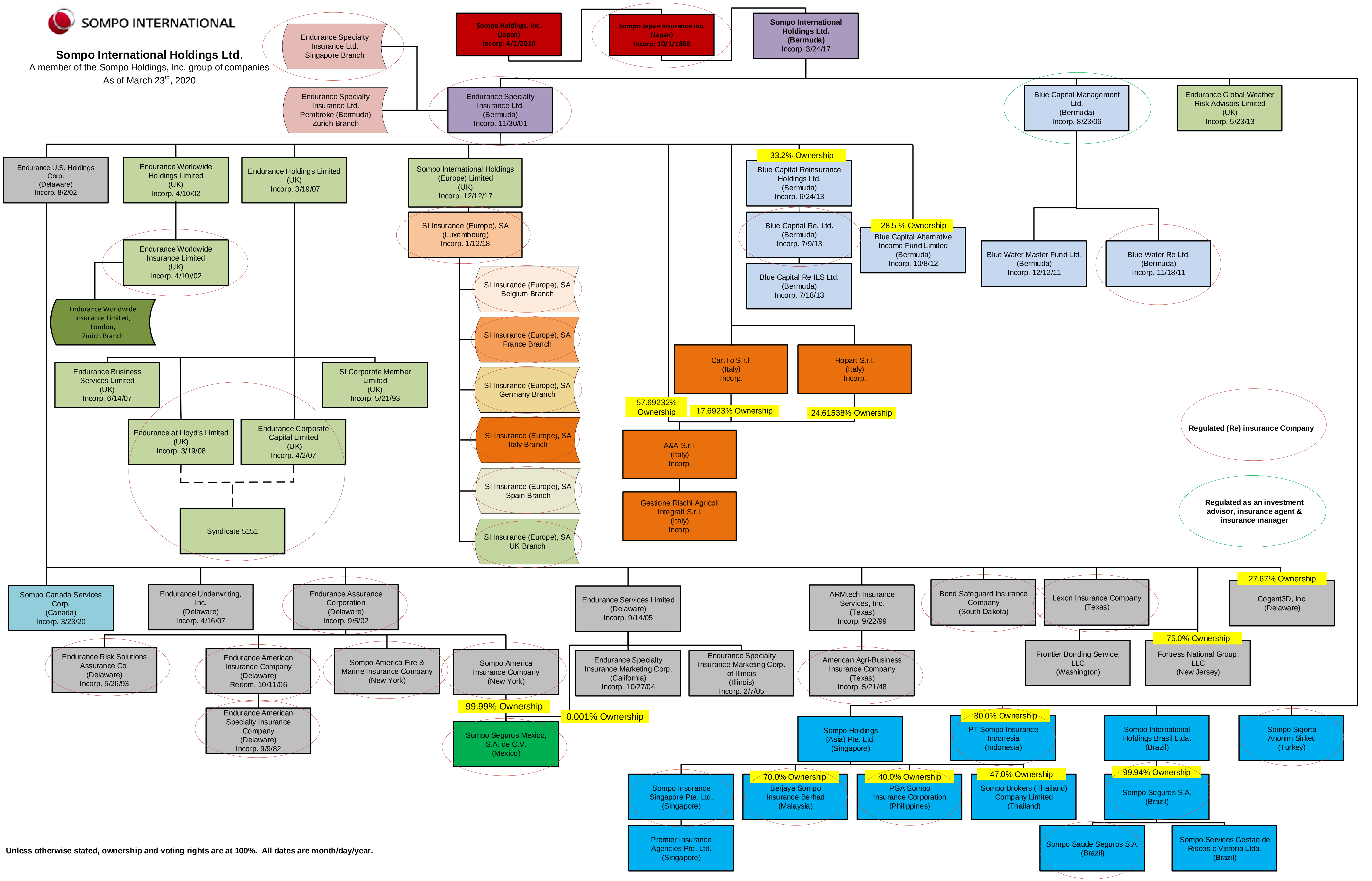
Item 8.a. Appendix A - Organizational Chart

SOMPO INTERNATIONAL

Sompo International Holdings Ltd.

A member of the Sompo Holdings, Inc. group of companies

As of March 23rd, 2020



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