Audited Consolidated Financial Statements

Endurance Specialty Insurance Ltd.

For the year ended December 31, 2022

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 Specialty Insurance Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2022 and December 31, 2021, and the consolidated statements of (loss) profit and comprehensive (loss) 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 Group as at December 31, 2022 and December 31, 2021, and 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 Group in accordance with the International Ethics Standards Board for Accountants' *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.

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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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group'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 skepticism 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 Group'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 Group'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 Group 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 Group 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 24, 2023

ENDURANCE SPECIALTY INSURANCE LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021
(In thousands of United States dollars)

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Cash and cash equivalents	5	$ 3,401,822	$ 2,907,294
Accrued investment income		83,155	55,169
Investments	6, 7	13,760,467	12,202,712
Investment in associates		13,728	13,954
Premiums receivable, net		4,370,721	4,947,515
Other insurance and reinsurance balances receivable		232,525	169,780
Receivables on investments sold		90,875	81,432
Prepaid reinsurance premiums	13	1,641,489	1,722,044
Derivative assets	8	142,696	117,241
Reinsurance recoverables on unpaid losses	12	5,707,585	4,933,457
Reinsurance recoverables on paid losses		1,880,368	1,661,448
Deferred acquisition costs gross	9	1,139,072	1,038,363
Current tax asset	21	699	2,533
Deferred tax asset	21	300,801	118,527
Property and equipment	14	190,593	212,875
Goodwill and intangible assets	11	682,861	710,466
Due from affiliates	19	4,331	406
Other assets		237,311	101,995
Total assets		$ 33,881,099	$ 30,997,211
LIABILITIES			
Reserve for losses and loss expenses	12	$ 15,245,058	$ 12,945,815
Reserve for unearned premiums	13	6,260,368	5,870,688
Insurance and reinsurance balances payable		3,296,669	3,876,152
Due to affiliates	19	334,057	161,448
Payables on purchases of investments		269,005	125,897
Derivative liabilities	8	81,126	82,051
Deferred acquisition costs ceded	9	142,033	180,123
Current tax liability	21	60,021	83,346
Deferred tax liability	21	2,170	1,438
Other liabilities		458,350	474,732
Loans and borrowings	15	463,967	477,837
Total liabilities		$ 26,612,824	$ 24,279,527
SHAREHOLDER'S EQUITY			
Common shares	18	$ 12,000	$ 12,000
Contributed surplus		7,114,230	5,840,853
Accumulated other comprehensive loss		(64,508)	(41,148)
Retained earnings		206,553	905,979
Total shareholder's equity		7,268,275	6,717,684
Total liabilities and shareholder's equity		$ 33,881,099	$ 30,997,211

See accompanying notes to the Consolidated Financial Statements.

ENDURANCE SPECIALTY INSURANCE LTD.
CONSOLIDATED STATEMENTS OF (LOSS) PROFIT AND COMPREHENSIVE (LOSS) INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands of United States dollars)

	Notes	2022	2021
REVENUES			
Gross premiums written		$ 13,482,863	$ 12,273,136
Ceded premiums written		(4,577,969)	(4,707,703)
Net premiums written		8,904,894	7,565,433
Change in unearned premiums		(430,059)	(778,733)
Change in unearned premiums on premiums ceded		(30,079)	103,034
Net premiums earned		8,444,756	6,889,734
Net investment income	6	418,808	335,649
Net realized (losses) gains on investments	6	(116,261)	42,703
Net unrealized losses on investments	6	(1,155,792)	(262,985)
Other underwriting (loss) income		(16,956)	3,800
Total revenues		7,574,555	7,008,901
EXPENSES			
Losses and loss adjustment expenses incurred	12	10,382,738	8,126,333
Losses and loss adjustment expenses recoverable	12	(4,456,211)	(3,428,677)
Net losses and loss adjustment expenses incurred		5,926,527	4,697,656
Acquisition expenses	9	1,540,102	1,368,088
General and administrative expenses		339,467	329,979
Corporate expenses		8,816	—
Amortization of intangible assets	11	50,502	45,588
Net foreign exchange losses (gains)		29,246	(59,508)
Share of loss (gain) from investment in associates		221	(460)
Total expenses		7,894,881	6,381,343
(Loss) Profit before tax and financing costs		(320,326)	627,558
Financing costs		(15,945)	(16,218)
(Loss) Profit before tax		(336,271)	611,340
Tax benefit (expense)	21	59,071	(78,985)
(Loss) Profit		$ (277,200)	$ 532,355
OTHER COMPREHENSIVE LOSS			
Items that may be classified to (loss) profit:			
Exchange loss on translating foreign currency operations		(23,360)	(21,926)
Other comprehensive loss		(23,360)	(21,926)
Comprehensive (loss) income		$ (300,560)	$ 510,429

