SOMPO INTERNATIONAL

Audited Consolidated Financial Statements

Endurance Specialty Insurance Ltd.

For the year ended December 31, 2021

With Independent Auditor’s Report

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Independent Auditor's Report

The Board of Directors
Endurance Specialty Insurance Ltd.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the Consolidated Financial Statements of Endurance Speciality Insurance Ltd. (the "Company"), which comprise the Consolidated Balance Sheets as at December 31, 2021 and December 31, 2020, and the Consolidated Statements of Profit and Comprehensive Income, Consolidated Statements of Changes in Shareholder's Equity and Consolidated Statements of Cash Flows for the years then ended, and notes to the Consolidated Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* ("IESBA Code") together with the ethical requirements that are relevant to our audit of the Consolidated Financial Statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Consolidated Financial Statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst + Young Ltd.

Hamilton, Bermuda
April 25, 2022

ENDURANCE SPECIALTY INSURANCE LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020
(In thousands of United States dollars)

	Notes	December 31, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents	5	$ 2,907,294	$ 2,228,398
Accrued investment income		55,169	57,253
Investments	6, 7	12,202,712	10,760,211
Investment in associates		13,954	13,236
Premiums receivable, net		4,947,515	3,767,638
Other insurance and reinsurance balances receivable		169,780	132,548
Receivables on investments sold		81,432	154,216
Prepaid reinsurance premiums	13	1,722,044	1,627,259
Derivative assets	8	117,241	204,982
Reinsurance recoverables on unpaid losses	12	4,933,457	4,129,580
Reinsurance recoverables on paid losses		1,661,448	1,678,731
Deferred acquisition costs gross	9	1,038,363	931,075
Current tax asset	21	2,533	1,742
Deferred tax asset	21	118,527	27,641
Property and equipment	14	212,875	233,870
Goodwill and intangible assets	11	710,466	743,860
Due from affiliates	19	406	15,222
Other assets		101,995	134,425
Total assets		$ 30,997,211	$ 26,841,887
LIABILITIES			
Reserve for losses and loss expenses	12	$ 12,945,815	$ 10,252,008
Reserve for unearned premiums	13	5,870,688	5,106,517
Insurance and reinsurance balances payable		3,876,152	3,263,734
Due to affiliates	19	161,448	95
Payables on purchases of investments		125,897	219,291
Derivative liabilities	8	82,051	141,960
Deferred acquisition costs ceded	9	180,123	201,970
Current tax liability	21	83,346	7,978
Deferred tax liability	21	1,438	1,170
Other liabilities		474,732	489,011
Loans and borrowings	15	477,837	486,048
Total liabilities		$ 24,279,527	$ 20,169,782
SHAREHOLDER'S EQUITY			
Common shares	18	$ 12,000	$ 12,000
Contributed surplus		5,840,853	5,840,853
Accumulated other comprehensive loss		(41,148)	(19,222)
Retained earnings		905,979	838,474
Equity attributable to owners of company		6,717,684	6,672,105
Non-controlling interests		—	—
Total shareholder's equity		6,717,684	6,672,105
Total liabilities and shareholder's equity		$ 30,997,211	$ 26,841,887

See accompanying notes to the Consolidated Financial Statements.

ENDURANCE SPECIALTY INSURANCE LTD.
CONSOLIDATED STATEMENTS OF PROFIT AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In thousands of United States dollars)

	Notes	2021	2020
REVENUES			
Gross premiums written		$ 12,273,136	$ 9,353,758
Ceded premiums written		(4,707,703)	(3,470,741)
Net premiums written		7,565,433	5,883,017
Change in unearned premiums		(778,733)	(1,554,591)
Change in unearned premiums on premiums ceded		103,034	314,657
Net premiums earned		6,889,734	4,643,083
Net investment income	6	335,649	241,565
Net realized gains on investments	6	42,703	65,785
Net unrealized (losses) gains on investments	6	(262,985)	170,237
Other underwriting income (loss)		3,800	(43,836)
Total revenues		7,008,901	5,076,834
EXPENSES			
Losses and loss adjustment expenses incurred	12	8,126,333	5,842,822
Losses and loss adjustment expenses recoverable	12	(3,428,677)	(2,521,955)
Net losses and loss adjustment expenses incurred		4,697,656	3,320,867
Acquisition expenses	9	1,368,088	915,992
General and administrative expenses		329,979	235,881
Corporate expenses		—	75
Amortization of intangible assets	11	45,588	41,717
Net foreign exchange (gains) losses		(59,508)	32,510
Loss on impairment of intangibles	11	—	54,997
Share of loss (gain) from investment in associates		(460)	903
Total expenses		6,381,343	4,602,942
Profit before tax and financing costs		627,558	473,892
Financing costs		(16,218)	(17,707)
Profit before tax		611,340	456,185
Tax expense	21	(78,985)	(61,281)
Profit		$ 532,355	$ 394,904
Net (profit) attributable to non-controlling interests		—	(14)
Profit attributable to Endurance Bermuda		$ 532,355	$ 394,890
OTHER COMPREHENSIVE LOSS			
Items that may be classified to profit:			
Exchange (gain) loss on translating foreign currency		(21,926)	25,247
Other comprehensive loss		(21,926)	25,247
Comprehensive income		510,429	420,151
Comprehensive (income) attributable to non-controlling interests		—	(14)
Comprehensive income attributable to Endurance Bermuda		$ 510,429	$ 420,137

See accompanying notes to the Consolidated Financial Statements.

ENDURANCE SPECIALTY INSURANCE LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In thousands of United States dollars)

	Attributable to the owners of the Company							
	Share capital	Contributed surplus	Retained earnings	Foreign currency translation reserve	Accumulated other comprehensive loss	Total	Non-controlling interests	Total shareholder's equity
Balance as at January 1, 2020	$ 12,000	$ 4,835,931	$ 536,992	$ (44,469)	$ (44,469)	$ 5,340,454	$ (14)	$ 5,340,440
Profit for the year ended December 31, 2020	—	—	394,890	—	—	394,890	14	394,904
Other comprehensive income (loss)	—	—	—	25,247	25,247	25,247		25,247
Total comprehensive income (loss)	—	—	394,890	25,247	25,247	420,137	14	420,151
Contribution of capital received from parent	—	1,004,922	—	—	—	1,004,922	—	1,004,922
Dividends to parent	—	—	(93,408)	—	—	(93,408)	—	(93,408)
Balance as at December 31, 2020	$ 12,000	$ 5,840,853	$ 838,474	$ (19,222)	$ (19,222)	$ 6,672,105	$ —	$ 6,672,105
Profit for the year ended December 31, 2021	—	—	532,355	—	—	532,355	—	532,355
Other comprehensive income (loss)	—	—	—	(21,926)	(21,926)	(21,926)	—	(21,926)
Total comprehensive income (loss)	—	—	532,355	(21,926)	(21,926)	510,429	—	510,429
Dividends to parent	—	—	(464,850)	—	—	(464,850)	—	(464,850)
Balance as at December 31, 2021	$ 12,000	$ 5,840,853	$ 905,979	$ (41,148)	$ (41,148)	$ 6,717,684	$ —	$ 6,717,684

ENDURANCE SPECIALTY INSURANCE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(In thousands of United States dollars)

	Notes	2021	2020
Cash flows provided by operating activities:			
Profit before tax		$ 611,340	$ 456,185
Adjustments to profit before taxes for:			
Net taxes paid	21	(95,481)	(45,051)
Depreciation of property and equipment	14	43,066	38,884
Amortization of intangible assets	11	45,588	41,717
Loss on impairment of intangible assets	11	—	54,997
Amortization of investments	6	36,505	36,315
Net realized gains on sales of investments	6	(42,703)	(65,785)
Net unrealized losses (gains) on investments	6	262,985	(170,237)
Interest and dividend income	6	(279,217)	(282,703)
Equity in earnings of other investments	6	(113,330)	(8,556)
Interest expenses		16,218	17,707
Change in:			
Premiums receivable, net		(1,179,877)	(748,647)
Deferred acquisition costs gross		(107,288)	(306,125)
Prepaid reinsurance premiums		(94,785)	(320,521)
Reinsurance recoveries		(786,594)	(161,260)
Due to Sompo affiliates		(88,831)	(216,325)
Reserve for losses and loss adjustment expenses		2,693,807	1,599,683
Reserve for unearned premiums		764,171	1,568,086
Reinsurance balances payable		612,418	13,191
Deferred acquisition costs ceded		(21,847)	25,633
Others		(42,930)	(66,351)
Net cash flows provided by operating activities		2,233,215	1,460,837
Cash flows used in investing activities:			
Interest and dividend received	6	276,080	284,803
Purchases of investments	6	(8,468,415)	(5,534,573)
Proceeds from sales and maturities of investments	6	6,855,083	4,760,938
Purchases of properties and equipment	14	(2,876)	(13,939)
Purchase of intangible assets	11	(9,926)	(17,233)
Proceeds from sale of property and equipment	14	2,549	106
Net settlement of derivatives	8	1,392	(1,412)
Net cash paid for subsidiary acquisition	4	(270)	(228,033)
Net cash flows used in investing activities:		(1,346,383)	(749,343)
Cash flows used in financing activities:			
Interest paid		(6,013)	(6,458)
Proceeds from issuance of repurchase agreements		76,000	135,634
Repayment of repurchase agreements		(76,000)	(135,634)
Repayments of lease liabilities	14	(29,023)	(18,986)
Dividends on common shares		(199,850)	(93,408)
Net cash flows used in financing activities		(234,886)	(118,852)
Effect of exchange rate changes on cash and cash equivalents		26,950	24,832
Net increase in cash and cash equivalents		678,896	617,474
Cash and cash equivalents, beginning of year		2,228,398	1,610,924
Cash and cash equivalents, end of year		$ 2,907,294	$ 2,228,398

See accompanying notes to the Consolidated Financial Statements.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

1. Organization

Endurance Specialty Insurance Ltd. ("Endurance Bermuda", together with its subsidiaries, the "Company"), was organized in Bermuda on November 30, 2001, and is a wholly-owned subsidiary of Sompo International Holdings Ltd. ("Sompo International"). Sompo International is a Bermuda holding company and a wholly-owned subsidiary of Sompo Japan Insurance Inc. ("SJI"). SJI is an insurer based in, and licensed under, the laws of Japan. SJI is a wholly-owned subsidiary of Sompo Holdings, Inc. ("Sompo Holdings" or the "Ultimate Parent"), a publicly-owned holding company, formed under the laws of Japan, whose capital stock is traded on the Tokyo Stock Exchange.

On March 28, 2017, Sompo Holdings completed its acquisition of Endurance Specialty Holdings Ltd. ("Endurance Holdings"). Subsequently on September 27, 2017, Endurance Holdings transferred substantially all of its assets and liabilities, including its investment in Endurance Bermuda, to Sompo International.

On December 21, 2020 (the "W. Brown Acquisition Date"), the Company completed the acquisition of W. Brown & Associates Insurance Services ("W. Brown"), which offers a dynamic and reputable source of general aviation insurance products and services for both airborne and ground based exposures. The Company's Consolidated Statements of Profit and Comprehensive Income for the year ended December 31, 2020 includes the results of operations of W. Brown from the W. Brown Acquisition Date. For additional information on the acquisition of W. Brown, see Note 4, Business Combinations.

On December 28, 2020 (the "Diversified Acquisition Date"), the Company completed the acquisition of CGB Diversified Services, Inc. ("Diversified Services") and CGB Insurance Company ("CGBIC"), subsidiaries of CGB Enterprises, Inc. ("CGB"), which offers crop insurance products. On the Diversified Acquisition Date, CGBIC was merged into American Agri-Business Insurance Company ("American Agri-Business"). The Company's Consolidated Statements of Profit and Comprehensive Income for the year ended December 31, 2020 includes the results of operations of Diversified Services and CGBIC from the Diversified Acquisition Date. For additional information on the acquisition of Diversified Services and CGBIC, see Note 4, Business Combinations.

Endurance Bermuda writes specialty lines of insurance and reinsurance business on a global basis through its operating subsidiaries:

Operating Subsidiaries	Domicile
Endurance Worldwide Insurance Limited ("Endurance U.K.")	England
Endurance at Lloyd's Limited, managing agent for Lloyd's Syndicate 5151 ("Endurance at Lloyd's")	England
SI Insurance (Europe), SA ("Sompo Europe")	Luxembourg
Sompo Seguros Mexico, S.A. de C.V. ("Sompo Mexico")	Mexico
Endurance Assurance Corporation ("Endurance Assurance")	Delaware
Endurance American Insurance Company ("Endurance American")	Delaware
Endurance American Specialty Insurance Company ("Endurance American Specialty")	Delaware
Endurance Risk Solutions Assurance Co. ("Endurance Risk Solutions")	Delaware
Sompo America Insurance Company ("Sompo America Insurance")	New York
Sompo America Fire & Marine Insurance Company ("Sompo America Fire & Marine")	New York
Bond Safeguard Insurance Company ("Bond Safeguard")	South Dakota
American Agri-Business Insurance Company ("American Agri-Business")	Texas
Lexon Insurance Company ("Lexon Insurance")	Texas

2. Significant accounting policies

The following are significant accounting and reporting policies adopted by the Company:

(a) Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These Consolidated Financial Statements were authorized for issuance by the Company's board of directors on April 25, 2022. When IFRS is silent, as it is in respect to the measurement of certain insurance products, the IFRS framework (IFRS 4, *Insurance Contracts* or "IFRS 4") allows reference to another comprehensive body of accounting principles. Accordingly, to the extent that IFRS does not specify the recognition or measurement of insurance contracts, transactions reported in these Consolidated Financial Statements have been prepared in accordance with another comprehensive body of accounting principles for insurance contracts, namely United States Generally Accepted Accounting Principles ("U.S. GAAP").
The Consolidated Financial Statements have been prepared on a historical cost basis, except for investments, derivative instruments, and contingent consideration held in escrow accounts in connection with a business combination which have been measured at fair value. The Consolidated Financial Statements are presented in United States dollars ("U.S. Dollars"), which is the Company's reporting currency, rounded to the nearest thousand, unless otherwise indicated. Certain prior period amounts, all of which are immaterial, have been reclassified to conform to the current period presentation.

(b) Basis of consolidation

The Consolidated Financial Statements are comprised of the Consolidated Balance Sheets of the Company and its subsidiaries as at December 31, 2021 and 2020, and the Consolidated Statements of Profit and Comprehensive Income, Consolidated Statements of Changes in Shareholder’s Equity and Consolidated Statements of Cash Flows for the years ended December 31, 2021 and 2020, and notes to the Consolidated Financial Statements.

A subsidiary is an entity that is controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries’ accounting policies are generally consistent with the Company’s accounting policies. Where they differ, adjustments are made on consolidation to bring the accounting policies in line. Subsidiaries acquired through business combinations are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. All significant intercompany transactions and balances are eliminated on consolidation.

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in an acquisition is generally measured at fair value, as are the identifiable net assets acquired. If goodwill is recognized it is measured at cost, which is the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed (including identifiable intangible assets). If the fair value of the net assets acquired is in excess of the net consideration transferred, the resulting gain on a bargain purchase is recognized in the Consolidated Statements of Profit and Comprehensive Income immediately. Transaction costs are expensed as they are incurred, except if they are related to the issuance of debt or equity securities.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in the Consolidated Statements of Profit and Comprehensive Income.

2. Significant accounting policies, cont'd.

(b) Basis of consolidation, cont'd.

Business combinations, cont'd.

A business combination involving entities under common control is a business combination in which the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination and the control is not transitory. Transactions between entities under common control are scoped out of IFRS 3, *Business Combinations* ("IFRS 3"), and there is no authoritative literature for these transactions under IFRS. As a result, the Company adopted accounting principles similar to the pooling-of-interest method based on the predecessor values. The assets and liabilities of the acquired entity are transferred at book value. No new goodwill is recognized as a result of a business combination involving entities under common control. Differences between any consideration paid and the book value of the net assets acquired are treated as a capital contribution or deemed dividend where applicable. Subsidiaries arising from a business combination under common control are consolidated for the full year during which the combination occurred.

Non-controlling interests

The Company initially measures non-controlling interests at their proportionate share of the acquiree's identifiable net assets at the date of acquisition in the shareholder's equity section of the Company's Consolidated Balance Sheets. Net (profit) loss attributable to non-controlling interests is presented separately in the Company's Consolidated Statements of Profit and Comprehensive Income.

Investment in associates

Associates are those entities in which the Company has significant influence over the operational and financial policies of the investee. Interests in associates are accounted for using the equity method. Under this method, the Company's 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 Company's accounting policies.

(c) Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported and disclosed amounts at the balance sheet dates and the reported and disclosed amounts of revenues and expenses during the reporting periods. Actual results may differ materially from the estimates made.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised.

The most significant estimate made by management is in relation to the reserves for losses and loss expenses. Estimates in relation to the reserves for losses and loss expenses are discussed in Note 2(d) and in Note 12, Reserve for losses and loss expenses.

Estimates are also made in determining the estimated fair value of certain financial instruments. The estimation of the fair value of financial instruments is discussed in Note 2(e) and in Note 7, Fair value measurement.

For goodwill and intangible assets that are recognized on the acquisition of a subsidiary, the fair value at the time of acquisition is largely based on the estimated expected cash flows of the business acquired and the contractual rights of that business. The Company determines whether its intangible assets with indefinite lives, including goodwill, are impaired on an annual basis. The assumptions made by management in performing impairment tests of goodwill and intangible assets are subject to estimation uncertainty. Details of the key assumptions required and used in the estimation impairment assessment are discussed in Note 2(h) and Note 11, Goodwill and intangible assets.

2. Significant accounting policies, cont'd.

(d) Insurance contracts

Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder.

Certain contracts do not transfer sufficient insurance risk and are accounted for using the deposit method of accounting. Management exercises judgment in determining whether contracts contain sufficient risk to be accounted for as insurance contracts. Under the deposit method of accounting, the deposit asset or liability is initially measured based on the consideration paid or received. In subsequent periods, the deposit asset or liability is adjusted by calculating the effective yield on the deposit to reflect actual receipts or payments to date and future expected receipts or payments.