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, 2022 AND 2021
(In thousands of United States dollars)

	Share capital	Contributed surplus	Retained earnings	Foreign currency translation reserve	Accumulated other comprehensive loss	Total shareholder's equity
Balance as at January 1, 2021	$ 12,000	$ 5,840,853	$ 838,474	$ (19,222)	$ (19,222)	$ 6,672,105
Profit for the year ended December 31, 2021	—	—	532,355	—	—	532,355
Other comprehensive loss	—	—	—	(21,926)	(21,926)	(21,926)
Total comprehensive income (loss)	—	—	532,355	(21,926)	(21,926)	510,429
Dividends to parent	—	—	(464,850)	—	—	(464,850)
Balance as at December 31, 2021	$ 12,000	$ 5,840,853	$ 905,979	$ (41,148)	$ (41,148)	$ 6,717,684
Loss for the year ended December 31, 2022	—	—	(277,200)	—	—	(277,200)
Other comprehensive loss	—	—	—	(23,360)	(23,360)	(23,360)
Total comprehensive loss	—	—	(277,200)	(23,360)	(23,360)	(300,560)
Contribution of capital received from parent	—	1,273,377	—	—	—	1,273,377
Dividends to parent	—	—	(422,226)	—	—	(422,226)
Balance as at December 31, 2022	$ 12,000	$ 7,114,230	$ 206,553	$ (64,508)	$ (64,508)	$ 7,268,275

ENDURANCE SPECIALTY INSURANCE LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(In thousands of United States dollars)

	Notes	2022	2021
Cash flows provided by operating activities:			
(Loss) profit before tax		$ (336,271)	$ 611,340
Adjustments to (loss) profit before taxes for:			
Net taxes paid	21	(137,577)	(95,481)
Depreciation of property and equipment	14	34,586	43,066
Amortization of intangible assets	11	50,502	45,588
Amortization of investments	6	(17,932)	36,505
Net realized losses (gains) on sales of investments	6	116,261	(42,703)
Net unrealized losses on investments	6	1,155,792	262,985
Interest and dividend income	6	(355,194)	(279,217)
Equity in earnings of other investments	6	(27,223)	(113,330)
Interest expenses		15,945	16,218
Change in:			
Premiums receivable, net		551,848	(1,179,877)
Deferred acquisition costs gross		(108,023)	(107,288)
Prepaid reinsurance premiums		66,655	(94,785)
Reinsurance recoveries		(1,293,877)	(786,594)
Due from (to) Sompo affiliates		97,107	(88,831)
Reserve for losses and loss adjustment expenses		2,860,202	2,693,807
Reserve for unearned premiums		417,679	764,171
Reinsurance balances payable		(558,338)	612,418
Deferred acquisition costs ceded		(34,688)	(21,847)
Others		(13,694)	(42,930)
Net cash flows provided by operating activities		2,483,760	2,233,215
Cash flows used in investing activities:			
Interest and dividend received	6	333,037	276,080
Purchases of investments	6	(7,723,700)	(8,468,415)
Proceeds from sales and maturities of investments	6	4,676,708	6,855,083
Purchases of properties and equipment	14	(7,204)	(2,876)
Purchase of intangible assets	11	(30,197)	(9,926)
Proceeds from sale of property and equipment	14	2,208	2,549
Net settlement of derivatives	8	(3,043)	1,392
Net cash paid for subsidiary acquisition	4	—	(270)
Net cash outgoing on disposal of subsidiaries		(94,815)	—
Net cash flows used in investing activities:		(2,847,006)	(1,346,383)
Cash flows provided by (used in) financing activities:			
Interest paid		(5,869)	(6,013)
Proceeds from issuance of repurchase agreements		—	76,000
Repayment of repurchase agreements		—	(76,000)
Repayments of lease liabilities	14	(19,280)	(29,023)
Issuance of common shares		1,273,377	—
Dividends on common shares		(352,226)	(199,850)
Net cash flows provided by (used in) financing activities		896,002	(234,886)
Effect of exchange rate changes on cash and cash equivalents		(38,228)	26,950
Net increase in cash and cash equivalents		494,528	678,896
Cash and cash equivalents, beginning of year		2,907,294	2,228,398
Cash and cash equivalents, end of year		$ 3,401,822	$ 2,907,294

See accompanying notes to the Consolidated Financial Statements.

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.

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").

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
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 24, 2023. 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, 2022 and 2021, and the Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income, Consolidated Statements of Changes in Shareholder's Equity and Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021, 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 (Loss) Profit and Comprehensive (Loss) 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 (Loss) Profit and Comprehensive (Loss) 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.

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 (Loss) Profit and Comprehensive (Loss) 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.

Alternative funds within the Company's investment portfolio also includes 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 alternative funds 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 (Loss) Profit and Comprehensive (Loss) Income within net realized and unrealized (losses) 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	3-5 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. Under sale and leaseback arrangements the right-of-use asset arising from the leaseback is measured by determining the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Company.

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 (Loss) Profit and Comprehensive (Loss) 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
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 (Loss) Profit and Comprehensive (Loss) 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 deferred 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 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 dates. The resulting exchange differences on translation are recorded in the Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income within net foreign exchange gains. 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 (Loss) Profit and Comprehensive (Loss) 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 issued IFRS 17, which replaces IFRS 4 Insurance Contracts. IFRS 17 is a comprehensive new accounting standards for insurance contracts and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts. In addition, the IASB issued further amendments to IFRS 17 in June 2020 and December 2021. The December 2021 amendment permits the Company to present comparative information about financial assets as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period (the "Classification Overlay").

IFRS 17 is effective for annual reporting periods commencing on or after January 1, 2023 which will be the date of initial application by the Company. The adoption of IFRS 17 will result in significant changes to the accounting for insurance contracts issued and reinsurance contracts held by the Company.

All references to 'insurance contracts' within this note should be read as being equally applicable to both insurance contracts issued and reinsurance contracts held unless explicitly stated otherwise.

IFRS 17, Contract Evaluation

Under IFRS 17, similar to IFRS 4, a contract is recognized as an insurance contract if it involves the assumption by the Company of significant insurance risk on a present value basis. For the Company, the revised definition will not result in a change in the insurance contracts classification under IFRS 17. Direct insurance contracts issued by the Company are expected to be treated as insurance contracts under IFRS 17 without exception.

For reinsurance assumed and reinsurance held, a risk transfer assessment is currently performed on the binding of new contracts under IFRS 4 on quarterly basis. This is expected to continue when IFRS 17 is effective. Contracts that fail the risk transfer assessment will be accounted for as a financial liability under IFRS 9, where material. The current population of contracts which do not pass risk transfer is small, and this is not expected to change going forward.

In some cases, when applying IFRS 17, the Company will have to assess whether a set or series of individual insurance contracts are required to be combined and treated as a single contract for measurement purposes and/ or any embedded derivatives, distinct investment components and transfers of distinct goods and services have to be separated from the contract and accounted for under another standard. The Company does not expect significant changes arising from the application of these requirements.