The Company earns fee income for the provision of these contracts. Fee income is based upon the terms of the contracts, with the unearned portion deferred in the Consolidated Balance Sheets as other liabilities. The revenues and expenses recorded for such contracts are included in other underwriting (loss) income.

Premiums and acquisition costs

The Company's direct insurance premiums are earned pro rata over the term of the applicable risk period specified in the insurance policy. The Company's insurance policies cover losses occurring or claims made during the term of the policy. Generally, the Company receives a fixed premium as is identified in the policy and records the premium on the inception date of the contract or when the amount is determinable and earned evenly over the policy term. This premium will only be adjusted if the underlying insured values adjust. Accordingly, the Company monitors the underlying insured values and will record a premium adjustment in the period in which amounts are reasonably determinable.

The Company's assumed reinsurance premiums are earned in proportion to the amount of reinsurance protection provided over the applicable risk period established in the reinsurance contract. Reinsurance contracts written on a losses occurring basis cover losses which occur during the term of the reinsurance contract, typically 12 months. Accordingly, the Company earns the premium on a losses occurring reinsurance contract evenly over the reinsurance contract term. Reinsurance contracts written on a policies attaching basis cover losses from the underlying insurance policies incepting during the terms of the reinsurance contracts. Losses under a policies attaching reinsurance contract may occur after the end date of the reinsurance contract, so long as they are losses from policies that began during the reinsurance contract period. The Company typically earns the premiums for policies attaching reinsurance contracts over a 24-month period in proportion to the amount of reinsurance protection provided to reflect the extension of the risk period past the term of the contract and the varying levels of reinsurance protection provided during the reinsurance contract period.

In addition to the applicable risk period, the Company's estimate of its assumed reinsurance premiums written is based on the type of reinsurance contracts underwritten. For excess of loss reinsurance contracts, the estimated premium income is considered to be the best estimate of the reinsurance contract's written premium at inception. The Company earns reinstatement premiums upon the occurrence of a loss under the reinsurance contract. Reinstatement premiums are calculated in accordance with the contract terms based on the ultimate loss estimate associated with each contract. For proportional reinsurance contracts, the Company estimates premium, commissions and related expenses based on broker and ceding company estimates and utilizes judgment in establishing proportional reinsurance contract estimates. As actual premiums are reported by the ceding companies, management evaluates the appropriateness of the original premium estimates and any adjustments to these estimates are recorded in the period in which they become known.

Acquisition expenses are costs that vary with and are directly related to the successful production of new and renewal business, and consist principally of commissions and brokerage expenses. Acquisition expenses are shown net of commissions, other fees and expense allowances associated with and earned on ceded business. These costs are deferred and amortized over the periods in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums. Anticipated net investment income is considered in determining the recoverability of deferred acquisition costs.

2. Significant accounting policies, cont'd.

(d) Insurance contracts, cont'd.

Reserve for losses and loss expenses

The Company’s reserve for losses and loss expenses includes case reserves and reserves for losses incurred but not reported (referred to as "IBNR reserves"). Case reserves are established for losses that have been reported, but not yet paid. IBNR reserves represent a provision for claims that have been incurred but not yet reported to the Company, as well as future loss development on losses already reported, in excess of the case reserves. Case reserves and IBNR reserves are established by management based on reports from reinsurance intermediaries, ceding companies and insureds, and consultations with independent legal counsel. In addition, IBNR reserves are established by management based on reported losses and loss expenses, and actuarially determined estimates of ultimate losses and loss expenses, net of expected salvage and subrogation and recoveries, if any.

The Company uses a variety of actuarial methods to estimate the ultimate losses and loss expenses incurred. One actuarial method used by the Company to estimate reserves for losses and loss expenses is the expected loss ratio approach, which is based on expected results independent of current loss reporting activity. This approach is typically used for immature loss periods (i.e. the current accident year). Another actuarial method used by the Company to estimate reserves for losses and loss expenses is known as the Bornhuetter-Ferguson method. The Bornhuetter-Ferguson method uses an initial loss estimate (expected loss technique) for each accident year by business line and type of contract. Under this method, IBNR reserves are set equal to the initial loss estimate multiplied by the expected percent of loss yet to be reported at each valuation date. In a given quarter, if reported losses are less than expected, then the difference would result in a decrease in estimated ultimate losses. If losses are greater than expected, then the difference would result in an increase in estimated ultimate losses. A third actuarial method used by the Company to estimate reserves for losses and loss expenses is known as the loss development method. The loss development method extrapolates the current value of reported losses to ultimate expected losses by using selected reporting patterns of losses over time. The selected reporting patterns are based on historical information (organized into loss development triangles) and are adjusted to reflect the changing characteristics of the book of business written by the Company. Management uses these multiple actuarial methods, supplemented with professional judgment, to establish the best estimate of reserves for losses and loss expenses.

The Company's losses and loss expense reserves are reviewed regularly, and adjustments, if any, are reflected in earnings in the period in which they become known. The establishment of new losses and loss expense reserves or the adjustment of previously recorded losses and loss expense reserves could result in significant positive or negative changes to the Company's financial condition for any particular period. While management believes the Company's estimate of losses and loss expense reserves is reasonable, the ultimate loss experience may not be reliably predicted, and it is possible that losses and loss expenses may be materially different than the total reserve for losses and loss expenses recorded by the Company.

Liability adequacy tests

At each balance sheet date, the Company performs a liability adequacy test using current best estimates of future cash outflows generated by its insurance contracts. If, as a result of these tests, the carrying amount of the Company’s insurance liabilities is found to be inadequate, the deficiency is charged to income for the period, initially by writing off deferred acquisition costs and subsequently by establishing a provision.

Ceded reinsurance

Reinsurance premiums ceded comprise the cost of outwards reinsurance contracts purchased. Premiums ceded are recognized over the period of exposure to risk, with the unearned portion being deferred in the Consolidated Balance Sheets as prepaid reinsurance premiums.

Reinsurance recoverable on paid and unpaid losses represent estimates of losses and loss expenses that will be recovered from reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the provisions of the reinsurance agreements and consistent with the establishment of the Company's reserve for losses and loss expenses.

Ceding commissions earned on ceded business are classified as an offset to acquisition and general and administrative expenses.

2. Significant accounting policies, cont'd.

(e) Financial instruments

Cash and cash equivalents

Cash equivalents include highly liquid, short-term deposits and securities with maturities of 90 days or less as 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 90 days and less than one year are classified as short-term investments.

Investments

The Company 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 in the Consolidated Statements of Profit and Comprehensive Income. Investment transactions are recorded on a trade date basis.

The Company determines the fair value of its FVTPL investments in accordance with current accounting guidance, which defines fair value and establishes a fair value hierarchy based on inputs to the various valuation techniques used for each fair value measurement. The use of valuation techniques for any given investment requires a significant amount of judgment and consideration of factors specific to the underlying investment. Fair value measurements determined by the Company seek to maximize observable inputs and minimize the use of unobservable inputs.

Fair value measurements are established in accordance with the framework provided by IFRS 13, *Financial Instruments: Disclosures* ("IFRS 13"), which establishes a fair value hierarchy with the highest priority given to quoted prices in active markets and the lowest priority given to unobservable inputs.

The following are levels within the fair value hierarchy:

Level 1: Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these instruments does not entail a significant degree of judgment.

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals, broker quotes and certain pricing indices.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These measurements include circumstances where there is little, if any, market activity for the asset or liability. In these cases, significant management assumptions may be used to establish management's best estimate of the assumptions used by other market participants in determining the fair value of the asset or liability.

The Company determines the estimated fair value of each individual security utilizing the highest level inputs available. Any transfers between the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Other investments within the Company's investment portfolio are comprised of hedge funds, private investment funds and other investment funds that generally invest in senior secured bank debt, high-yield credit securities, distressed debt, macro strategies, multi-strategy, equity long/short strategies, distressed real estate, and energy sector private equity (collectively, "alternative funds"). These other investments are designated at FVTPL from the date of acquisition.

Derivative financial instruments

Derivatives are classified as trading and treated as FVTPL. On the date a contract is entered into, the derivatives are recognized at estimated fair value and are subsequently carried at estimated fair value. Derivative instruments with a positive estimated fair value are recorded as derivative assets and those with a negative estimated fair value are recorded as derivative liabilities in the Consolidated Balance Sheets.

The Company may use various derivative instruments such as foreign exchange forwards, future and option contracts; industry loss warranty swaps; interest rate futures, swaps, swaptions, and options; credit default swaps; commodity futures

2. Significant accounting policies, cont'd.

(e) Financial instruments, cont'd.

Derivative financial instruments, cont'd.

and options; weather swaps and options; loss development covers; and to-be-announced mortgage-backed securities ("TBA's"). These derivative instruments are used to manage exposure to interest rate and currency risk, enhance the efficiency of the Company's investment portfolio, and economically hedge certain risks. The derivative instruments also form part of the Company's weather risk management business. The derivative instruments derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit and market risks. Estimated fair values are based on exchange or broker-dealer quotations, where available, or discounted cash flow models, which incorporate the pricing of the underlying instrument, yield curves and other factors. Changes in the estimated fair value of instruments are recognized in the Consolidated Statements of Profit and Comprehensive Income within net realized and unrealized gains on investments and net foreign exchange losses (gains).

Derivative assets and liabilities are derecognized when the Company has transferred substantially all of the risks and rewards of ownership or the liability is discharged, canceled or expired.

Receivables

The Company’s receivables have fixed or determinable payments and are carried at cost less any provision for impairment in value. Premiums receivable from brokers, insureds and cedants are recognized on the accruals basis and recorded net of commissions, brokerage, premium taxes and other levies on premiums, unless the contract specifies otherwise. These balances are reviewed for impairment on a quarterly basis, with any impairment loss recognized as an expense in the period to the extent that repayment is unlikely or no longer expected in full. In addition, the Company considers known and emerging credit events to determine if impairment is necessary.

Securities lending

The Company participates in a securities lending program whereby some investments are loaned by the Company to a limited number of financial institutions. The Company retains all economic interest in the securities it lends, retains the earnings and cash flows associated with the loaned securities and receives a fee from the borrower for the temporary use of the securities. Collateral in the form of government securities is required at a rate of 102% of the market value of the loaned securities and is monitored and maintained by the lending agent. The securities lending US Government Security collateral is not recognized on the Company's Consolidated Balance Sheets.

(f) Property and equipment

Property and equipment are stated at cost less accumulated depreciation calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives for the Company's significant asset classes are as follows:

Property and equipment asset classes	Depreciation period
Computer equipment	3-8 years
Furniture and fixtures	5-10 years
Buildings	39-49 years
Vehicles	3-5 years
Leasehold improvements	Over the term of the underlying lease
Right-of-use assets	Over the term of the underlying lease

(g) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract involves the use of an identified asset and conveys the right to control the use of the asset for a period of time in exchange for consideration.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of the lease. Subsequently, the right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the carrying amount of the right-of-use asset is reduced by any impairment losses and

2. Significant accounting policies, cont'd.

(g) Leases, cont'd.

adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate. The lease liability is subsequently measured at amortized cost and is remeasured to reflect any lease modifications or reassessments.

When the Company is an intermediate lessor, or sub-lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Company presents its right-of-use assets within property and equipment and lease liabilities within loans and borrowings in the Consolidated Balance Sheets. Sub-lease payments received under operating leases as income are recognized on a straight-line basis over the lease term as part of general and administrative expenses in the Consolidated Statements of Profit and Comprehensive Income.

The Company elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term. If a head lease is a short-term lease to which the Company applies this exemption, then a corresponding sub-lease is also classified as an operating lease.

(h) Goodwill and intangible assets

Intangible assets acquired in a business combination are recognized at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite depending on the nature of the asset. Intangible assets with finite useful lives are amortized over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite useful lives are tested for impairment at least annually at the cash generating unit ("CGU") level by comparing the net present value of the future earnings stream of the CGU to the carrying value of the intangible asset. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite useful life assessment continues to be supportable.

Goodwill is deemed to have an indefinite useful life and, after initial recognition, is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or when events or changes in circumstances indicate that it might be impaired.

The estimated useful lives of each class of intangible asset and the amortization methods are as follows:

Intangible asset classes	Amortization method
Agent, broker, and customer relationships	7-15 years using the accelerated method or straight-line method
Renewal rights	7-15 years using the accelerated method
Value of business acquired ("VOBA")	2-3 years using the accelerated method
Insurance licenses	Indefinite life
Software	3-7 years using the straight-line method
Other intangible assets	2-7 years using the straight-line method

Amortization expense is recognized in the Consolidated Statements of Profit and Comprehensive Income within amortization of intangible assets.

(i) Pension plan

The Company operates defined contribution plans where the Company pays fixed contributions into third-party pension providers or into a Government mandated scheme in certain jurisdictions from which post-employment and other benefits are paid to the employees of the Company. The Company has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay the benefits relating to employees' service in the current and

2. Significant accounting policies, cont'd.

(i) Pension plan, cont'd.

prior periods. Payments to the defined contribution plans are recognized as an expense when the employees have rendered services entitling them to the contributions. This is generally in the year of contribution.

(j) Long-term incentive compensation plan

The Company has granted restricted cash awards to certain employees. The accounting for the compensation program is in accordance with IAS 19, *Employee Benefits* ("IAS 19").

(k) Foreign exchange

The functional currency, which is the currency of the primary economic environment in which operations are conducted, of the Company's Bermuda (including the Swiss and Singapore branches), U.S., and U.K. operations is in U.S. Dollars. The functional currency of Sompo Europe is in Euros.

In translating the financial results of those entities whose functional currency is other than the U.S. Dollars, reporting currency assets and liabilities are converted into U.S. Dollars using the rates of exchange in effect at the balance sheet dates, and revenues and expenses are converted using the average foreign exchange rates for the period. The effect of translation adjustments are reported in the Consolidated Balance Sheets and Consolidated Statements of Changes in Shareholder’s Equity as a foreign currency translation adjustment, a separate component of accumulated other comprehensive loss.

Foreign currency transactions are recorded in the functional currency for each entity using the exchange rates prevailing at the dates of the transactions, or at the average rate for the period when this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange in effect at the balance sheet date. The resulting exchange differences on translation are recorded in the Consolidated Statements of Profit and Comprehensive Income within net foreign exchange (gains) losses. Non-monetary assets and liabilities carried at historical cost denominated in a foreign currency are translated at historic rates.

(l) Income taxes

Income tax represents taxes currently payable and any deferred taxes. Tax payable is calculated based on taxable profit for the period using tax rates and tax laws enacted or substantively enacted at the year end reporting date and any adjustments to tax payable in respect of prior periods. Taxable profit for the period can differ from that reported in the Consolidated Statements of Profit and Comprehensive Income due to non-taxable income and certain items which are not tax deductible or which are deferred to subsequent periods.

Deferred tax is recognized on all temporary differences between the assets and liabilities in the Consolidated Balance Sheets and their tax base. Deferred tax assets or liabilities are accounted for using the balance sheet liability method. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The Company recognizes a tax benefit relating to uncertain tax positions only where the position is probable to be sustained assuming examination by tax authorities in accordance with IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"). Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

(m) Accounting standards and amendments issued but not yet adopted

Accounting standards issued and amendments to published standards that are not yet effective as of the date of issuance of the Company’s Consolidated Financial Statements are listed below. The Company intends to adopt these standards when they become effective.

2. Significant accounting policies, cont'd.

(m) Accounting standards and amendments issued but not yet adopted, cont'd.

IFRS 17, Insurance contracts

In May 2017, the IASB published IFRS 17, *Insurance Contracts* ("IFRS 17"), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration contracts which typically applies to certain non-life insurance contracts.

IFRS 17 is effective for annual periods beginning on or after January 1, 2023, with comparative figures required. Earlier application is permitted if IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), and IFRS 9, *Financial Instruments* ("IFRS 9"), are also applied. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Company will adopt IFRS 17 on its effective date, together with IFRS 9. The Company is currently in the 'build phase' of its IFRS 17 project with parallel testing of systems and processes due to commence in 2022. The standard includes a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition. However, management expects the Company's entire portfolio of insurance contracts to qualify for the premium allocation approach to measuring its liabilities as detailed in the standard, which will minimize the overall financial impact of IFRS 17.The Company will continue to assess the impact that IFRS 17 will have on its results and its presentation and disclosure requirements.

In December 2021, the IASB issued Initial application of IFRS 17 and IFRS 9 - Comparative Information ("Amendment to IFRS 17"). The Amendment to IFRS 17 was made to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of IFRS 9 and IFRS 17. As described below, IFRS 9 is not expected to change the classification and measurement of investments held by the Company.

IFRS 9, Financial instruments

In July 2014, the IASB published IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. In 2016, the IASB issued an amendment to IFRS 4, which permits insurers to continue applying IAS 39, rather than IFRS 9, until annual periods beginning on or after January 1, 2023, provided certain preconditions are met. These preconditions, relating to insurance being the dominant activity of a reporting entity, are fulfilled by the Company and thus the Company has applied this temporary exemption from IFRS 9. Interdependencies with IFRS 17 must be considered for a final conclusion on the combined impact of these accounting standards.

In applying the new requirements of IFRS 9, the Company currently anticipates that all investments and derivatives held by the Company will be classified as FVTPL mandatory because they are currently measured on a fair value basis. As a result, all investments and derivatives will continue to be classified as at FVTPL under IFRS 9 and their carrying value will not be impacted.

The Company will continue to assess the impact that IFRS 9 will have on its results and its presentation and disclosure requirements.

3. Risk disclosures

The Company, which is part of Sompo International's group risk management and governance structure, relies on Sompo International's established processes and controls to monitor and manage risk exposures. Enterprise risk management ("ERM") activities, as documented in Sompo International's ERM framework and the ERM policy, are critical to the Company's sustained profitability and financial integrity. The objectives of the ERM framework and the ERM policy that drive the corporate risk management strategy are as follows:

- Protect the capital base and earnings by monitoring risks against the Company's stated risk appetite and limits;
- Promote a sound risk management culture through disciplined and informed risk taking;
- Satisfy legal and regulatory risk; and
- Safeguard the Company's reputation.

The ERM framework and ERM policy are part of a system of governance which includes responsibilities for identifying, managing, monitoring and accepting risk. The Company's risk appetite, as authorized by the Board of Directors, represents the risk that the Company is willing to accept. A system of quantitative and qualitative risk analysis is employed to limit key risk exposures both on an aggregate and individual basis to provide transparency and understanding of the Company's risk profile. Documented risk policies articulate roles and responsibilities for risk management throughout the Company. Key risks identified in the Company's risk register and associated controls are assigned ownership to various governance committees.

Sompo International's Board of Directors and the Company's Board of Directors oversee the Company's risks through semi-annual meetings of the Sompo International Risk Committee ("Board Risk Committee"), whose membership includes members of senior management. The Board Risk Committee members review the Company's ERM framework and risk register as well as related policies, processes and procedures.

The Board Risk Committee monitors the Company's:

- Capital position relative to internal requirements, as measured by the Company's economic capital model, and the requirements of regulators and rating agencies;
- Underwriting risk exposure relative to limits for loss arising from catastrophic natural peril and man-made events;
- Loss reserving risk through exposures to medium and long tailed lines of business;
- Investment risk, through a system of limits incorporating exposure to asset class, credit rating, duration and currency;
- Liquidity, by stressing cash outflow scenarios relative to available cash and cash equivalents and other forms of liquidity; and
- Counterparty exposure for ceded reinsurance and for non-reinsurance counterparties.

The Board Risk Committee reviews and monitors the Company's risk tolerances as well as the methods utilized by the Company to assess, quantify, monitor and manage these risks. The Board Risk Committee also evaluates the Company's business plans, projections and performance relative to the level of associated risk. The Board Risk Committee reviews and approves on a periodic basis:

- The Company’s ERM policy, including the definition of applicable categories of risk and risk management principles in relation to each category of risk and the appropriate risk tolerances;
- The ERM framework, which specifies the procedures and process in which the Company manages its risk; and
- The level of risk assumed by the Company in its underwriting, investment and operational activities, including the methods by which such risk is measured.

The following sections address the Company's method and procedures for managing its primary risk exposure areas:

- Underwriting risks including premium, catastrophe, and loss reserving risks;
- Market risks including interest rate, foreign currency, equity price, and credit spread risks;
- Credit risks including accumulation risk;
- Liquidity risk; and
- Operational risks

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

3. Risk disclosures, cont'd.

(a) Underwriting risks

Underwriting risks broadly encompass the risks of estimation error throughout pricing activities, which may be due to either the acceptance of risks that do not comply with the Company’s underwriting guidelines and corporate strategy, or the acceptance of risks that result in losses and expenses greater than anticipated at the time of underwriting.

Internal underwriting controls are monitored by the Sompo International Management Risk Committee. The Management Risk Committee reviews, evaluates and, on certain matters, approves those aspects of the Company's operations and activities which have potential to have an impact on the Company's risk position. The Management Risk Committee reports on these activities to the Board Risk Committee.

Underwriting authority is delegated to the managers of lines of business and to underwriters in accordance with corporate risk tolerances, prudent practice and underwriting capabilities. Detailed letters of authority are issued to each of the Company's underwriters, which include, as appropriate, referral requirements specific to each line of business, terms, conditions, risk exposures, transactional situations, limits and premium capacity.

The Company's pricing guidelines are communicated to all business units and each individual underwriter and are stated in terms of 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. The pricing guidelines are regularly reviewed by the Company's senior executives in order to ensure the guidelines reflect changes in market conditions, interest rates, capital requirements and market-expected returns.

Premium risk

Premium risk is the risk that the premium to be earned over the period of exposure to the risk from in-force, new or renewal insurance contracts is insufficient to cover the claim costs, claim adjustment expenses and the acquisition expenses to be incurred by those contracts over the same period.

In certain cases, the risks written and assumed by the Company are partially reinsured with third party reinsurers. The amount of outward reinsurance protection varies by segment and line of business based on a number of factors, including market conditions. The benefits of outward reinsurance include reducing exposure on individual risks, improving the balance of the Company's portfolio, protecting against catastrophic risks, maintaining acceptable capital ratios and enabling the writing of additional business. Outward reinsurance does not legally discharge the Company from its liabilities to the original policyholder in respect of the risk being reinsured. The Company will continue to utilize this important risk management tool when the pricing and risk mitigation impact justifies doing so.

The Company considers premium risk at an individual contract level, geographic level and segment level. This ensures careful risk selection, limits on concentration and appropriate portfolio diversification are accomplished. The following table presents the gross premiums written by the geographic location in which the risk originated for the years ended December 31, 2021 and 2020:

	2021		2020	
Asia	$ 177,880	1.4 %	$ 117,974	1.3 %
Australasia	203,280	1.7 %	123,614	1.3 %
Canada	65,173	0.5 %	50,201	0.5 %
Europe	964,894	7.9 %	787,074	8.4 %
Japan	43,630	0.4 %	68,509	0.7 %
United States	8,223,898	67.0 %	5,676,153	60.6 %
Worldwide	2,427,021	19.8 %	2,390,404	25.6 %
Other	167,360	1.4 %	139,829	1.6 %
Total gross premiums written	$ 12,273,136	100.0 %	$ 9,353,758	100.0 %

The Company is considered to be a one cash-generating unit.

3. Risk disclosures, cont'd.

(a) Underwriting risks, cont'd.

Catastrophe risk

Catastrophe risk is the risk that the premium to be earned over the next twelve-month period from catastrophe exposed insurance contracts (in-force, new or renewal) is insufficient to cover potential claim costs, claim adjustment expenses and the acquisition expenses associated with those contracts that may originate from extreme or exceptional catastrophic events during the same period. Catastrophe risks at the Company pertain to both natural catastrophe and man-made events, such as marine/aviation incidents, terrorism, credit default, or political upheaval. The major catastrophe exposures for the Company are U.S. hurricane, California earthquake, Pacific Northwest earthquake, U.S. tornado/hail, European windstorm, U.K. flood, Japanese wind, Japanese earthquake, and Australian earthquake. Catastrophe risk is classified as a separate and distinct class of underwriting risk mainly due to its low-frequency and high-severity characteristics and its potential to affect numerous contracts simultaneously and inflict significant erosion of the Company’s capital. The risk is exacerbated by the impacts of climate change, which may cause an underestimation of catastrophe risk by modeling tools that place reliance on historical event data.

Catastrophe risk is the dominant contributor and driver of the Company’s total risk. The Company's catastrophe exposures are managed by limiting the amount of exposure in any one geographic area, diluting catastrophe exposures by optimizing business lines, and obtaining outward reinsurance cover. To achieve the catastrophe risk management objectives, the Company utilizes a variety of proprietary and commercially available tools to quantify and monitor the various risks.

The Company's catastrophe modeling tools, which include both proprietary and licensed software, use exposure data provided by insured and ceding company clients to simulate catastrophic losses. The Company uses modeling not only for the underwriting of individual transactions but also to optimize total return and manage the aggregate risk of the underwriting portfolio. Specific requirements are provided to clients as to the quality and levels of detailed exposure data to be provided and the Company has expressed a 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.

Data output from both 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 our existing portfolio. The degree of correlation is used to estimate the incremental capital required to support our participation on each proposed risk, allowing us to calculate a return on consumed capital. Finally, the data output is used to monitor and control the Company's cumulative exposure to individual perils across all of its businesses.

Loss reserving risk

Loss reserving risk is the risk that the best estimate (or "point estimate") of unpaid loss and loss adjustment expense reserves is inadequate to cover all future payments for the full settlement of claims from all prior accident years (on or prior to the valuation date). Loss reserving risk is distinct from premium risk and is related to exposures that have already been earned and claims that have already been incurred but have not yet been reported or fully settled.

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

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

3. Risk disclosures, cont'd.

(a) Underwriting risks, cont'd.

Loss reserving risk cont'd.

The Company's reserving process also serves to mitigate the risk associated with the Company's loss and loss expense reserve estimates. The Company 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 Company 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.

A full analysis of loss and loss adjustment expense reserves is performed on a quarterly basis. The reserve analysis is reviewed by and discussed with underwriters, actuaries, claims, finance and senior management prior to submission to Sompo International's Group Reserving Committee.

The Group Reserving Committee reviews the sufficiency of the estimated loss reserves and appraises the adequacy and effectiveness of the loss reserving practices of the Company.

Note 12, Reserve for losses and loss expenses, presents the gross and net development of the estimates of ultimate cumulative claims for the Company after the end of each accident year, illustrating how amounts estimated have changed from the initial estimates made, and a summary of changes in outstanding losses and loss expenses for the years ended December 31, 2021 and 2020, including outstanding losses recoverable from reinsurers.

The level of uncertainty with respect to the loss reserves varies significantly from class to class. The Company believes that the loss reserves established are adequate; however, a 1% improvement/deterioration in the total estimated gross losses would have an impact on profit before tax of $129.5 million gain/loss (2020 – $102.5 million gain/loss). There was no significant change to the Company's reserving methodology during the years ended December 31, 2021, and 2020.

(b) Market risks

Market risks encompasses the risk of loss in the Company's investment portfolio potentially caused by the adverse impact on its invested assets from fluctuations in market risk factors that affect the value of such assets. The Company believes that it is principally exposed to the following types of market risk: interest rate risk, foreign exchange risk, equity price risk, and credit spread risk.

The Company manages its investment risks through both a system of limits and a strategy to optimize expected risk and reward. To ensure diversification of the Company'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 Company's investment portfolio and monitored on an ongoing basis. The Company 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 our liabilities and the anticipated interest rate environment. The Company manages foreign currency risk by seeking to match the Company'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. The Company manages equity risk by maintaining a diversified portfolio and limiting the overall size of its investment in equities. The Company acknowledges the risk of declining market values for the Company's fixed interest securities due to the widening of credit spreads, and the risk is managed through limits per portfolios as set out in the Company's investment policy.

The Company uses a number of capital-at-risk models, which include volatility-scenario based measures, value-at-risk ("VaR") and credit impairment calculations to evaluate its investment portfolio risk. Additionally, the Company'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 Company. 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 Company adjusts its market risk scenarios for a variety of extremes as well as expected outcomes. The Company continuously evaluates the applicability and relevance of the models used and makes adjustments as necessary to reflect actual market conditions and performance over time.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

3. Risk disclosures, cont'd.

(b) Market risks cont'd.

Interest rate risk

The Company's fixed income portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, the fair value of our fixed income investments generally decreases, and as interest rates fall, the fair value of the fixed income investments generally increases. The Company manages its interest rate risk through an asset liability matching 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 our liabilities. The duration of the assets comprising the fixed income investments increased from approximately 2.44 years at December 31, 2020 to 2.53 years at December 31, 2021. A significant portion of the Company's investment portfolio matures each quarter, allowing for reinvestment at current market rates.

The following tables show the impact of interest rate shifts on the Company's cash and fixed income investments as at December 31, 2021 and 2020.

	Interest Rate Shift in Basis Points				
December 31, 2021	**(100)**	**(50)**	**—**	**50**	**100**
Total fair value	$ 14,228,824	$ 14,065,624	$ 13,893,981	$ 13,713,893	$ 13,525,362
Market value change from base	2.41 %	1.24 %	— %	(1.30)%	(2.65)%
Change in unrealized value	$ 334,843	$ 171,644	$ —	$ (180,087)	$ (368,619)

	Interest Rate Shift in Basis Points				
December 31, 2020	**(100)**	**(50)**	**—**	**50**	**100**
Total fair value	$ 12,503,198	$ 12,365,297	$ 12,219,886	$ 12,066,965	$ 11,906,534
Market value change from base	2.32 %	1.19 %	— %	(1.25)%	(2.56)%
Change in unrealized value	$ 283,312	$ 145,411	$ —	$ (152,921)	$ (313,352)

Foreign currency risk

The Company operates internationally and enters into reinsurance and insurance contracts for which it is obligated to pay losses in currencies other than U.S. Dollars. The majority of the Company's operating foreign currency assets and liabilities are denominated in Euro, British Pound Sterling, Canadian Dollars, Japanese Yen, New Zealand Dollars, and Australian Dollars. The Company may, from time to time, experience losses from fluctuations in the values of these and other non-U.S. currencies, which could have a material adverse effect on its results of operations. The Company will attempt to manage its foreign currency risk by seeking to match its liabilities under insurance and reinsurance contracts that are payable in foreign currencies with cash and investments that are denominated in such currencies. The Company purchases assets which are matched in currency to its case reserves at or shortly after the time such reserves are established. The Company's investment portfolio will at times have non-U.S. Dollar exposure which may or not be hedged back to U.S. Dollars. As part of its asset-liability matching strategy, the Company may also consider the use of hedges when it becomes aware of probable significant losses that will be paid in non-U.S. Dollar currencies. For liabilities incurred in currencies other than those listed above, U.S. Dollars are converted to the currency of the loss at the time of claims payment. As a result, the Company may, from time to time, experience losses resulting from fluctuations in the value of foreign currencies.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

3. Risk disclosures, cont'd.

(b) Market risks, cont'd.

Foreign currency risk, cont'd.

The Company’s assets and liabilities, categorized at their translated U.S. Dollars carrying amounts as at December 31, 2021 and 2020, are as follows:

December 31, 2021	**USD**	**EUR**	**GBP**	**Others**	**Total**
Assets					
Cash and cash equivalents	$ 2,414,189	$ 133,605	$ 114,923	$ 244,577	$ 2,907,294
Accrued investment income	51,283	1,165	2,459	262	55,169
Investments	11,422,736	281,350	292,494	206,132	12,202,712
Investment in associates	47,326	(65)	(33,307)	—	13,954
Premium receivable, net	3,648,264	356,267	280,120	662,864	4,947,515
Other insurance and reinsurance balances receivable	59,825	72,929	8,726	28,300	169,780
Receivables on investments sold	58,359	13,399	9,592	82	81,432
Prepaid reinsurance premiums	1,527,469	73,396	42,593	78,586	1,722,044
Derivative assets	118,709	1,464	(9,119)	6,187	117,241
Reinsurance recoverables on unpaid losses	3,805,059	523,190	389,624	215,584	4,933,457
Reinsurance recoverables on paid losses	1,191,968	255,421	72,580	141,479	1,661,448
Deferred acquisition costs gross	864,568	60,637	31,718	81,440	1,038,363
Current tax asset	2,423	110	—	—	2,533
Deferred tax asset	117,883	644	—	—	118,527
Property and equipment	182,873	3,379	20,958	5,665	212,875
Goodwill and intangible assets	699,518	10,761	187	—	710,466
Other assets	73,747	(1,519)	28,788	979	101,995
Due from affiliates	185	300	—	(79)	$ 406
Total assets	$ 26,286,384	$ 1,786,433	$ 1,252,336	$ 1,672,058	$ 30,997,211
Liabilities					
Reserve for losses and loss expenses	$ 10,666,381	$ 1,004,691	$ 772,163	$ 502,580	$ 12,945,815
Reserve for unearned premiums	5,053,707	263,704	220,543	332,734	$ 5,870,688
Insurance and reinsurance balances payable	2,461,853	528,291	281,068	604,940	$ 3,876,152
Payables on purchases of investments	125,891	6	—	—	$ 125,897
Derivative liabilities	35,836	25,177	10,561	10,477	$ 82,051
Deferred acquisition costs ceded	143,795	14,532	(1,798)	23,594	$ 180,123
Current tax liability	69,306	14,040	—	—	$ 83,346
Deferred tax liability	1,438	—	—	—	$ 1,438
Other liabilities	400,892	14,596	41,006	18,238	$ 474,732
Due to affiliates	159,063	—	—	2,385	$ 161,448
Loans and borrowings	455,918	2,870	16,692	2,357	$ 477,837
Total liabilities	$ 19,574,080	$ 1,867,907	$ 1,340,235	$ 1,497,305	$ 24,279,527
Net exposure	$ 6,712,304	$ (81,474)	$ (87,899)	$ 174,753	$ 6,717,684

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

3. Risk disclosures, cont'd.

(b) Market risks, cont'd.

Foreign currency risk, cont'd.

December 31, 2020	USD	EUR	GBP	Others	Total
Assets					
Cash and cash equivalents	$ 1,883,949	$ 116,543	$ 80,571	$ 147,335	$ 2,228,398
Accrued investment income	54,232	1,016	1,695	310	57,253
Investments	10,027,668	266,960	263,307	202,276	10,760,211
Investments in associates	13,236	—	—	—	13,236
Premiums receivable, net	2,653,414	384,297	378,504	351,423	3,767,638
Other insurance and reinsurance balances receivable	35,187	57,417	8,307	31,637	132,548
Receivables on investments sold	142,253	11,657	225	81	154,216
Prepaid reinsurance premiums	1,445,965	83,476	39,647	58,171	1,627,259
Derivative assets	191,074	2,594	(155)	11,469	204,982
Reinsurance recoverables on unpaid losses	3,364,031	225,279	349,137	191,133	4,129,580
Reinsurance recoverables on paid losses	1,433,039	175,709	19,318	50,665	1,678,731
Deferred acquisition costs gross	764,804	49,509	51,237	65,525	931,075
Current tax asset	2,160	(418)	—	—	1,742
Deferred tax asset	27,097	544	—	—	27,641
Property and equipment	212,647	547	16,302	4,374	233,870
Goodwill and intangible assets	732,290	11,570	—	—	743,860
Other assets	77,401	1,087	53,371	2,566	134,425
Due from affiliates	15,222	—	—	—	15,222
Total assets	$ 23,075,669	$ 1,387,787	$ 1,261,466	$ 1,116,965	$ 26,841,887
Liabilities					
Reserve for losses and loss expenses	$ 8,506,468	$ 606,676	$ 717,372	$ 421,492	$ 10,252,008
Reserve for unearned premiums	4,366,424	225,606	238,861	275,626	5,106,517
Insurance and reinsurance balances payable	2,612,568	337,178	139,032	174,956	3,263,734
Payables on purchases of investments	219,284	7	—	—	219,291
Derivative liabilities	93,228	24,500	11,691	12,541	141,960
Deferred acquisition costs ceded	169,289	17,580	(2,825)	17,926	201,970
Current tax liability	(137)	8,115	—	—	7,978
Deferred tax liability	1,170	—	—	—	1,170
Other liabilities	435,700	13,925	28,652	10,734	489,011
Due to affiliates	95	—	—	—	95
Loans and borrowings	462,408	—	19,460	4,180	486,048
Total liabilities	$ 16,866,497	$ 1,233,587	$ 1,152,243	$ 917,455	$ 20,169,782
Net exposure	$ 6,209,172	$ 154,200	$ 109,223	$ 199,510	$ 6,672,105

Assuming all other variables are held constant and disregarding any tax effects, a 10% change in the U.S. Dollars relative to the other currencies above could result in a $0.5 million increase or decrease (2020 - $46.3 million) in the net assets held by the Company at December 31, 2021.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

3. Risk disclosures, cont'd.

(b) Market risks, cont'd.