IFRS 17, Level of Aggregation

Under IFRS 17, insurance contracts are aggregated into groups for measurement purposes. Groups of contracts are determined by identifying portfolios of contracts, each comprising contracts subject to similar risks and managed together, and dividing each portfolio into annual cohorts (i.e. by year of issue) and each annual cohort into three groups based on the profitability of contracts:

- any contracts that are onerous on initial recognition;
- any contracts that, on initial recognition, have no significant possibility of becoming onerous subsequently; and
- any remaining contracts in the annual cohort

The grouping of contracts under IFRS 17 limits the offsetting of gains on profitable contracts against losses on onerous contracts, which are recognised immediately. The level of aggregation under IFRS 17 is more granular than currently under IFRS 4 and is expected to result in more contracts being identified as onerous and losses on onerous contracts being recognised sooner. The Company expects that no contracts will fall into the group which at initial recognition has no significant possibility of becoming onerous.

The Company has identified portfolios of insurance contracts that are subject to similar risks and managed together based on the risks transferred from the policyholder to the Company under the insurance contracts and how the contracts are managed internally. For each portfolio of contracts, the Company determines the appropriate level at which reasonable and supportable information is available to assess whether these contracts are onerous at initial recognition and, for the remaining contracts, whether they have no significant possibility of becoming onerous subsequently. For insurance contracts measured using the Premium Allocation Approach ("PAA"), the Company will assume that no such contracts

2. Significant accounting policies, cont'd.

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

IFRS 17, Level of Aggregation, cont'd

are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts may be onerous, an additional assessment will be performed to distinguish onerous contracts from non-onerous contracts. For non-onerous contracts, the Company will assess the likelihood of changes in relevant facts and circumstances in subsequent periods in determining whether contracts have no significant possibility of becoming onerous after initial recognition.

IFRS 17, Contract Boundary

The measurement of a group of insurance contracts includes all the cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay premiums or the Company has a substantive obligation to provide the policyholder with insurance contract services. Cash flows outside of the boundary of the insurance contract will be excluded from measurement. These cash flows relate to future insurance contracts.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Company that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or in which the Company has a substantive right to receive insurance contract services from the reinsurer.

The Company has identified certain contract terms or features, for example retroactive coverage, portfolio transfer, cancellation which could impact contract boundary. These may result in the contract boundary to be longer or shorter than the coverage period and therefore affect the measurement of the insurance contracts.

IFRS 17, Measurement

Under IFRS 17, the measurement of insurance contracts is based on the Company's estimates of the present value of future cash flows attributable to the fulfilment of insurance contracts, an explicit risk adjustment for non-financial risk and, where these represent an expected net cash inflow to the Company, a contractual service margin representing the profit that the Company expects to earn as it provides services under the insurance contracts (net cost to the Company of future coverage receivable under reinsurance contracts held). This method is known as the General Measurement Model ("GMM"). IFRS 17 also introduces two modifications to the GMM: the Variable Fee Approach ("VFA") which is mandatory for insurance contracts where the policyholder has a direct participating interest; and the PAA which is an optional simplification of the general measurement model where certain criteria are met.

The Company expects that it will apply the PAA to all its insurance contracts. None of its insurance contracts are expected to be measured using the GMM or VFA.

IFRS 17, PAA Measurement

On initial recognition of each group of insurance contracts, the carrying amount of the liability for remaining coverage ("LRC") is measured at the premiums received on initial recognition. The Company has elected to defer insurance acquisition cash flows and amortized over the coverage period.

Subsequently, the carrying amount of the LRC is increased by any premiums received and decreased by the amount recognised as insurance revenue for services provided. The Company expects that the time between providing each part of the services and the related premium due date will be no more than a year. Accordingly, as permitted under IFRS 17, the Company will not adjust the LRC to reflect the time value of money and the effect of financial risk. The Company will allocate expected premium receipts and recognize insurance revenue during the coverage period based on the passage of time, unless the expected pattern of release from risk during the coverage period differs significantly from the passage of time, in which case the allocation is made based on the expected timing of incurred insurance service expenses.