Equity price risk

The Company invests a portion of its investment portfolio in marketable equity securities. These equity investments are exposed to equity price risk, defined as the potential that the Company incurs an economic loss due to a decline of equity prices. Beta analysis is used to measure the sensitivity of our equity portfolio to changes in the value of the S&P 500 Index (an index representative of the broad equity market). As of December 31, 2021, the Company's current equity portfolio has a beta of 0.55 (2020 - 0.13) in comparison to the S&P 500 Index.

Using the beta, a sensitivity analysis can be used to assess equity price risk under varying conditions. The base sensitivity analysis below uses market scenarios of the S&P 500 Index increasing and declining both 10 percent and 20 percent to determine the impact on the value of the Company's equity securities.

	20% decrease	10% decrease	—	10% increase	20% increase
December 31, 2021	$ 343,895	$ 365,181	$ 386,468	$ 407,754	$ 429,041
December 31, 2020	84,488	85,615	86,742	87,870	88,997

The changes described above do not take into account any potential mitigating impact from the Company's fixed income or other investments portfolios or the impact of taxes.

Credit spread risk

The Company considers the effect of credit spread movements on the market value of its fixed maturity investments, short-term investments and certain other investments that invest in fixed income securities. As credit spreads widen, the market value of the Company's fixed income securities decreases, and as credit spreads tighten, the market value of the fixed income securities increases. The following table summarizes the effect that an immediate, parallel shift in credit spreads in a static interest rate environment would have had on the Company's cash and fixed income investments at December 31, 2021 and 2020:

	Credit Spread Shift in Basis Points				
December 31, 2021	**(100)**	**(50)**	**—**	**50**	**100**
Total fair value	$ 14,252,700	$ 14,073,340	$ 13,893,981	$ 13,714,621	$ 13,535,262
Market value change from base	2.58 %	1.29 %	— %	(1.29)%	(2.58)%
Change in unrealized value	$ 358,719	$ 179,360	$ —	$ (179,360)	$ (358,719)

	Credit Spread Shift in Basis Points				
December 31, 2020	**(100)**	**(50)**	**—**	**50**	**100**
Total fair value	$ 12,524,433	$ 12,372,159	$ 12,219,886	$ 12,067,612	$ 11,915,339
Market value change from base	2.49 %	1.25 %	— %	(1.25)%	(2.49)%
Change in unrealized value	$ 304,547	$ 152,274	$ —	$ (152,274)	$ (304,547)

(c) Credit risks

The Company has exposure to credit risks primarily as a holder of fixed maturity investments, short-term investments, equity securities and other investments. The Company’s risk management strategy and investment policy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to particular ratings categories and any one issuer. The Company attempts to limit its credit exposure by investing the fixed income portfolio primarily in investments rated BBB- or higher based on S&P or equivalent rating. In addition, the Company has exposure to counterparty risk as it relates to losses recoverable on paid and unpaid losses where the Company has purchased ceded reinsurance and retrocessional coverages. For reinsurance recoverables related to ceded reinsurance agreements, the Company remains obligated for amounts ceded in the event that its reinsurers or retrocessionaires do not meet their obligations.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

3. Risk disclosures, cont'd.

(c) Credit risks, cont'd.

Accordingly, when ceded reinsurance or retrocessional reinsurance is purchased, the Company requires its reinsurers to have strong financial strength ratings and, in certain cases, require posting collateral. At December 31, 2021, the Company held collateral of $1,042.4 million (2020 - $1,176.8 million) related to its ceded reinsurance agreements. The Company evaluates the financial condition of its reinsurers and monitors its concentration of credit risk on an ongoing basis.

The following tables present an analysis of the Company's major exposures to counterparty credit risk, based on their rating at December 31, 2021 and 2020. The credit rating for each security was determined based on the highest rating assigned to the individual security by S&P, Moody's Investors Service, Inc. ("Moody's"), Fitch Ratings, Inc., or DBRS, Inc. The tables also include other monetary assets from the Consolidated Balance Sheets.

December 31, 2021	Cash and cash equivalents	Fixed income investments(1)	Other insurance and reinsurance balances receivable	Receivable on investments sold	Derivative assets	Reinsurance recoverables on unpaid and paid losses
AAA	$ 7,253	$ 6,347,859	$ 380	$ 76,169	$ 85,031	$ 122,055
AA+, AA, AA-	44,190	817,331	162	464	—	1,615,733
A+, A, A-	2,667,381	1,669,472	70,935	—	(226)	4,011,753
BBB+, BBB, BBB-	175,386	1,088,892	4,396	—	—	347,590
Other / Not rated	13,084	1,063,133	93,907	4,799	32,436	497,774
Total	$ 2,907,294	$ 10,986,687	$ 169,780	$ 81,432	$ 117,241	$ 6,594,905

(1) Investments only include fixed income investments held at year-end as equity securities and alternative funds are not rated.

December 31, 2020	Cash and cash equivalents	Fixed income investments(1)	Other insurance and reinsurance balances receivable	Receivable on investments sold	Derivative assets	Reinsurance recoverables on unpaid and paid losses
AAA	$ 300	$ 5,582,125	$ 54	$ 146,504	$ 167,383	$ 86,543
AA+, AA, AA-	40,891	906,294	10,195	427	—	1,168,483
A+, A, A-	2,120,163	1,475,393	38,710	—	14,155	3,933,973
BBB+, BBB, BBB-	54,366	978,427	2,156	559	—	208,224
Other / Not rated	12,678	1,049,249	81,433	6,726	23,444	411,088
Total	2,228,398	9,991,488	132,548	154,216	204,982	5,808,311

The carrying amount of financial assets represents the maximum credit exposure.

For credit risks related to assumed reinsurance premium receivables, the Company's largest credit-risk exposure is related to third-party agents, brokers, and other intermediaries. It arises where premiums are collected from customers to be paid to the Company, or to pay claims to customers on behalf of the Company. The Company has policies and standards to manage and monitor credit risk related to intermediaries. The Company requires intermediaries to maintain segregated cash accounts for policyholder money. The Company also requires intermediaries to satisfy minimum requirements of capitalization, reputation and experience, and provide short-dated business credit terms. Refer to accumulation risk below for concentration of gross premiums written with the largest brokers.

For direct premium receivable, the Company has no significant concentration of credit risk, as the Company has a large number of internationally dispersed debtors with unrelated operations.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

3. Risk disclosures, cont'd.

(c) Credit risks, cont'd.

The following table shows premiums receivable that are past due but not impaired at December 31, 2021 and 2020:

	2021	2020
Not yet due	$ 4,258,144	$ 2,860,135
Less than 90 days past due	512,818	661,920
Between 91 and 180 days past due	53,611	111,179
Over 180 days past due	122,942	134,404
Total	$ 4,947,515	$ 3,767,638

An allowance of $28.5 million (December 31, 2020 - $25.0 million) has been recorded as an estimate of impaired or irrecoverable premiums receivable balances, and $11.8 million (2020 - $9.0 million) was charged to the Consolidated Statements of Profit and Comprehensive Income related to bad debts for the year ended December 31, 2021. The allowance is written off against the carrying amount of impaired balances when the aging and going concern analysis of the counterparty indicate that the non-payment of outstanding balances are virtually certain.

Accumulation risk

In accordance with industry practice, the Company frequently pays amounts owed on claims under our commercial insurance or reinsurance contracts to brokers, and these brokers, in turn, pay these amounts to the clients that have purchased insurance or reinsurance from us. If a broker fails to make such a payment, in a significant majority of business that the Company writes, it is highly likely that the Company will be liable to the client for the deficiency because of local laws or contractual obligations, notwithstanding the broker's obligation to make such payment. Likewise, when the client pays premiums for these policies to brokers for payment over to the Company, these premiums are considered to have been paid and, in most cases, the client will no longer be liable to the Company for those amounts, whether or not the Company has actually received the premiums. Consequently, the Company assumes a degree of credit risk associated with brokers around the world. To date we have not experienced any losses related to such credit risks.

The following table shows the percentage of gross premiums written generated through the Company's largest brokers for the years ended December 31, 2021 and 2020:

	2021		2020	
Marsh & McLennan Companies, Inc.	$ 2,988,143	24.3 %	$ 2,737,600	29.3 %
Aon PLC	1,519,795	12.4 %	1,254,320	13.4 %
Willis Towers Watson PLC	961,828	7.8 %	787,277	8.4 %
Others(1)	6,803,370	55.4 %	4,574,561	48.9 %
Total gross premiums written	$ 12,273,136	100.0 %	$ 9,353,758	100.0 %

(1) Others include individual brokers with accumulation of less than five percent of the total gross premiums written.

(d) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when they are due without incurring an unreasonable cost.

When financial markets experience a reduction in liquidity, the Company's ability to conduct orderly investment transactions may be limited and may result in declines in fair values of the securities in the Company's investment portfolio. In addition, if the Company requires significant amounts of cash on short notice in excess of normal cash requirements (which could include claims following a major catastrophe event) in a period of market illiquidity, the Company may have difficulty selling its investments in a timely manner and may have to dispose of its investments for less than what may otherwise have been possible under other conditions.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

3. Risk disclosures, cont'd.

(d) Liquidity risk, cont'd.

Contractual maturities of the Company's fixed maturity and short-term investments are shown below as of December 31, 2021 and 2020. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2021	2020
Less than one year	$ 598,740	$ 576,204
Between one and five years	4,181,285	3,515,601
Between five and ten years	1,431,650	1,475,484
Over ten years	128,947	157,342
Residential mortgage-backed securities	2,206,422	2,278,647
Commercial mortgage-backed securities	1,071,575	806,112
Collateralized loan and debt obligations	716,282	633,512
Asset-backed securities	651,786	548,586
Total	$ 10,986,687	$ 9,991,488

The tables below show the maturity profile of the Company's financial liabilities as at December 31, 2021 and 2020:

	Contractual undiscounted cash flows in years				
December 31, 2021	**Less than one**	**One to three**	**Three to five**	**Over five**	**Total**
Reserve for losses and loss expenses	$ 4,697,329	$ 3,874,233	$ 2,021,448	$ 2,352,805	$ 12,945,815
Insurance and reinsurance balances payable	2,825,274	866,926	(210,053)	394,005	3,876,152
Payables on purchases of investments	125,897	—	—	—	125,897
Derivative liabilities	82,051	—	—	—	82,051
Other liabilities	446,765	27,967	—	—	474,732
Loans and borrowings[(1)]	12,150	24,300	24,300	282,150	342,900
Total	$ 8,189,466	$ 4,793,426	$ 1,835,695	$ 3,028,960	$ 17,847,547

(1) Loans and borrowings includes interest payments based on contractual obligation and excludes lease liabilities, which is disclosed in Note 14, Property and Equipment.

	Contractual undiscounted cash flows in years				
December 31, 2020	**Less than one**	**One to three**	**Three to five**	**Over five**	**Total**
Reserve for losses and loss expenses	$ 2,697,552	$ 3,545,395	$ 1,800,824	$ 2,208,237	$ 10,252,008
Insurance and reinsurance balances payable	2,986,475	268,750		8,509	3,263,734
Payables on purchases of investments	219,291	—	—	—	219,291
Derivative liabilities	130,612	11,348	—	—	141,960
Other liabilities	482,266	6,745	—	—	489,011
Loans and borrowings[(1)]	12,150	24,300	24,300	294,300	355,050
Total	$ 6,528,346	$ 3,856,538	$ 1,825,124	$ 2,511,046	$ 14,721,054

While the estimation of the ultimate liability for outstanding losses and loss expenses is complex and incorporates a significant amount of judgment, the timing of payment of outstanding losses and loss expenses is also uncertain. Actuarial and statistical techniques, past experience and management’s judgment have been used to determine a likely settlement pattern.

3. Risk disclosures, cont'd.

(e) Operational risks

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 processes or transactions, IT failure, the loss of key employees without an appropriate successor and non-compliance with reporting obligations. Operational risk is difficult to quantify but can be controlled through appropriate corporate governance and internal control measures. The Company has developed a number of policies and procedures aimed to control or mitigate the negative impact that may potentially result from operational risk events.

The Company 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. These controls are supplemented by the risk and control self-assessment framework which enables the core identification, documentation, and assessment of operational risk and risk controls across the organization. The Company's internal audit department tests the Company's policies and various process controls on a regular basis.

The use by the Company of the services of unaffiliated third parties exposes the Company 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 Company 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 on-going service, business continuity planning and its business reputation as well as monitoring any significant third party relationships.

The Company has actively tracked developments concerning COVID-19 and the developing hostilities in Ukraine, reviewing and analyzing potential material impacts on its operations and implementing mitigation measures and strategies accordingly in response to such new developments and determinations as circumstances have warranted. At this time, based upon information currently available to the Company, the current mitigation measures and strategies that have been implemented have permitted the Company to carry out its business and perform its obligations to policyholders, counterparties and regulators, and the impacts from COVID-19 and the developing hostiles in Ukraine have not materially adversely affected its ability to do so.

4. Business combinations

Acquisition of W. Brown

On the W. Brown Acquisition Date the Company completed the acquisition of W. Brown. The acquisition of W. Brown complements the broader suite of the Company's aviation insurance and reinsurance products and leverages W. Brown's management and underwriting expertise, distribution platform and service capabilities.

The consideration for the transaction was $81.6 million in cash. Cash and cash equivalents acquired with the acquisition of W. Brown was $4.5million. The fair value of premium receivable was $37.6 million, and the gross amount of premiums receivable was $38.1 million at the W. Brown Acquisition Date. None of the trade receivables were impaired as they were expected to be fully recoverable.

From the W. Brown Acquisition Date, W. Brown contributed minimal profit for the year ended December 31, 2020. If the acquisition had taken place at the beginning of 2020, the total profit for the Company for the year ended December 31, 2020 would have increased by $4.8 million.

Identified finite lived intangible assets and other adjustments to the fair values of the assets acquired and liabilities assumed of W. Brown at December 21, 2020 are summarized in the table below:

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

4. Business combinations, cont'd.

Acquisition of W. Brown , cont'd.

W. Brown shareholder's equity attributable to controlling interest as of December 21, 2020	$	3,628
Adjustments for fair value due to adjustment of fair value of property and equipment		(384)
Adjustment for fair value of identifiable finite lived intangible assets (agent relationships, renewal rights, trade name, and non-competition agreement)		49,700
Total adjustments for fair value by applicable balance sheet caption and identifiable intangible assets		49,316
Estimated fair value of net assets acquired and identifiable intangible assets		52,944
Total consideration		81,628
Estimated total consideration over the fair value of net assets acquired assigned to goodwill	$	28,684

The initial goodwill of $28.7 million represents future synergies expected to arise from the combined operations, the value of W. Brown's assembled workforce and other future business not included in intangible assets. The entire amount of goodwill recognized is deductible for income tax purposes. In accordance with IFRS 3, the measurement period for the acquisition of W. Brown concluded during the year ended December 31, 2021. As a result, an additional consideration payment of $0.3 million was made to the sellers of W. Brown on July 21, 2021 and was recorded as an adjustment to goodwill, see Note 11, Goodwill and intangible assets.

Acquisition of Diversified Services and CGBIC

On the Diversified Acquisition Date, the Company completed the acquisition of Diversified Services and CGBIC from CGB. The acquisition of Diversified Services and CGBIC aligns with the strategic vision of AgriSompo, Sompo International's global agriculture platform, and will add additional capabilities and scale to the crop insurance business in North America.

The aggregate consideration for the transaction was $470.0 million, which consisted of $174.1 million of cash, a $270.0 million note payable issued to CGB (the "CGB Note"), with a fair value of $286.5 million as of the Diversified Acquisition Date, and contingent consideration of $9.4 million. For additional information on the CGB Note, see Note 15, Loans and borrowings. No cash and cash equivalents were acquired with the acquisition of Diversified Services and CGBIC.

In connection with the acquisition of Diversified Services and CGBIC, the Company incurred transaction-related expenses of $3.5 million for the year ended December 31, 2020, which were recognized on the Consolidated Statements of Profit and Comprehensive Income as a component of corporate expenses.

The fair value of premium receivable was $482.4 million, and the gross amount of premiums receivable was $483.8 million at the Diversified Acquisition Date. None of the receivables were impaired as they were expected to be fully recoverable.

From the Diversified Acquisition Date, Diversified Services and CGBIC contributed minimal net premiums and profit for the year ended December 31, 2020.

The aggregate consideration was allocated to the acquired assets and liabilities of Diversified Services and CGBIC based on estimated fair values on the Diversified Acquisition Date, as detailed below. The allocation of the purchase price was based on information that was available to management at the time the Consolidated Financial Statements for the year ended December 31, 2020 were prepared.

Identified finite and infinite lived intangible assets and other adjustments to the fair values of the assets acquired and liabilities assumed of Diversified Services and CGBIC at December 28, 2020 are summarized in the table below:

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

4. Business combinations, cont'd.

Acquisition of Diversified Services and CGBIC, cont'd.

Diversified Services and CGBIC shareholder's equity attributable to controlling interest as of December 28, 2020	$	249,448
Adjustments for fair value and other items, by applicable balance sheet caption:		
Assets:		
Deferred acquisition costs gross		3,873
Property and equipment		(6,574)
Liabilities:		
Other liabilities		(102,418)
Total adjustments for fair value by applicable balance sheet caption		(105,119)
Adjustments for fair value of the identifiable intangible assets:		
Identifiable indefinite lived intangible assets (insurance licenses)		8,500
Identifiable finite lived intangible assets (agent relationships, renewal rights, and non-competition agreement)		111,900
Total adjustments for fair value by applicable balance sheet caption and identifiable intangible assets		15,281
Estimated fair value of net assets acquired and identifiable intangible assets		264,729
Total consideration		469,982
Estimated total consideration over the fair value of net assets acquired assigned to goodwill	$	205,253

An explanation of the fair value and other adjustments is as follows:

- Deferred acquisition costs - To eliminate net negative deferred acquisition costs;
- Property and equipment - To reflect the fair value of Diversified Services' fixed assets; and
- Other liabilities - Adjustment to reflect amounts payable to CGB.

The initial goodwill of $205.3 million represents future synergies expected to arise from the combined operations, the value of Diversified Services and CGBIC's assembled workforce and other future business not included in intangible assets. The entire amount of goodwill recognized is deductible for income tax purposes. In accordance with IFRS 3, the measurement period for the acquisition of Diversified Services and CGBIC concluded during the year ended December 31, 2021. As a result of additional facts and circumstances coming to light during the measurement period the consideration payment to the sellers of Diversified Services and CGBIC was reduced by $5.6 million from adjustments made to the tangible book value of the business acquired. Additionally, the fair value of the net assets acquired and identifiable intangible assets assigned to goodwill was reduced by $0.5 million. The changes identified in the measurement period were recorded as an adjustment to goodwill, see Note 11, Goodwill and intangible assets. No changes were made to the contingent consideration payment of $9.4 million.

5. Cash and cash equivalents

The components of cash and cash equivalents as at December 31, 2021 and 2020, are as follows:

		2021		2020
Cash at bank and in hand	$	2,816,281	$	1,860,463
Cash equivalents		91,013		367,935
Total cash and cash equivalents	$	2,907,294	$	2,228,398

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.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

6. Investments

The components of investments as at December 31, 2021 and 2020 are as follows:

		2021		2020
Short-term investments, at FVTPL (designated as such upon initial recognition)	$	101,204	$	187,087
Equity securities, at FVTPL (designated as such upon initial recognition)		386,468		86,742
Alternative funds, at FVTPL (designated as such upon initial recognition)		829,557		681,981
Fixed maturity investments, at FVTPL (designated as such upon initial recognition)				
U.S. government and agencies securities		2,006,672		1,448,046
U.S. state and municipal securities		96,741		132,737
Foreign government securities		340,993		449,965
Government guaranteed corporate securities		22,432		45,563
Corporate securities		3,772,580		3,461,233
Residential mortgage-backed securities		2,206,422		2,278,647
Commercial mortgage-backed securities		1,071,575		806,112
Collateralized loan and debt obligations		716,282		633,512
Asset-backed securities		651,786		548,586
Total fixed maturity investments		10,885,483		9,804,401
Total investments	$	12,202,712	$	10,760,211

(a) Composition of net investment income

The components of net investment income for the years ended December 31, 2021 and 2020 are as follows:

		2021		2020
Cash and cash equivalents	$	2,555	$	6,850
Fixed income investments[(1)] at FVTPL		237,194		243,608
Equity securities at FVTPL		5,530		3,215
Alternative funds at FVTPL		113,330		8,556
Sub-total	$	358,609	$	262,229
Investment management expenses		(22,960)		(20,664)
Net investment income	$	335,649	$	241,565

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

(b) Composition of net realized and unrealized gains

The components of net realized and unrealized gains recorded on the Consolidated Statements of Profit and Comprehensive Income for the years ended December 31, 2021 and 2020 are as follows:

		2021		2020
Fixed income investments at FVTPL	$	41,330	$	47,642
Equity securities at FVTPL		411		18,602
Derivative financial instruments		962		(459)
Net realized gains on investments	$	42,703	$	65,785

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

6. Investments, cont'd.

(b) Investment commitments, cont'd.

	2021	2020
Fixed income investments at FVTPL	$ (266,517)	$ 172,610
Equity securities at FVTPL	4,997	(3,060)
Derivative financial instruments	(1,465)	687
Net unrealized (losses) gains on investments	$ (262,985)	$ 170,237

Net realized and unrealized gains are recognized in earnings using the first in, first out method. For additional information on the Company's derivative financial instruments, see Note 8, Derivatives.

(c) Investment in associates

As of December 31, 2020, the Company had invested $13.2 million in associates. During the year ended December 31, 2021, the Company's Investment in associates increased to $14.0 million. The Investment in associates is classified as non-current.

(d) Investment commitments

As of December 31, 2021, the Company had pledged cash and cash equivalents and fixed maturity investments of $1,554.0 million (2020 - $1,317.0 million), in favor of certain ceding companies to collateralize obligations. As of December 31, 2021, the Company had also pledged $48.5 million (2020 - $41.7 million) of its cash and fixed maturity investments as required to meet collateral obligations for $41.7 million (2020 - $30.5 million) in secured letters of credit outstanding under its credit facilities. In addition, at December 31, 2021, cash and fixed maturity investments with fair values of $216.8 million (2020 - $199.6 million) were on deposit with U.S. state regulators.

In addition to the Company's short-term, fixed maturity, and equity investments, the Company invests in alternative funds. At December 31, 2021, the Company had invested, net of capital returned, a total of $637.2 million in alternative funds (2020 - $585.7 million). The following tables summarize the unfunded commitments and redemption restrictions of alternative funds as at December 31, 2021 and 2020:

December 31, 2021	**Fair value**	**Unfunded Commitments**	**Ineligible for Redemption in 2021**
Hedge funds	$ 329,727		$ 39,420
Private investment funds	368,921	290,402	318,636
Other investment funds	130,909		113,295
Total alternative funds	$ 829,557	$ 290,402	$ 471,351

December 31, 2020	**Fair value**	**Unfunded Commitments**	**Ineligible for Redemption in 2020**
Hedge funds	$ 303,177	$ —	$ 133,323
Private investment funds	242,495	163,450	242,495
Other investment funds	136,309	—	118,154
Total alternative funds	$ 681,981	$ 163,450	$ 493,972

Hedge funds – The redemption frequency of the hedge funds range from monthly to every 5 years with notice periods from 60 to 90 days. Over one year, it is estimated that the Company can liquidate approximately 88% of the hedge fund portfolio, with the majority of the remainder over the following three years.

Private investment funds – The Company has no right to redeem certain of its interest in private investment funds in advance of dissolution of the applicable partnership. Instead, the nature of these investments is that distributions are received by the Company in connection with the distribution of income or the liquidation of the underlying assets of the applicable limited partnership. It is estimated that the majority of the underlying assets of the limited partnerships would liquidate over 5 to 10 years from inception of the limited partnership. A secondary market, with unpredictable liquidity, exists for limited partner interests in private investment funds.

6. Investments, cont'd.

(d) Investment commitments, cont'd.

Other investment funds – Other investment funds includes funds on deposit with Lloyd's, which are restricted.

(e) Securities lending

The Company participates in a securities lending program whereby some investments are loaned by the Company to a limited number of financial institutions. These transferred assets remain on our Consolidated Balance Sheets and are accounted for as collateralized borrowing transactions. The borrowers of the Company's securities issue collateral, typically US Government Securities, which the Company does not maintain and which is held by the Broker.

	2021	Total	2020	Total
Fair value of lent assets	91,757	91,757	—	—
Fair value of lent liabilities	—		—	—
Fair value of net position	91,757	91,757	—	—

(f) Temporary exemption of IFRS 9

The Company has elected to defer the full implementation of IFRS 9 until IFRS 17 becomes effective on January 1, 2023. For further information on the Company's eligibility to the temporary exemption from IFRS 9, refer to Note 2, Significant accounting policies.

Under IFRS 9, the classification and measurement of all debt instruments will be driven by the business model in which these assets are held and by their contractual terms. The combined effect of the application of the business model and contractual cash flows characteristics determine whether the financial assets are measured at amortized cost, fair value with changes recognized in other comprehensive income ("FVOCI") or FVTPL. The business model is required to be assessed at the date of the initial application of IFRS 9.

Debt instruments with contractual terms that give rise to cash flows that are solely payment of principal and interest on the principal amount outstanding ("SPPI") will be measured at either amortized cost or at FVOCI, unless they are managed on a fair value basis. The assessment of the features of the contractual terms is referred to as the SPPI test. Debt instruments that do not pass the SPPI test will be measured at FVTPL. The Company anticipates that all debt investments held by the Company will be classified as FVTPL, as they are managed on a fair value basis.

Equity instruments, including fund investments, will be accounted for at FVTPL. The Company does not intend to make use of the election to present changes in fair value of certain equity instruments that are not held for trading in other comprehensive income with no subsequent reclassification of realized gains or losses to the Consolidated Statements of Profit and Comprehensive Income.

IFRS 9 also introduces new classification and measurement requirements for financial instruments and an expected credit loss impairment model that replaces the IAS 39 incurred loss model. Financial instruments subject to impairment under IFRS 9 includes assets measured at amortized cost and those assets mandatorily measured at FVOCI. Therefore, the new expected credit loss impairment model is not expected to have significant impact on Sompo International's investments. The Company's credit risk exposure inherent in financial assets is described in Note 3, Risk disclosures.

7. Fair value measurement

The Company determines the fair value of its fixed maturity investments, short-term investments, equity securities, derivative assets and liabilities, and alternative funds 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 Company determines the estimated fair value of each individual security utilizing the highest level inputs available. Valuation inputs by security type may include the following:

- Government and agencies fixed maturity securities – These securities are generally priced by pricing services or index providers. The pricing services or index providers may use current market trades for securities with similar quality, maturity and coupon. If no such trades are available, the pricing service typically uses analytical models which may

7. Fair value measurement, cont'd.

incorporate option adjusted spreads, daily interest rate data and market/sector news. The Company generally classifies the fair values of government and agencies securities in Level 2. Current issue U.S. government securities are generally valued based on Level 1 inputs, which use the market approach valuation technique.

- Government guaranteed corporate fixed maturity securities – These securities are generally priced by pricing services or index providers. The pricing service or index providers may use current market trades for securities with similar quality, maturity and coupon. If no such trades are available, the pricing service typically uses analytical spread models which may incorporate inputs from the U.S. treasury curve, LIBOR or SOFR. The Company generally classifies the fair values of its government guaranteed corporate securities in Level 2.
- Corporate fixed maturity securities – These securities are generally priced by pricing services or index providers. The pricing services or index providers typically use discounted cash flow models that incorporate benchmark curves for treasury, swap and high issuance credits. Credit spreads are developed from current market observations for like or similar securities. The Company generally classifies the fair values of its corporate securities in Level 2.
- Equity securities – These securities are generally priced by pricing services or index providers. Depending on the type of underlying equity security or equity fund, the securities are priced by pricing services or index providers based on quoted market prices in active markets or through a discounted cash flow model that incorporates benchmark curves for treasury, swap and credit for like or similar securities. The Company generally classifies the fair values of its equity securities in Level 1 or 2.
- Structured securities including agency and non-agency, residential and commercial mortgage, asset-backed securities and collateralized loan and debt obligations – These securities are generally priced by broker/dealers. Broker/dealers may use current market trades for securities with similar qualities. If no such trades are available, inputs such as bid and offer, prepayment speeds, the U.S. treasury curve, swap curve and cash settlement may be used in a discounted cash flow model to determine the fair value of a security. The Company generally classifies the fair values of its structured securities in Level 2.
- Derivative assets and liabilities – A variety of derivative instruments are used to enhance the efficiency of the investment portfolio and economically hedge certain risks. These instruments are generally priced by pricing services, broker/dealers and/or recent trading activity. The market value approach valuation technique is used to estimate the fair value for these derivatives based on significant observable market inputs. Certain derivative instruments are priced by pricing services based on quoted market prices in active markets. These derivative instruments are generally classified in Level 1. Other derivative instruments are priced using industry valuation models and are considered Level 2, as the inputs to the valuation model are based on observable market inputs. Also included in this line item are proprietary, non-exchange traded derivative-based risk management products primarily used to address weather and energy risks. The trading market for these weather derivatives are generally linked to energy and agriculture commodities, weather and other natural phenomena. In instances where market prices are not available, the Company uses industry or internally developed valuation techniques such as spread option, Black Scholes, quanto and simulation modeling to determine fair value and classifies these in Level 3. These models may reference prices for similar instruments.
- Alternative funds - These investments are generally priced on net asset values ("NAV") received from the fund managers or administrators. Due to the timing of the delivery of the final NAV by certain of the fund managers, valuations of certain alternative funds and specialty funds are estimated based on the most recently available information, including period end NAVs, period end estimates, or, in some cases, prior month or prior quarter NAVs. As this valuation technique incorporates both observable and significant unobservable inputs, the Company generally classifies the fair value of its alternative funds in Level 3.

The carrying values of cash and cash equivalents, accrued investment income, premiums receivable, other insurance and reinsurance balances receivable, receivable on investments sold, reinsurance recoverables on paid and unpaid losses, insurance and reinsurance balances payable, payables on purchases of investments, and other assets and liabilities approximated their fair values.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

7. Fair value measurement, cont'd.

The following table sets forth the Company's short-term investments, fixed maturity investments, equity securities, alternative funds, derivative assets and liabilities, and other fair value disclosures categorized by the level within the hierarchy in which the fair value measurements fall as at December 31, 2021 and 2020:

	2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments at FVTPL (designated as such upon initial recognition)	$ 101,204	$ —	$ 101,144	$ 60
Equity securities at FVTPL (designated as such upon initial recognition)	386,468	328,036	58,432	—
Alternative funds, at FVTPL (designated as such upon initial recognition)	829,557	—	—	829,557
Fixed maturity investments at FVTPL (designated as such upon initial recognition)				
U.S. government and agencies securities	2,006,672	70,582	1,936,090	—
U.S. state and municipal securities	96,741	—	96,741	—
Foreign government securities	340,993	—	340,993	—
Government guaranteed corporate securities	22,432	—	22,432	—
Corporate securities	3,772,580	—	3,643,347	129,233
Residential mortgage-backed securities	2,206,422	—	2,206,422	—
Commercial mortgage-backed securities	1,071,575	—	1,071,575	—
Collateralized loan and debt obligations	716,282	—	690,106	26,176
Asset-backed securities	651,786	—	651,786	—
Total fixed maturity investments	10,885,483	70,582	10,659,492	155,409
Total investments measured at fair value	12,202,712	398,618	10,819,068	985,026
Derivative instruments at FVTPL (Note 8)				
Derivative assets	117,241	157	97,671	19,413
Derivative liabilities	(82,051)	(15)	(70,300)	(11,736)
Total derivative instrument	35,190	142	27,371	7,677
Total investments and derivative instruments measured at fair value	$ 12,237,902	$ 398,760	$ 10,846,439	$ 992,703
Assets and liabilities for which fair values are disclosed				
Loans and borrowings (Note 15)(1)	$ 284,387	$ —	$ 284,387	$ —

(1) Loans and borrowings excludes lease liabilities, which is disclosed in Note 14, Property and Equipment. Fair values are determined from pricing services or index providers using current market trades.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

7. Fair value measurement, cont'd.

	2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments at FVTPL (designated as such upon initial recognition)	$ 187,087	$ —	$ 186,995	$ 92
Equity securities at FVTPL (designated as such upon initial recognition)	86,742	11,718	75,024	—
Alternative funds, at FVTPL (designated as such upon initial recognition)	681,981	—	—	681,981
Fixed maturity investments at FVTPL (designated as such upon initial recognition)				
U.S. government and agencies securities	1,448,046	78,008	1,370,038	—
U.S. state and municipal securities	132,737	—	132,737	—
Foreign government securities	449,965	—	449,965	—
Government guaranteed corporate securities	45,563	—	45,563	—
Corporate securities	3,461,233	—	3,373,247	87,986
Residential mortgage-backed securities	2,278,647	—	2,278,647	—
Commercial mortgage-backed securities	806,112	—	806,112	—
Collateralized loan and debt obligations	633,512	—	613,235	20,277
Asset-backed securities	548,586	—	548,586	—
Total fixed maturity investments	9,804,401	78,008	9,618,130	108,263
Total investments measured at fair value	10,760,211	89,726	9,880,149	790,336
Derivative instruments at FVTPL (Note 8)				
Derivative assets	204,982	156	167,761	37,065
Derivative liabilities	(141,960)	(14)	(125,466)	(16,480)
Total derivative instrument	63,022	142	42,295	20,585
Total investments and derivative instruments measured at fair value	$ 10,823,233	$ 89,868	$ 9,922,444	$ 810,921
Assets and liabilities for which fair values are disclosed				
Loans and borrowings (Note 15)(1)	$ 286,509	$ —	$ 286,509	$ —

(1) Loans and borrowings excludes lease liabilities, which is disclosed in Note 14, Property and Equipment. Fair values are determined from pricing services or index providers using current market trades.

During the year ended December 31 2021, $7.4 million U.S. government and agencies securities were transferred from Level 1 to Level 2 as they no longer qualified as on the run U.S. treasury securities (2020 - $— million). There were no other transfers made between Levels 1, 2 and 3 of the fair value hierarchy during the years ended December 31, 2021 and 2020.