The Company will recognise the liability for incurred claims ("LIC") of a group of contracts at the amount of the fulfilment cash flows relating to incurred claims. The future cash flows will be discounted (at current rates) unless they are expected to be paid in one year or less from the date the claims are incurred.

2. Significant accounting policies, cont'd.

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

IFRS 17, PAA Measurement, cont'd

Although the PAA is similar to the Company's current accounting treatment when measuring the LRC, the requirements to discount the future cash flows in the LIC and to include an explicit risk adjustment for non-financial risk are expected to have an impact on equity on transition. The Company has elected not to apply the option to recognize changes in discount rate in Other Comprehensive Income but rather recognize all effects of the time value of money, financial risk and changes therein in profit or loss as part of insurance finance income or expenses.

IFRS17, Discounting

The Company will apply a bottom-up approach to derive the discount rates applied to its insurance contracts based on the risk-free rates for major currencies with an illiquidity adjustment to adjust the risk-free curves to reflect the illiquid nature of the insurance contracts. Risk-free rates will be obtained from European Insurance and Occupational Pensions Authority ("EIOPA"), whereas liquidity premiums will be obtained from the Bermuda Monetary Authority ("BMA").

The requirement to measure the LIC using current discount rates will be a significant change from the Company's current practice of not discounting claim liabilities.

IFRS 17, Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the Company fulfils insurance contracts. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer. The Company estimates the risk adjustment for non-financial risk separately from all other estimates.

The risk adjustment will be calculated at the entity level and then allocated down to each group of insurance contracts in accordance with their risk profiles. Although there is no prescriptive approach under IFRS 17, the Company will be adopting a percentile approach in its calculation using Value at Risk (VaR) with the risk adjustment based on the 75th percentile across the group. The VaR estimates the loss over a given time period at a specified percentile. For the risk adjustment, we consider the ultimate losses at the percentile set by management. The VaR approach will be based on the reserve risk distribution derived from economic capital model simulations at the 75th percentile. The total risk adjustment is taken as the difference between the specified percentile and the mean of the distribution.

IFRS17, Presentation and Disclosure

IFRS 17 will significantly change how insurance contracts and reinsurance contracts are presented and disclosed in the Company's financial statements.

Under IFRS 17 portfolios of insurance contracts that are assets and those that are liabilities, and portfolios of reinsurance contracts that are assets and those that are liabilities, are presented separately in the statement of financial position. All rights and obligations arising from a portfolio of contracts will be presented on a net basis; therefore, balances such as insurance receivables and payables will no longer be presented separately. Any assets or liabilities recognized for cash flows arising before the recognition of the related group of contracts (including any assets for insurance acquisition cash flows) will also be presented in the same line item as the related portfolios of contracts.

Under IFRS 17 amounts recognized in the consolidated statement of profit and other comprehensive income are disaggregated into (a) an insurance service result comprising insurance revenue and insurance service expenses; and (b) insurance finance income or expenses. Amounts from reinsurance contracts will be presented separately.

IFRS 17, Insurance service results

Expenses that relate directly to the fulfilment of contracts will be recognized in profit or loss as insurance service expenses as part of the insurance service results, generally when they are incurred. Expenses that do not relate directly to the fulfilment of contracts will be presented as corporate expenses, like the current practice, and not as part of the insurance service result.

Investment components will not be included in insurance revenue and insurance service expenses under IFRS 17.

2. Significant accounting policies, cont'd.

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

IFRS 17, Insurance service results, cont'd

Amounts recovered from reinsurers and reinsurance expenses will no longer be presented separately in profit or loss, because the Company will present them on a net basis as ‘net expenses from reinsurance contracts’ in the insurance service result, but information about these will be included in the disclosures.