Financial instruments included in Level 3

Alternative funds measured at fair value included assets of $829.6 million (2020 - $682.0 million) for which valuation techniques are not based on observable market data. The Company classifies alternative funds as Level 3 assets as the valuation techniques incorporate both observable and unobservable inputs. The estimated fair values of the Company’s alternative funds are determined using a combination of the most recent NAVs provided by each alternative fund’s independent administrator and the estimated performance provided by each fund manager. Independent administrators provide monthly reported NAVs with up to a three month delay in valuation. The valuation of the alternative funds at the reporting date are based on the most recently available information, including period end NAVs, period end estimates, or, in some cases, prior month or prior quarter NAVs, as provided by the fund manager. Historically, estimated fair values incorporating these performance estimates have not been significantly different from subsequent NAVs. Given the Company’s knowledge of the underlying investments and the size of the Company’s investment therein, we would not anticipate any material variance between estimated valuations and the final NAVs reported by the administrators.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

7. Fair value measurement, cont'd.

Financial instruments included in Level 3, cont'd.

The following tables present a reconciliation of the beginning and ending balances for all assets and liabilities measured at fair value on a recurring basis using Level 3 inputs during for the years ended December 31, 2021 and 2020:

2021	**Alternative funds**	**Fixed income investments**	**Derivative assets**	**Derivative liabilities**
Level 3, beginning of year	$ 681,981	$ 108,355	$ 37,065	$ (16,480)
Total realized and unrealized (losses) gains included in earnings	109,300	2,082	—	—
Total losses included in other underwriting (loss) income	—	—	(3,171)	7,422
Purchases	143,282	101,588	—	—
Issues	—	—	13,091	(13,091)
Sales	(105,006)	(56,556)	—	—
Settlements	—	—	(27,572)	10,413
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Level 3, end of year	$ 829,557	$ 155,469	$ 19,413	$ (11,736)

2020	**Alternative funds**	**Fixed income investments**	**Derivative assets**	**Derivative liabilities**
Level 3, beginning of year	$ 627,334	$ 83,713	$ 37,484	$ (39,306)
Total realized and unrealized (losses) gains included in earnings	18,564	99	—	—
Total losses included in other underwriting (loss) income	—	—	(10,328)	(33,607)
Purchases	111,040	55,267	—	—
Issues	—	—	20,048	(2,037)
Sales	(74,957)	(30,724)	—	—
Settlements	—	—	(10,139)	58,470
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Level 3, end of year	$ 681,981	$ 108,355	$ 37,065	$ (16,480)

8. Derivatives

The Company regularly transacts in certain derivative-based weather risk management products primarily to address weather and energy risks on behalf of third parties. The markets for these derivatives are generally linked to energy and agriculture commodities, weather and other natural phenomena. Generally, the Company's current portfolio of such derivative contracts is of short duration and such contracts are predominantly seasonal in nature. The Company also invests a portion of its investments with third party investment managers with investment guidelines that permit the use of derivative instruments. The Company may enter derivative transactions directly or as part of strategies employed by its external investment managers.

The Company's objectives for holding these derivatives are as follows:

Interest Rate Futures, Swaps, Swaptions and Options - to manage exposure to interest rate risk, which can include increasing or decreasing its exposure to this risk through modification of the portfolio composition and duration.

Foreign Exchange Forwards, Futures and Options - as part of its overall currency risk management and investment strategies.

Credit Default Swaps - to manage market exposures. The Company may assume or economically hedge credit risk through credit default swaps to replicate or hedge investment positions. The original term of these credit default swaps is generally five years or less.

TBAs - to enhance investment performance and as part of the overall investment strategy. TBAs represent commitments to purchase or sell a future issuance of agency mortgage-backed securities. For the period between the purchase of a TBA and issuance of the underlying securities, the Company’s position is accounted for as a derivative.

Energy and Weather Contracts - to address weather and energy risks. The Company may purchase or sell contracts with financial settlements based on the performance of an index linked to a quantifiable weather element, such as temperature, precipitation, snowfall or windspeed, and structures with multiple risk triggers indexed to a quantifiable weather element and a weather sensitive commodity price, such as temperature and electrical power or agriculture crops. Generally, the Company’s current portfolio of energy and weather derivative contracts is of comparably short duration and such contracts are predominantly seasonal in nature.

Loss Development Cover – as part of the sale of Montpelier U.S. Insurance Company ("MUSIC") to Selective Insurance Group, Inc. ("Selective"), Montpelier Reinsurance Ltd. (now Endurance Bermuda) entered into a loss development cover with MUSIC which ensures that MUSIC's reserve for losses and loss expenses relating to retained business written on or prior to December 31, 2011 remains adequate. Under the loss development cover, any future adverse development associated with such retained reserves will be protected by Endurance Bermuda and any future favorable development associated with such retained reserves will benefit Endurance Bermuda.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

8. Derivatives, cont'd

The following tables show the fair value of derivative financial instruments, recorded as derivative assets or liabilities, together with their notional amounts. The notional amount, shown gross, is the amount of a derivative's underlying assets, reference rate or index and is the basis upon which changes in the value of the derivatives are measured. The notional amounts indicate the volume of transactions outstanding and are indicative of neither the market risk nor the credit risk.

	2021		2020	
	Fair Value	**Notional Principal Amount**	**Fair Value**	**Notional Principal Amount**
Derivative assets				
Foreign exchange forward contracts	$ 12,369	$ 37,522	$ 8	$ 742
Credit default swaps	197	9,900	44	4,853
Interest rate futures	75	35,774	1	217
TBAs	85,030	83,470	167,330	159,855
Loss development cover	—	—	378	25,305
Energy and weather contracts	19,570	14,395	37,221	30,537
Total derivative assets	$ 117,241		$ 204,982	
Derivative liabilities				
Foreign exchange forward contracts	$ 12,497	$ 33,361	$ 541	$ 36,795
Credit default swaps	7	1,055	14	1,145
Interest rate swaps	330	25,333	—	—
Zero coupon swaps	127	13,393	—	—
Inflation Swaps	539	8,851	—	—
Interest rate futures	176	10,310	137	12,228
TBAs	56,184	55,302	124,774	119,070
Loss development cover	440	25,356	—	—
Energy and weather contracts	11,751	35,987	16,494	73,216
Total derivative liabilities	$ 82,051		$ 141,960	

At December 31, 2021, derivative assets of $117.2 million (2020 - $205.0 million) and liabilities of $81.9 million (2020 - $141.8 million) were subject to master netting agreements, which provide for the ability to settle the derivative asset and liability with each counterparty on a net basis. Interest rate futures are not subject to master netting agreements. The Company's derivative instruments were recorded on a gross basis in the Consolidated Balance Sheets.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

9. Deferred acquisition costs

The following table shows a reconciliation of beginning and ending balances of gross and ceded deferred acquisition costs for the years ended December 31, 2021 and 2020:

	Gross	Ceded	Net
Balance at January 1, 2020	$ 630,814	$ 182,201	$ 448,613
Expense deferred	1,555,143	359,531	1,195,612
Amortization	(1,258,661)	(342,669)	(915,992)
Other	3,779	2,907	872
Balance at December 31, 2020	$ 931,075	$ 201,970	$ 729,105
Expense deferred	1,825,736	326,173	1,499,563
Amortization	(1,715,329)	(347,241)	(1,368,088)
Other	(3,119)	(779)	(2,340)
Balance at December 31, 2021	$ 1,038,363	$ 180,123	$ 858,240

10. Insurance, reinsurance and other assets

The following table shows premiums receivable, other insurance and reinsurance balances receivable, receivables on investments sold, derivative assets, reinsurance recoverables on unpaid and paid losses and other assets as at December 31, 2021 and 2020:

	2021	2020
Premiums receivable, net	$ 4,947,515	$ 3,767,638
Other insurance and reinsurance balances receivable	169,780	132,548
Receivables on investments sold	81,432	154,216
Derivative assets	117,241	204,982
Reinsurance recoverables on unpaid losses	4,933,457	4,129,580
Reinsurance recoverables on paid losses	1,661,448	1,678,731
Other assets	101,995	134,425
Due from Affiliates	406	15,222
Total	$ 12,013,274	$ 10,217,342

The current and non-current portions of above balances at December 31, 2021 and 2020 are as follows:

	2021	2020
Current	$ 7,864,225	$ 7,034,388
Non-current	4,149,022	3,182,954
Total	$ 12,013,247	$ 10,217,342

The Company assesses its premiums receivable and reinsurance recoveries for impairment by reviewing counterparty payment history. The carrying value approximates fair value due to the short-term nature of the receivables.

The Company purchases reinsurance to reduce its exposure to risk of loss in certain insurance and reinsurance lines of business. Reinsurance recoverables are recorded as assets if the reinsurer is deemed able to meet its obligations. Ceded reinsurance contracts do not relieve the Company from its obligations to policyholders. The Company remains primarily liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

11. Goodwill and intangible assets

The following tables present the changes in the Company's gross goodwill and intangible assets for the years ended December 31, 2021 and 2020:

	Gross balance at December 31, 2020	Acquisitions - business combinations (Note 4)	Acquisitions - separately acquired	Remeasurement - business combinations (Note 4)	Foreign currency translation	Gross balance at December 31, 2021
Agent, broker and customer relationships	305,936	—	—	—	—	$ 305,936
Renewal rights	129,831	—	—	—	—	129,831
VOBA	37,360	—	—	—	—	37,360
Lloyd's syndicate capacity	45,562	—	—	—	—	45,562
Insurance licenses	37,937	—	—	—	—	37,937
Computer software	113,040	—	19,707	—	—	132,747
Goodwill	426,832	270	—	(6,154)	(835)	420,113
Other intangible assets	24,294	—	—	—	—	24,294
	$ 1,120,792	$ 270	$ 19,707	$ (6,154)	$ (835)	$ 1,133,780

	Gross balance at December 31, 2019	Acquisitions - business combinations (Note 4)	Acquisitions - separately acquired	Foreign currency translation	Gross balance at December 31, 2020
Agent, broker and customer relationships	210,136	95,800	—	—	$ 305,936
Renewal rights	67,431	62,400	—	—	129,831
VOBA	37,360	—	—	—	37,360
Lloyd's syndicate capacity	45,562	—	—	—	45,562
Insurance licenses	29,437	8,500	—	—	37,937
Computer software	97,725	—	13,068	2,247	113,040
Goodwill	192,314	233,564	—	954	426,832
Other intangible assets	20,710	3,400	—	184	24,294
	$ 700,675	$ 403,664	$ 13,068	$ 3,385	$ 1,120,792

For the year ended December 31, 2021, acquisitions of separately acquired computer software amount included additions of internally developed software costs that were capitalized of $12.0 million (2020 - $11.8 million).

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

11. Goodwill and intangible assets, cont'd.

The following tables present changes in the Company's accumulated amortization on the intangible assets for the years ended December 31, 2021 and 2020:

	Accumulated amortization and impairment loss at December 31, 2020	Amortization expense	Impairment loss	Foreign currency translation	Accumulated amortization and impairment loss at December 31, 2021
Agent, broker and customer relationships	$ 145,064	$ 20,896	$ —	$ —	$ 165,960
Renewal rights	48,479	7,673	—	—	56,152
VOBA	37,360	—	—	—	37,360
Lloyd's syndicate capacity	45,562	—	—	—	45,562
Insurance licenses	8,500	—	—	—	8,500
Computer software	72,404	15,362	—	767	88,533
Other intangible assets	19,563	1,657	—	27	21,247
	$ 376,932	$ 45,588	$ —	$ 794	$ 423,314

	Accumulated amortization and impairment loss at December 31, 2019	Amortization expense	Impairment loss	Foreign currency translation	Accumulated amortization and impairment loss at December 31, 2020
Agent, broker and customer relationships	$ 125,225	$ 19,839	$ —	$ —	$ 145,064
Renewal rights	42,895	5,584	—	—	48,479
VOBA	36,773	587	—	—	37,360
Lloyd's syndicate capacity	—	—	45,562	—	45,562
Insurance licenses	—	—	8,500	—	8,500
Computer software	55,069	15,274	—	2,061	72,404
Other intangible assets	17,943	433	935	252	19,563
	$ 277,905	$ 41,717	$ 54,997	$ 2,313	$ 376,932

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

11. Goodwill and intangible assets, cont'd.

The following table presents the net carrying amount of the Company’s goodwill and intangible assets as at December 31, 2021 and 2020:

	2021	2020
Agent, broker and customer relationships	$ 139,976	$ 160,872
Renewal rights	73,679	81,352
VOBA	—	—
Lloyd's syndicate capacity	—	—
Insurance licenses	29,437	29,437
Computer software	44,214	40,636
Goodwill	420,113	426,832
Other intangible assets	3,047	4,731
	$ 710,466	$ 743,860

An explanation of the identifiable intangible assets is as follows:

- Agent, broker and customer relationships - These relationships included the Company's agent, brokers and customer relationships and consideration was given to the expectation of the renewal of these relationships and the associated expenses. The remaining amortization period is 1 to 11 years as at December 31, 2021;
- Renewal rights - The value of policy renewal rights taking into consideration written premium on assumed retention ratios and the insurance cash flows and the associated equity cash flows from these renewal policies over the expected life of the renewals. The remaining amortization period is 3 to 14 years as at December 31, 2021;
- VOBA - The expected future losses and expenses associated with the policies that were in-force as of the closing date of a transaction were estimated and compared to the future premium remaining expected to be earned. The difference between the risk-adjusted future loss and expenses, discounted to present value and the unearned premium reserve, was estimated to be the VOBA. The VOBA is fully amortized as at December 31, 2020.
- Lloyd's syndicate capacity - The value of the syndicate capacity, which represents the Company's authorized premium income limit to write insurance business in the Lloyd's marketplace. Syndicate capacity is considered to have an indefinite economic useful life as as a syndicate can continue to underwrite risks and generate value if it is registered with the Lloyd's marketplace and has sufficient funds maintained at Lloyd's. The Lloyd's syndicate capacity has been fully impaired as at December 31, 2020 as the Company has consolidated its presence in the London market and does not expect to realize further value from this intangible asset.
- Insurance licenses - The value of insurance licenses providing the ability to write reinsurance in jurisdictions in the U.S. As there is no expiry to the licenses or they are expected to renew indefinitely, the insurance licenses are considered to have an indefinite useful economic life;
- Computer software - The value of computer software internally generated and separately acquired. The remaining amortization period is 3 to 7 years as at December 31, 2021; and
- Other intangible assets - Includes value of non-competition agreement and other intangible assets which are acquired through prior business combinations.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

11. Goodwill and intangible assets, cont'd.

Goodwill arising from business combinations and intangible assets with indefinite lives are not amortized but are reviewed for impairment on an annual basis or more frequently if there are indicators that these assets may be impaired. Goodwill acquired in a business combination is allocated to groups of CGUs according to the level at which management of the Company monitors that goodwill. The Company has identified one CGU. Intangible assets with indefinite lives are allocated to the CGU to which they relate. The net carrying amount of goodwill and intangible assets with indefinite lives allocated to the CGU as at December 31, 2021 and 2020 is shown below.

	2021	2020
Goodwill	$ 420,113	$ 426,832
Intangible assets with indefinite lives	29,437	29,437
	$ 449,550	$ 456,269

When testing for impairment, the recoverable amount of the CGU is determined based on value in use. Value in use is calculated using projected cash flows based on the financial projections of the CGU. These are approved by management and cover a five-year period. The most significant assumptions used to derive the projected cash flows include an assessment of premium growth rate, projected loss ratios, outwards reinsurance expenditure and investment returns, which are based on past experiences and management's best estimate. A pre-tax risk-adjusted discount rate specific to the Company of 11.8% (2020 - 11.6%) is used to discount the projected cash flow as at December 31, 2021, which reflects a combination of factors including the Company's expected cost of equity. The growth rate used at December 31, 2021 to extrapolate the cash flow is 4.3% (2020 - 3.6%) based on historical growth rates and the management's best estimate of future growth rates. The impairment review indicates that the recoverable amount exceeds the net carrying value for both the intangible assets with indefinite lives and goodwill and would not be sensitive to any reasonably possible change in the underlying assumptions.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

12. Reserve for losses and loss expenses

Activity in the reserve for losses and loss expenses for the years ended December 31, 2021 and 2020 is summarized as follows:

	Gross reserve for losses and loss expenses	Reinsurance recoverables on unpaid losses	Net reserve for losses and loss expenses
Balance at January 1, 2020	$ 8,370,699	$ 3,332,238	$ 5,038,461
Incurred losses for:			
Current year	5,509,149	2,259,232	3,249,917
Prior years	333,673	262,723	70,950
Total incurred	5,842,822	2,521,955	3,320,867
Paid losses for:			
Current year	(1,380,561)	(617,189)	(763,372)
Prior years	(2,981,467)	(1,383,373)	(1,598,094)
Total paid	(4,362,028)	(2,000,562)	(2,361,466)
Acquired reserves	281,626	265,430	16,196
Foreign currency translation and other	118,889	10,519	108,370
Balance at December 31, 2020	$ 10,252,008	$ 4,129,580	$ 6,122,428
Incurred losses for:			
Current year	7,977,758	3,345,235	4,632,523
Prior years	148,575	83,442	65,133
Total incurred	8,126,333	3,428,677	4,697,656
Paid losses for:			
Current year	(1,887,655)	(1,115,113)	(772,542)
Prior years	(3,444,207)	(1,505,057)	(1,939,150)
Total paid	(5,331,862)	(2,620,170)	(2,711,692)
Foreign currency translation and other	(100,664)	(4,630)	(96,034)
Balance at December 31, 2021	$ 12,945,815	$ 4,933,457	$ 8,012,358

During the year ended December 31, 2021, the Company's estimated ultimate losses for prior accident years were increased by $65.1 million (2020 - $71.0 million) due to higher claims emergence than originally estimated by the Company.

Reserves for losses and loss expenses are based in part upon the estimation of losses resulting from catastrophic events. Estimation of these losses and loss expenses are based upon the Company's historical claims experience and is inherently difficult because of the Company's short operating history and the possible severity of catastrophe claims. Therefore, the Company uses both proprietary and commercially available models, as well as historical reinsurance industry catastrophe claims experience in addition to its own historical data for purposes of evaluating trends and providing an estimate of ultimate claims costs.

A significant portion of the Company's contracts and policies cover excess layers for high severity exposures. Underwriting results and ultimate claims payments for this type of coverage are therefore not typically reported to the Company until later in the contract and policy lives. As a result, the level of losses reported to date is not necessarily indicative of expected future results.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

12. Reserve for losses and loss expenses, cont'd.

The Company incorporates a variety of actuarial methods and judgments in its reserving process. Two key inputs in the various actuarial methods employed by the Company are initial expected loss ratios and expected loss reporting patterns. These key inputs impact the potential variability in the estimate of the reserve for losses and loss expenses. The Company's loss and loss expense reserves consider and reflect, in part, deviations resulting from differences between expected loss and actual loss reporting as well as judgments relating to the weights applied to the reserve levels indicated by the actuarial methods. Expected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Company's own operating history.

The Company establishes loss and loss expense reserves to provide for the estimated costs of paying claims under insurance policies and reinsurance contracts underwritten by the Company. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported and include estimates of all expenses associated with processing and settling these claims. Estimating the ultimate cost of future claims and claim adjustment expenses is based on management judgment and thus, actual losses incurred may vary significantly from management's estimates.

The following tables illustrate the gross and net development of the estimates of ultimate cumulative claims for the Company after the end of each accident year, illustrating how amounts estimated have changed from the initial estimates made.

Estimate of gross ultimate liability[1]

	For the years ended December 31,								
Accident Year	2015	2016	2017	2018	2019	2020	2021		Total
At end of accident year	$3,097,718	$3,283,025	$4,673,313	$5,092,624	$5,860,107	$6,734,150	$7,977,758	$	36,718,695
One year later	2,910,228	3,168,205	4,872,126	5,555,065	5,822,437	6,857,200			29,185,261
Two years later	2,940,477	3,159,622	4,852,952	5,567,974	5,845,507	—			22,366,532
Three years later	2,969,175	3,069,011	5,038,134	5,625,903	—	—			16,702,223
Four years later	2,955,439	3,094,986	5,071,694	—	—	—			11,122,119
Five years later	2,972,632	3,166,701							6,139,333
Six years later	3,002,251								3,002,251
Gross ultimate liability 2015-2021	$3,002,251	$3,166,701	$5,071,694	$5,625,903	$5,845,507	$6,857,200	$7,977,758	$	37,547,014
Gross ultimate liability pre-2015									23,120,254
Total gross ultimate liability								$	60,667,268
Gross paid 2015-2021	(2,822,157)	(2,866,794)	(4,444,621)	(4,726,062)	(4,332,024)	(4,032,620)	(1,887,655)		(25,111,933)
Gross paid pre-2015									(22,609,520)
Total gross paid								$	(47,721,453)
Total gross liability as at December 31, 2021								$	12,945,815

(1) The Company has included reserves acquired on a retrospective basis within the tables. Further, the Company has adjusted the most recent periods to reflect the exchange rate as at December 31, 2021 and approximated the foreign exchange rate impact for all other previous periods.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

12. Reserve for losses and loss expenses, cont'd.

	Estimate of net ultimate liability[(1)]								
	For the years ended December 31,								
Accident Year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**		**Total**
At end of accident year	$1,538,970	$1,698,194	$2,217,426	$2,131,272	$2,420,449	$3,315,198	$4,632,523	$	17,954,032
One year later	1,495,978	1,671,153	2,201,552	2,299,183	2,505,727	3,284,929			13,458,522
Two years later	1,508,603	1,653,497	2,193,397	2,314,251	2,510,997	—			10,180,745
Three years later	1,510,186	1,590,574	2,217,494	2,329,539	—	—			7,647,793
Four years later	1,518,091	1,624,523	2,241,071	—	—	—			5,383,685
Five years later	1,527,195	1,677,182							3,204,377
Six years later	1,544,830								1,544,830
Net ultimate liability 2015-2021	$1,544,830	$1,677,182	$2,241,071	$2,329,539	$2,510,997	$3,284,929	$4,632,523	$	18,221,071
Net ultimate liability pre-2015									18,268,719
Total net ultimate liability								$	36,489,790
Net paid 2015-2021	(1,404,799)	(1,453,277)	(1,872,083)	(1,755,496)	(1,578,032)	(1,800,336)	(772,542)		(10,636,565)
Net paid pre-2015									(17,840,867)
Total net paid								$	(28,477,432)
Total net liability as at December 31, 2021								$	8,012,358

13. Reserve for unearned premium

Activity in the reserve for unearned premiums for the years ended December 31, 2021 and 2020 is summarized as follows:

	Reserve for unearned premium	Prepaid reinsurance premiums	Net reserve for unearned premium
Balance at January 1, 2020	$ 3,363,116	$ 1,252,486	$ 2,110,630
Acquired through business combination	175,315	54,252	121,063
Premiums written during the year	9,353,758	3,470,741	5,883,017
Premiums earned during the year	(7,799,167)	(3,156,084)	(4,643,083)
Foreign currency translation	13,495	5,864	7,631
Balance at December 31, 2020	$ 5,106,517	$ 1,627,259	$ 3,479,258
Acquired through business combination	—	—	—
Premiums written during the year	12,273,136	4,707,703	7,565,433
Premiums earned during the year	(11,494,403)	(4,604,669)	(6,889,734)
Foreign currency translation	(14,562)	(8,249)	(6,313)
Balance at December 31, 2021	$ 5,870,688	$ 1,722,044	$ 4,148,644

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

14. Property and equipment

The components of property and equipment as at December 31, 2021, and 2020 are as follows:

	Right-of-use assets	Other property and equipment	Total
Cost			
Balance at January 1, 2020	$ 213,965	$ 135,865	$ 349,830
Additions	33,336	13,939	47,275
Acquisitions through business combinations (Note 4)	2,071	2,901	4,972
Disposals	(260)	(3,285)	(3,545)
Foreign currency translation	(2,863)	183	(2,680)
Balance at December 31, 2020	246,249	149,603	395,852
Additions	19,268	2,876	22,144
Disposals	(16,198)	(3,692)	(19,890)
Foreign currency translation	160	(71)	89
Balance at December 31, 2021	249,479	148,716	398,195
Accumulated depreciation			
Balance at January 1, 2020	$ 50,604	$ 77,400	$ 128,004
Depreciation	27,849	11,035	38,884
Disposals	(225)	(1,533)	(1,758)
Accumulated foreign currency translation	(3,371)	223	(3,148)
Balance at December 31, 2020	74,857	87,125	161,982
Depreciation	31,280	11,786	43,066
Disposals	(16,198)	(2,400)	(18,598)
Accumulated foreign currency translation	(1,084)	(46)	(1,130)
Balance at December 31, 2021	88,855	96,465	185,320
Net property and equipment			
Balance at December 31, 2020	$ 171,392	$ 62,478	$ 233,870
Balance at December 31, 2021	$ 160,624	$ 52,251	$ 212,875

Leases as a lessee

The Company leases buildings for its office space and leased vehicles. Some leases include an option to renew the lease for an additional period after the end of the contract term. The renewal options held are exercisable only by the Company, and it assesses at the lease commencement whether it is reasonably certain to exercise the renewal options. The Company also sub-leases some of its office spaces under operating leases. The Company recognizes its leases of office spaces as right-of-use assets recorded within property and equipment on the Consolidated Balance Sheets and depreciation is recorded in general and administrative expenses on the Consolidated Statements of Profit and Comprehensive Income. Lease liabilities are recorded in loans and borrowings on the Consolidated Balance Sheets.

On inception of a lease, the weighted average incremental borrowing rate applied to lease liabilities is based on the comparable yield curve in the U.S. financial sector, adjusted for estimate of collateral spread.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

14. Property and equipment cont'd.

Leases as lessee, cont'd.

A maturity analysis for the undiscounted liabilities related to leases as at December 31, 2021 and 2020 is summarized as follows:

	2021	2020
Less than one year	$ 24,620	$ 32,392
One to five years	92,483	90,236
More than five years	71,477	75,624
Total undiscounted lease payments to be paid	$ 188,580	$ 198,252

Interest on lease liabilities is recognized as financing costs on the Consolidated Statements of Profit and Comprehensive Income and for the year ended December 31, 2021 is $6.1 million (2020 - $8.2 million).

The total cash outflow for leases recognized in the Consolidated Statements of Cash Flows for the year ended December 31, 2021 is $29.0 million (2020 - $19.0 million).

The Company also leases IT equipment and machinery with contractual terms up to 5 years. These leases are generally considered to be leases of low-value items. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases of low-value items.

Leases as a sub-lessor

The Company sub-leases some of its office buildings that it leases. These leases are classified as operating leases because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. As at December 31, 2021, right-of-use assets included subleases accounted for as operating leases of $4.8 million (2020 - $0.1 million).

The following table sets out the maturity analysis of the undiscounted lease payments to be received after December 31, 2021 and 2020:

	2021	2020
Less than one year	$ 532	$ 56
One to five years	2,057	—
More than five years	1,418	—
Total undiscounted lease payments to be received	$ 4,007	$ 56

Sub-lease income of $0.4 million is recorded in the Consolidated Statements of Profit and Comprehensive Income for the year ended December 31, 2021 (2020 - $1.4 million).

15. Loans and borrowings

Credit Facilities

On November 2, 2017, the Company, Sompo International and certain designated subsidiaries entered into a $200.0 million Uncommitted Letter of Credit and Reimbursement Agreement with Mizuho Bank, Ltd. (the "Mizuho Credit Facility"). During 2017 and 2019, the size of the Mizuho Credit Facility was increased by $150.0 million and $100.0 million, respectively, to $450.0 million of uncommitted capacity. During 2020, the size of the Mizuho Credit Facility was increased to $1.0 billion, and in 2021, the size of the Mizuho Credit Facility was increased to $1.25 billion. The Mizuho Credit Facility requires the compliance with certain customary restrictive covenants. The Obligors (as defined in the Mizuho Credit Facility) are required to pay a fee of 0.2% on the daily aggregate amount of letters of credit issued payable quarterly in arrears. As of December 31, 2021, there were letters of credit outstanding under the Mizuho Credit Facility of approximately $1.1 billion (2020 - $479.1 million).

On December 21, 2017, the Company, Sompo International and certain designated subsidiaries became applicants under the Continuing Letter of Credit Agreement (for Standby Letters of Credit) with MUFG Bank, Ltd. (formerly Bank of Tokyo-Mitsubishi UFJ, Ltd.) (the "MUFG Credit Facility"). The MUFG Credit Facility was initially a $100.0 million unsecured letter of credit facility. During 2019, the size of the MUFG Credit Facility was increased to $250.0 million and in 2021, the size of the MUFG Credit Facility was increased to $500 million. The MUFG Credit Facility requires the compliance with certain customary restrictive covenants. Each applicant is required to pay a fee of 0.2% on the daily aggregate amount of letters of credit issued payable quarterly in arrears. As of December 31, 2021, there were letters of credit outstanding under the MUFG Credit Facility of approximately $483.9 million (2020 - $162.6 million).

On March 23, 2016, the Company, Endurance Holdings and certain designated subsidiaries entered into a $450.0 million five-year letter of credit facility with JPMorgan Chase Bank, N.A. ("JPMorgan") as administrative agent (the "JPM Credit Facility"). Effective September 27, 2017, the JPM Credit Facility was amended to replace Endurance Holdings with Sompo International. Sompo International assumed all the rights, duties and obligations of Endurance Holdings as the Parent Borrower pursuant to the terms of the JPM Credit Facility, including the Parent Borrower Guaranty as defined in the JPM Credit Facility. Effective October 30, 2017, Endurance Holdings ceased to be a party to the JPM Credit Facility. In January 2018, the Company notified JPMorgan of its intent to reduce the size of the commitment under the JPM Credit Facility to $100.0 million. The JPM Credit Facility required compliance with certain customary restrictive covenants. The Company was required to pay a fee of 0.4% per annum on the daily stated amount of outstanding letters of credit issued under the JPM Credit Facility. In addition, the JPM Credit Facility required the Company to pay to the Lenders a commitment fee of 0.125% per annum on the average daily amount of the unused commitments of the Lenders. The JPM Credit Facility permitted a Lender, if requested and in its discretion, to issue a letter of credit pursuant to which it fronted for the other Lenders. For such letters of credit, such fronting lenders would have received certain fronting fees from the Company. As of December 31, 2021, there were no outstanding borrowings under the JPM Credit Facility (2020 - nil). The facility expired in accordance with its terms on March 31, 2021.

Other Uncommitted Letter of Credit Agreements

The Company is party to certain uncommitted letter of credit reimbursement agreements ("LOC Agreements") that allow for the issuance of letters of credit in a variety of currencies, including U.S. Dollars. The fees paid under the LOC Agreements depend on the amount of the outstanding letters of credit and vary from 0.3% to 0.45% on the principal amount of letters of credit outstanding to a fee negotiated at the time of issuance of the individual letters of credit. As of December 31, 2021, there were letters of credit outstanding under the LOC Agreements of $41.7 million (2020 - $30.5 million).

15. Loans and borrowings, cont'd.

CGB Note

On December 28, 2020, Endurance U.S. Holdings Corp. ("Endurance U.S. Holdings"), a wholly owned subsidiary of Endurance Bermuda, issued to CGB, with Sompo International as guarantor, $270.0 million principal amount of a 4.5% Note due December 28, 2030 as part of the consideration in the Diversified Acquisition (the "CGB Note"). The CGB Note allows for potential additional contingent payments based on certain loss ratio triggers during the term of the note. The CGB Note also permits Endurance U.S. Holdings to repurchase the CGB Note at any time following December 28, 2027, at an amount equal to the outstanding principal amount plus any accrued and unpaid interest. The CGB Note is an unsecured obligation of Endurance U.S. Holdings and ranks equally with all of Endurance U.S. Holdings' existing and future unsecured and unsubordinated debt.

The terms governing the CGB Note contain customary events of default for unsecured indebtedness, including non-payment of principal, interest, or contingent payments, a sale of Endurance U.S. Holdings or Sompo International, or the bankruptcy or insolvency of Endurance U.S. Holdings. The Company was in compliance with all the terms of the CGB Note as of December 31, 2021 and 2020.

16. Pension plan

Defined contribution plan

The Company provides retirement benefits to eligible employees through various defined contribution plans sponsored by the Company or as mandated by the government in certain jurisdictions. Under the Company's defined contribution plans, the Company makes contributions to its employees' accounts up to 12% of its employees' eligible earnings (as applicable depending on plan rules and the jurisdiction). This includes matching contributions made by the Company based on the level of employee contribution and additional contributions, depending on its annual financial performance. The employee and Company contributions in the defined contribution plans are invested at the election of each employee in one or more of several investment portfolios offered by third party investment advisors or within government funds. Company contributions for the year ended December 31, 2021 resulted in an expense of $39.5 million (2020 - $29.0 million) included in General and administrative expenses within the Consolidated Statements of Profit and Comprehensive Income.

17. Commitments and contingencies

Letters of credit

As of December 31, 2021, the Company had issued letters of credit of $1,594.6 million (2020 - $672.2 million) under its credit facilities and letter of credit reimbursement agreements in favor of certain ceding companies to collateralize obligations.

Investment assets held in trust

During 2015, Endurance Bermuda established a multi-beneficiary reinsurance trust (the "Endurance Reinsurance Trust") domiciled in Delaware. The Endurance Reinsurance Trust was established as a means of providing statutory credit to Endurance Bermuda's U.S. cedants. As of December 31, 2021, the fair value of the assets held in the Endurance Reinsurance Trust exceeded $60.3 million (2020 - exceeded $86.1 million), the minimum value required on each balance sheet date.

During 2015, Endurance Bermuda also established a second multi-beneficiary reinsurance trust (the "Reduced Collateral Trust") domiciled in Delaware. The Reduced Collateral Trust was established as a means of providing statutory credit to Endurance Bermuda's U.S. cedants in connection with a reduction in collateral requirements in certain states. As of December 31, 2021, the fair value of the assets held in the Reduced Collateral Trust exceeded $44.4 million (2020 - exceeded $41.0 million), the minimum value required on each balance sheet date.

Endurance Bermuda is party to a reinsurance trust (the "MUSIC Trust"). The MUSIC Trust was established as a means of providing statutory credit to MUSIC in support of the business retained in connection with the 2011 sale of MUSIC to Selective. As of December 31, 2021, the fair value of the assets held in the MUSIC Trust was $11.6 million (2020 - $16.7 million), the minimum value required on each balance sheet date.

17. Commitments and contingencies, cont'd.

Investment assets held in trust, cont'd.

The Company is party to a Lloyd's Deposit Trust Deed (the "Lloyd's Capital Trust") in order to meet Endurance Corporate Capital Limited ("ECCL")'s ongoing funds at Lloyd's ("FAL") requirements. The minimum value of cash and investments held by the Lloyd's Capital Trust is determined on the basis of ECCL's Individual Capital Assessment, which is used to determine the required amount of FAL. As of December 31, 2021, the fair value of assets held in the Lloyd's Capital Trust was $6.0 million (2020 - $182.4 million), which met the minimum value required on each balance sheet date.

Premiums received by Syndicate 5151 are required to be received into the Lloyd's Premiums Trust Funds (the "Premiums Trust Funds"). Under the Premiums Trust Funds' deeds, assets may only be used for the payment of claims and valid expenses for a stated period of time. As of December 31, 2021, the fair value of assets held in the Premiums Trust Funds was $400.6 million (2020 - $451.0 million).

The Company's investment assets held in trust appear on the Company's Consolidated Balance Sheets as cash and cash equivalents, investments and accrued investment income, as appropriate.

Lloyd's New Central Fund

The Lloyd's New Central Fund is available to satisfy claims if a member of Lloyd's is unable to meet its obligations to policyholders. The Lloyd's New Central Fund is funded by an annual levy imposed on members, which is determined annually by Lloyd's as a percentage of each member's gross written premiums (2021 - 0.35%; 2020 - 0.35%). In addition, the Council of Lloyd's has power to call on members to make an additional contribution to the Lloyd's New Central Fund of up to 5% of their underwriting capacity each year should it decide that such additional contributions are necessary. The Company ceased writing new business at Lloyd's as of January 2021 and is no longer subject to the Lloyd's New Central Fund levy. Other customary charges levied on the Company related to its Lloyd's operations have also reduced to an insignificant level as the business runs-off.