IFRS 17, Transition

The Company will adopt IFRS 17 for its financial statements for the year ending December 31, 2023 and will apply the requirements retrospectively from the transition date of January 1, 2022 (the “Transition Date”). The Company has assessed the practicability of applying the Full Retrospective Approach (“FRA”) to all groups of insurance contracts that had unexpired risk prior to the Transition Date.

Based on the assessment, FRA will be applied for insurance contracts in the 2021 and 2020 cohorts. Accordingly, the Company has recognized and measured each group of insurance contracts in this category as if IFRS 17 had always applied; derecognized any existing balances that would not exist had IFRS 17 always applied; and recognized any resulting net difference in equity.

For cohort 2019 and prior, the application of FRA is impracticable and the Company has decided to apply the Modified Retrospective Approach (“MRA”). In applying the MRA, the Company will leverage on certain modification allowed under the standard to:

- determine the profitability grouping based on reasonable and supportable information at the transition date;
- classify liabilities for settlement of claims incurred on contracts acquired as part of a business combination under IFRS 3 or common contract transaction, as LIC.

The Company has not substantially completed its pre-transition work and thus cannot provide quantitative disclosures in these financial statements.

IFRS 9, Financial instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. However, the Company has met the relevant criteria and has applied the temporary exemption from IFRS 9 for annual periods before 1 January 2023. Consequently, the Company will apply IFRS 9 for the first time on 1 January 2023.

IFRS 9, Financial assets - Classification

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 includes three principal measurement categories for financial assets - measured at amortized cost, FVOCI and FVTPL – and eliminates the previous IAS 39 categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as measured at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. The Company expects to classify all its financial assets as FVTPL. In addition, on initial recognition, the Company may

2. Significant accounting policies, cont'd.

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

IFRS 9, Financial assets - Classification, cont'd

irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Company does not intend on designating any financial asset at amortized cost or at FVOCI.

Nevertheless, on initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. The election is made on an instrument-by-instrument basis. The Company does not expect to present any equity investment at FVOCI.

The table in Note 6, Investments shows the Company's investments and their respective measurement categories expected under IFRS 9 as of 31 December 2022 and 31 December 2021.

Because the Company's financial assets will be measured at fair value both before and after transition to IFRS 9, the new classification requirements are not expected to have a material impact on the Company's total equity at 1 January 2023 or 2022.

IFRS 9, Financial assets – Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECL, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortized cost, debt investments at FVOCI and lease receivables. The Company does not currently hold any such financial asset.

IFRS 9 requires a loss allowance to be recognized at an amount equal to either 12-month ECL or lifetime ECL. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument; 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Generally, loss allowances are measured at an amount equal to lifetime ECL, except in the following cases, for which the amount recognized is the 12-month ECL:

- debt securities that are determined to have low credit risk at the reporting date, generally considered to be the case when the security's credit risk rating is equivalent to the globally understood definition of 'investment grade'; and
- other financial instruments (other than lease receivables) for which credit risk has not increased significantly since initial recognition.

Loss allowances for lease receivables will always be measured at an amount equal to lifetime ECL.

ECL are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). The Company does not anticipate that application of the IFRS 9 impairment requirements at 1 January 2023 and 2022 will result in additional loss allowances.

IFRS 9, Financial liabilities

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. The Company expects no material impact from adopting IFRS 9 as all its financial liabilities are measured at amortized cost.

IFRS 9, Transition

Changes in accounting policies resulting from the adoption of IFRS 9 are to be applied retrospectively, with no expected impact in the accounting treatment of the Company's financial assets and liabilities..

Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued "Classification of Liabilities as Current or Non-current", which amends IAS 1 Presentation of Financial Statements and will be applicable starting 1 January 2024, with earlier application permitted. The amendments clarify how an entity classifies debt and other financial liabilities as current or non-current in particular circumstances. The amendments are not expected to impact the Company's classification or disclosures of its debt and other financial liabilities.