With effect from 2019, Lloyd's introduced syndicate loans to the central fund collected from all active syndicates. The proceeds from the loans are to be used to strengthen Lloyd's central resources and facilitate the injection of capital to Lloyd's Insurance Company SA ("Lloyd's Brussels"). As of December 31, 2021 the Company's total syndicate loan was $6.2 million (2020 - $6.4 million).

Reinsurance commitments

In the ordinary course of business, the Company enters into reinsurance agreements that may include terms which could require the Company to collateralize certain of its obligations.

Employment agreements

The Company has entered into employment agreements with certain officers that provide for long term incentive awards, executive benefits and severance payments under certain circumstances.

Legal proceedings

The Company is party to various legal proceedings generally arising in the normal course of its business. While any proceeding contains an element of uncertainty, the Company does not believe that the eventual outcome of any litigation or arbitration proceeding to which it is presently a party could have a material adverse effect on its financial condition, results of operations or business. Pursuant to the Company's insurance and reinsurance agreements, disputes are generally required to be finally settled by arbitration.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

18. Shareholder's equity

The Company's share capital for the years ended December 31, 2021 and 2020 is summarized as follows:

	2021	2020
Common shares:		
Authorized - $1.00 par value each	20,000,000	20,000,000
Issued, outstanding and fully paid:		
Ordinary common shares - $1.00 par value each	12,000,003	12,000,003

19. Related party transactions

Note 1, Organization, provides information about the Company's structure, including details of the operating subsidiaries and parent companies. Transactions with the related parties of the Company for the years ended December 31, 2021 and 2020 included Sompo Holdings, its ultimate parent company, and the following subsidiary companies of Sompo Holdings:

Affiliates	Domicile
Blue Capital Management Ltd., manager of Blue Water Re Ltd.	Bermuda
Sompo International Holdings, Ltd.	Bermuda
Sompo Seguros S.A.	Brazil
Sompo Insurance China Co., Ltd.	China
Sompo Insurance (Hong Kong) Company	Hong Kong
Sompo Asset Management Co., Ltd	Japan
SOMPO Digital Lab Inc.	Japan
Sompo Japan Insurance Inc.	Japan
Sompo Risk Management Inc.	Japan
Berjaya Sompo Insurance Berhad	Malaysia
Sompo Insurance Singapore Pte. Ltd.	Singapore
SOMPO Taiwan Brokers Co., Ltd.	Taiwan
Sompo Insurance (Thailand) Public Company Limited	Thailand
Sompo Sigorta Anonim Sirketi	Turkey
Cogent3D, Inc.	United States

Intercompany reinsurance arrangements

The Company reinsured affiliates for property and casualty risks on an excess-of-loss and quota share basis. The Company also ceded a portion of it's direct and assumed business to affiliates.

The following table presents the impact in the Consolidated Statements of Profit and Comprehensive Income of the related party reinsurance arrangements for the years ended December 31, 2021 and 2020:

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

19. Related party transactions, cont'd.

Intercompany reinsurance arrangements, cont'd.

	2021	2020
Gross premiums written	$ 45,655	$ 33,530
Ceded premiums written	(252,338)	(238,253)
Net premiums earned	(207,825)	(192,110)
Losses and loss adjustment expenses incurred	37,962	78,573
Acquisition expenses	80,830	73,318
Other underwriting income	1,956	2,127

As of December 31, 2021, the Company has rendered services of $9.0 million (2020 - $8.8 million) and received services of $2.1 million (2020 -$0.4 million) from its affiliates.

The following table presents the impact in the Consolidated Balances Sheets of the related party reinsurance arrangements at December 31, 2021 and 2020:

	2021	2020
Premiums receivable	$ 66,728	$ 40,254
Insurance and reinsurance balances receivable	2,226	789
Deferred acquisition costs, net	(27,543)	(23,311)
Prepaid reinsurance premiums	82,182	80,826
Reinsurance recoverable on unpaid losses	256,246	315,354
Reinsurance recoverable on paid losses	45,965	31,427
Other assets	153	4,121
Reserve for losses and loss expenses	43,280	41,576
Reserve for unearned premiums	26,452	12,414
Insurance and reinsurance balances payable	101,930	96,064
Other liabilities	2,532	66

Other intercompany balances

At December 31, 2021, the Company had a balance of $0.4 million (2020 - $15.2 million) due from affiliates. At December 31, 2021, the Company had a balance of $161.1 million (2020 - $0.1 million) due to affiliates. As at December 31, 2021 and 2020, the amount due to affiliates include unsecured promissory notes and unsecured intercompany balances between Sompo International and the Company.

Key management personnel compensation

Key management personnel of the Company includes its directors and certain members of its executive management. The aggregate remuneration of key management personnel compensation for the years ended December 31, 2021 and 2020 comprised the following:

	2021	2020
Short-term employee benefits	7,989	8,879
Post-employment benefits	413	407
Other long-term benefits	3,352	4,592
Termination benefits	—	4,305
Total	$ 11,754	$ 18,183

Total compensation of the Company's key management personnel includes salaries, annual incentives, and non-cash benefits.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

20. Statutory requirements and dividend restrictions

The Company's insurance and reinsurance operations are subject to insurance and/or reinsurance laws and regulations in the jurisdictions in which they operate, the most significant of which are Bermuda, the United States, the United Kingdom, Luxembourg and Singapore. These regulations include certain restrictions on the amount of dividends or other distributions, such as loans or cash advances, available to shareholders without prior approval of the insurance regulatory authorities. The stated regulatory requirements would not pose significant restrictions on the Company's ability to access the funds and settle the liabilities as they come due during its normal course of operation.

Bermuda

	December 31, 2021	December 31, 2020
Required statutory capital	$ 4,022,728	$ 3,025,685
Actual statutory capital	6,513,653	6,233,166

For Endurance Bermuda, the consolidated statutory net income for the year ended December 31, 2021 is $586.9 million (2020 - $499.7 million).

Endurance Bermuda is a registered Class 4 insurer under the Insurance Act 1978 ("Bermuda Insurance Act") and related regulations as amended (the "Insurance Act"). Endurance Bermuda is required to maintain minimum solvency standards and to hold available statutory capital and surplus equal to or exceeding the Enhanced Capital Requirement as determined by the Bermuda Monetary Authority ("BMA") based upon a standard mathematical model that correlates the risk underwritten to the capital that is dedicated to the business. The required capital noted in the table above has been based on the Enhanced Capital Requirement. In addition to the Enhanced Capital Requirement, Endurance Bermuda is required to maintain a minimum statutory liquidity ratio and solvency margin. For all periods presented herein, Endurance Bermuda materially exceeded these minimum requirements.

Endurance Bermuda's ability to pay dividends and make capital distributions is subject to certain regulatory restrictions based on the Enhanced Capital Requirement, limits on the amount of Endurance Bermuda's premiums written and net reserves for losses and loss expenses and a minimum general capital and surplus requirement of $100.0 million.

United States

	December 31, 2021	December 31, 2020
Required statutory capital	$ 919,137	$ 679,584
Actual statutory capital	2,924,221	2,418,704

For the entities registered in the United States, the aggregate statutory net income for the year ended December 31, 2021 is $221.3 million (2020 - $52.0 million).

Endurance Assurance, Endurance American, Endurance American Specialty and Endurance Risk Solutions are subject to regulation by the Delaware Department of Insurance. American Agri-Business and Lexon Insurance are subject to regulation by the Texas Department of Insurance. Sompo American Insurance and Sompo America Fire & Marine are subject to regulation by the New York Department of Financial Services. Bond Safeguard is subject to regulation by the South Dakota Division of Insurance. Sompo International's Delaware, Texas, New York and South Dakota domiciled entities must maintain a minimum level of statutory capital as established by such jurisdictions. The amount of required capital is determined through the use of the Risk Based Capital model established by the National Association of Insurance Commissioners and adopted by Delaware, Texas, New York and South Dakota. The required capital noted in the table above has been based on the Risk Based Capital model and represents the authorized control level risk based capital for these entities.

Dividends are limited to the greater of 10% of policyholders' surplus or statutory net income, excluding realized capital gains for the Company's Delaware domiciled entities, the greater of 10% of policyholders' surplus of the preceding year or statutory net income of the preceding year for the Company's Texas domiciled entities, the lesser of 10% of policyholders' surplus

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

20. Statutory requirements and dividend restrictions, cont'd.

United States, cont'd.

without exceeding unassigned surplus or net investment income of record for the Company's New York domiciled entities, and the greater of 10% of policyholders' surplus or statutory net income of the preceding year which includes net realized capital gains in an amount not to exceed 20% of net unrealized capital gains for the Company's South Dakota domiciled entity. In addition, dividends may only be declared or distributed out of earned surplus.

At December 31 2021, Endurance American, Endurance Risk Solutions and Endurance American Specialty did not have earned surplus and thus were precluded from declaring or distributing dividends during 2021 without the prior approval of the applicable insurance regulator. At December 31 2021, Endurance Assurance had earned surplus of $211.4 million that could be paid as a dividend to its parent, Endurance U.S. Holdings Corporation in 2022. If the parent company is also an insurer, as is the case with Endurance American Specialty, Endurance Risk Solutions, Sompo American Insurance, Sompo American Fire & Marine and Endurance American, the parent company or companies must also meet their own dividend eligibility requirements in order to pass along any dividends received from subsidiary insurance companies.

United Kingdom

	December 31, 2021	December 31, 2020
Required statutory capital[(1)]	$ 322,496	$ 256,719
Actual statutory capital[(1)]	532,286	465,457

(1) Includes the statutory capital of Endurance U.K and excludes Syndicate 5151.

For the entities registered in the United Kingdom, the aggregate statutory net income for the year ended December 31, 2021 is $36.3 million (2020 - $38.3 million).

Endurance U.K.

The required and actual statutory capital amounts in the "U.K." category in the table above include amounts related to Endurance U.K. Under the jurisdiction of the United Kingdom's Prudential Regulation Authority ("PRA"), Endurance U.K. must maintain a margin of solvency at all times under the Solvency II Directive from the European Insurance and Occupational Pensions Authority which was effective January 1, 2016. The regulations stipulate that insurers are required to calculate their minimum capital requirement ("MCR") and solvency capital requirement ("SCR"). Insurers can either apply for approval of an internal model to calculate the SCR or adopt the standard formula. Endurance U.K. have utilized the standard formula for the SCR since transition to Solvency II regime from December 31, 2016. As of December 31, 2021, the provisional SCR of Endurance U.K. was $322.5 million (2020 - $256.7 million) and there was surplus capital of $209.8 million (2020 - $208.7 million) with actual Own Funds Available of $532.3 million (2020 - $465.5 million).

The PRA regulatory requirements impose no explicit restrictions on Endurance U.K.'s ability to pay a dividend, but Endurance U.K would have to notify the PRA 28 days prior to any proposed dividend payment. Dividends may only be distributed from profits available for distribution.

Endurance at Lloyd's

The Company participates in the Lloyd's market through Syndicate 5151, which is managed by Endurance at Lloyd's and is capitalized through ECCL. As a corporate member of Lloyd's, ECCL is subject to the oversight of the Council of Lloyd's.

ECCL is required to deposit cash, securities or letters of credit (or a combination of these assets) with Lloyd's in order to satisfy its FAL requirements, which are met through the Lloyd's Capital Trust. At December 31, 2021, ECCL had total capital of $116.8 million (2020 - $309.9 million) which is made up of FAL of $0.1 million (2020 - $212.3 million) and the syndicate’s total reconciliation reserve under Solvency II less foreseeable distributions of $116.7 million (2020 - $97.6 million).

Switzerland

In 2008, Endurance Bermuda established a branch in Zurich, Switzerland named Endurance Specialty Insurance Ltd. Pembroke (Bermuda) Zurich Branch. In 2015, Endurance U.K. established a branch in Zurich named Endurance Worldwide Insurance Limited, London, Zurich Branch. Swiss law does not impose additional regulation upon a Swiss branch of a foreign reinsurer.

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

20. Statutory requirements and dividend restrictions, cont'd.

Singapore

	December 31, 2021	December 31, 2020
Required statutory capital	$ 3,708	$ 3,783
Actual statutory capital	120,702	75,354

For the entities registered in Singapore, the aggregate statutory net income for the year ended December 31, 2021, is $39.4 million (2020 - $14.5 million).

Endurance Bermuda's Singapore branch ("Singapore Branch") is subject to Fund Solvency and Capital Adequacy requirements by the Monetary Authority of Singapore and are regulated by the Monetary Authority of Singapore pursuant to the Insurance Act in Singapore. At December 31, 2021 and 2020, the Singapore Branch complied with the capital requirements promulgated by the Monetary Authority of Singapore.

Luxembourg

	December 31, 2021	December 31, 2020
Required statutory capital	$ 136,444	$ 114,476
Actual statutory capital	259,391	256,535

For the entity registered in Luxembourg, the statutory net income for the year ended December 31, 2021, is $11.0 million (2020 - $0.2 million loss).

In 2018, SIIE was established under the laws of the Grand Duchy in Luxembourg. Under the jurisdiction of the Commissariat aux Assurances, SIIE must maintain a margin of solvency at all times under the Solvency II Directive. SIIE has utilized the standard formula for the SCR. As of December 31, 2021, the provisional SCR was $136.4 million (2020 - $114.5 million) and there was surplus capital of $122.9 million (2020 - $142.1 million) with actual Own Funds Available of $259.4 million (2020 - $256.5 million).

21. Taxes

The following table shows the components of income tax expense for the years ended December 31, 2021 and 2020:

	2021	2020
Current tax:		
Current corporate tax expense for the year	$ 149,041	$ 56,384
Adjustments for prior year corporation tax	17,565	(90,486)
Total current tax (benefit) expense	166,606	(34,102)
Deferred tax:		
Origination and reversal of temporary differences	(84,007)	11,876
Adjustments for prior year deferred tax	(3,614)	83,507
Total deferred tax expense (benefit)	(87,621)	95,383
Total income tax expense	$ 78,985	$ 61,281

Endurance Bermuda is not required to pay any income or capital gains taxes in Bermuda. Endurance Bermuda has received written assurance dated May 16, 2011 and Sompo International has received written assurance dated March 24, 2017 from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act of 1966 of Bermuda, as amended, that in the event any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not be applicable to the

(Amounts in tables expressed in thousands of United States dollars, except for ratios and share amounts)

21. Taxes, cont'd.

Company until March 31, 2035 provided that the assurance is subject to the condition that it will not prevent the application of any taxes payable by the Company in respect of real property or leasehold interests in Bermuda held by it.

As of December 31, 2021, the Company has operating subsidiaries and branch operations, as listed in Note 1, Organization, which are subject to the relevant taxes in those jurisdictions.

The actual income tax expense attributable to profit for the years ended December 31, 2021 and 2020 differed from the amount computed by applying the combined effective rate of 0% under Bermuda law to profit before income taxes, as a result of the following:

	2021	2020
Profit before tax	$ 611,340	$ 456,185
Corporate tax at 0% under Bermuda law	—	—
Tax expense effect on foreign taxes	71,881	76,466
Adjustments in respect of prior period	(854)	(4,439)
Other permanent differences	8,433	(8,055)
Changes in tax rates	327	(1,771)
Tax losses for which no deferred tax asset is recognized	1,941	974
Utilization of tax losses previously unrecognized for deferred tax	(2,743)	(1,894)
Total income tax expense	$ 78,985	$ 61,281

Deferred income taxes represent the tax effect of the differences between the book and tax bases of assets and liabilities. Deferred income tax assets and liabilities consisted of the following as of December 31, 2021 and 2020:

			December 31, 2021		
2021	**Net deferred tax asset (liability) at December 31, 2020**	**Recognized in Consolidated Statement of Profit in 2021**	**Net**	**Deferred tax asset**	**Deferred tax liability**
Investments	$ (48,059)	$ 27,621	$ (20,438)	$ (20,438)	$ —
Intangible assets	(18,404)	502	(17,902)	(17,902)	—
Insurance related items	79,887	27,598	107,485	107,485	—
Employee benefits	14,506	12,168	26,674	26,674	—
Losses carried forward	47,933	(8,054)	39,879	39,879	—
Other	(49,392)	30,783	(18,609)	(17,171)	(1,438)
Total	$ 26,471	$ 90,618	$ 117,089	$ 118,527	$ (1,438)

			December 31, 2020		
2020	**Net deferred tax asset (liability) at January 1, 2020**	**Recognized in Consolidated Statement of Profit in 2020**	**Net**	**Deferred tax asset**	**Deferred tax liability**
Investments	$ (24,048)	$ (24,011)	$ (48,059)	$ (48,059)	$ —
Intangible assets	(20,147)	1,743	(18,404)	(18,404)	—
Insurance related items	60,677	19,210	79,887	79,887	—
Employee benefits	21,535	(7,029)	14,506	14,505	—
Losses carried forward	54,016	(6,083)	47,933	47,933	—
Other	29,821	(79,213)	(49,392)	(48,221)	(1,170)
Total	$ 121,854	$ (95,383)	$ 26,471	$ 27,641	$ (1,170)

21. Taxes, cont'd.

For the years ended December 31, 2021 and 2020, the Company had no material uncertain tax positions.

At December 31, 2021 and 2020, the Company's U.S subsidiaries had no net operating loss carry forward. In the United States, the net operating loss carry forwards has been fully utilized in 2019.

At December 31, 2021, Endurance Bermuda's Singapore branch had no remaining net operating loss carry forwards (2020 - $33.0 million). Net operating loss carry forwards have no expiration date in Singapore.

At December 31, 2021, Sompo Europe's Italian, Spanish and German branches did not recognize deferred tax assets in relation to net operating loss carry forwards of $133.0 million (2020 - $130.0 million) due to the uncertainty regarding their recoverability. Net operating loss carry forwards have no expiration date in any of the above mentioned jurisdictions.

22. Subsequent events

Dividends

On March 14, 2022, the Company's board of directors declared the payment of an ordinary dividend of $52.3 million, with an expected settlement date during June 2022.