2. Significant accounting policies, cont'd.

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

Lease Liability in a Sale and Leaseback

In September 2022, the IASB published an amendment to IFRS 16 Leases, applicable 1 January 2024. For annual reporting periods on or after 1 January 2024, the standard will no longer prescribe specific measurement requirements for lease liabilities arising from a leaseback transaction. Prior to this amendment, IFRS 16 established that a seller-lessee initially measured the right-of-use asset and lease liability arising from a leaseback using the present value of expected lease payments at the commencement date. The Company does not intend on modifying its accounting policies pertaining to sale and leasebacks.

3. Risk disclosures

The Company's risk strategy is aligned to the business objectives of the Company. As a specialty (re)insurer operating in the global insurance and reinsurance marketplace, it is central to the achievement of the Company's business objectives that it seeks insurance and investment risk through the specialty products that it underwrites, and the investments made with the assets of the business. In undertaking this activity, the Company accepts exposure to other risks that it does not seek and for which it is not rewarded.

The principles underpinning the Company's risk management strategy include:

- The Company seeks to protect capital, liquidity, earnings and reputation, in line with its risk appetite;
- The Company sees risk as more than just a potential for loss, but also as a potential for opportunity;
- The Company only seeks risks that it has the capabilities and expertise to understand and to manage;
- The Company only accepts risks that provide a level of reward commensurate with the risk assumed;
- The Company uses its people, systems, processes and controls to minimise its exposure to risks for which it is not rewarded, subject to cost benefit considerations; and
- The Company defines the risk preferences and tolerances within which it will normally operate to achieve its business objectives.

The Company's approach to risk management is based upon the belief that risk management activity should be embedded across the business, leverage a diversity of skills, tools and people whilst being supported by a strong culture of risk awareness and engagement. In particular, the risk management system is designed to support the successful execution of the Company's business strategy by aligning the risk appetite to business objectives and inculcating a risk management culture that influences decisions from board level through to individual employees.

Risk management responsibilities are clearly defined across the company and are segregated across three 'lines of defence' that vary in the level of independence they have from the day-to-day running of the organization, specifically:

1. *The first line of defence*, business risk management, describes the infrastructure of processes, systems and controls owned by members of the business charged with responsibility for day-to-day operations. Ownership for each of the identified business risks is allocated to an appropriate member of the management team who is responsible for the design and operating effectiveness of the associated control framework in place to manage risk.

2. *The second line of defence*, risk management, describes the risk oversight activity, encompassing risk assessment, monitoring and reporting, undertaken by both the Risk and Compliance functions. Specific attention is given to monitoring how the risk profile of the Company compares to the board of directors approved appetite statements regarding risk preference and tolerance. The risk function may provide support and guidance to the first line with respect to the design of their control framework.

3. *The third line of defence*, internal audit, describes the risk assurance work done independently of the operation of the business and the risk function to determine that controls are being operated adequately, risks assessed appropriately and that the risk management framework remains effective.

3. Risk disclosures, cont'd.

The board of directors of Sompo International has overall responsibility for approving the strategy and risk appetite of the Company at least annually. The board of directors of Sompo International has delegated responsibility for overseeing the risk management framework to the Board Risk Committee which meets on a semi-annual basis to receive reports and management information from the Chief Risk Officer who is responsible for the risk function.

The risk governance of the Company also benefits from management committees and risk forums including the Sompo International Management Risk Committee, which is responsible for the implementation of the group-wide enterprise risk management ("ERM") framework, and its risk sub-committees; these are specialist groups responsible for the identification, assessment and management of specific drivers of risk across the enterprise.

Capital management oversight across the group is the primary responsibility of the Sompo International Capital Management Committee, a sub-committee of the Sompo International Management Committee. Its responsibilities include reviewing entity capital targets, capital management plans, group and entity capital forecasts, and the output of standard formula assessments. The Committee helps to ensure a holistic view and approach to capital management across the Company and is responsible for providing any capital management recommendations to the group and entity boards.

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

- Underwriting risks including pricing, catastrophe, and reserve risks;
- Market risks including interest rate, foreign currency, equity price, and credit spread risks;
- Credit risks;
- Liquidity risk; and
- Operational risks

(a) Underwriting risks

The Company seeks risk through its (re)insurance underwriting activities to generate financial earnings. The main risks assumed through underwriting activity can be sub-divided into: pricing risk; catastrophe risk; and reserve risk.

- Pricing risk is the risk of systematic mispricing which could arise due to changes in the legal or external environment, changes to the supply and demand of capital, and companies' using inadequate information to make decisions. This risk could affect multiple classes across a number of underwriting years.
- Catastrophe Risk refers to the potential for large losses to arise from multiple independent insured policies as a result of a single cause. This definition applies to all classes of business written, in all territories, and includes both natural and manmade causes, for example: earthquakes, hurricanes, marine or aviation incidents, acts of terrorism, cyber events, or systemic malpractice.
- Reserve risk describes the potential that provisions set aside to meet claims payments in respect of events that have occurred turn out to be inadequate. This risk is most pronounced for medium and long tailed business where the typical period between loss occurrence and ultimate claim settlement can be very long, in these cases unanticipated changes in the legal landscape (e.g. tort reform) or external conditions (e.g. inflation) can have a material impact on the adequacy of claims provisions. For short-tailed business, reserve uncertainty can be significant immediately following a major event, however the typically shorter reporting and settlement periods mean this risk is unlikely to persist and compound over time.

The Company's approach to risk management for each of these is set out below.

Pricing risk

The Company recruits experienced underwriters with proven track-records and good standing in the market. Underwriting Letters of Authority ("LOA") are the primary tool for promulgating and implementing underwriting risk preferences and limits. The LOAs document permitted lines of business, territories, maximum premium and exposure limits and the underwriters' responsibility towards the peer review process. The LOA also sets out any restrictions for classes of business or exposures that an underwriter is not permitted to underwrite. The LOAs are consistent with established underwriting strategy and guidelines and detail an underwriter's ability to legally bind contracts on behalf of the Company. The underwriting process is supported by pre- and post-bind peer reviews, as well as regular independent reviews.

3. Risk disclosures, cont'd.

(a) Underwriting risks, cont'd.

Pricing risk cont'd.

In addition to technical and analytical practices, underwriters use a variety of underwriting tools, including specific contract terms, to manage exposure to loss. These include occurrence limits, aggregate limits, reinstatement provisions and loss ratio caps. Exclusions and terms and conditions to eliminate particular risks or exposures deemed outside of the intent of coverage are also considered.

The Company has fully integrated its internal actuarial and modelling staff into the underwriting and decision-making process. The Company uses in-depth actuarial and risk analyses to evaluate transactions prior to authorization, assessing and charting pricing changes and rate adequacy. In addition to internal actuaries and risk professionals, external specialists may also be used to provide support in developing and utilizing robust risk intelligence to inform underwriting decisions.

The Company has established a framework to enable the business to regularly assess and monitor performance drivers on a portfolio basis. The approach generates insight by integrating the analytics across a number of disciplines (including pricing, reserving, claims, capital modelling and exposure management) and engaging with underwriting teams regularly to pro-actively monitor and respond to underwriting performance trends on both an absolute and risk adjusted basis.

The following table presents the gross premiums written by the geographic location in which the risk originated for the years ended December 31, 2022 and 2021:

	2022		2021	
Asia	$ 142,306	1.1 %	$ 177,880	1.4 %
Australasia	184,793	1.4 %	203,280	1.7 %
Canada	110,012	0.8 %	65,173	0.5 %
Europe	934,155	6.9 %	964,894	7.9 %
Japan	32,493	0.2 %	43,630	0.4 %
United States	9,176,317	68.1 %	8,223,898	67.0 %
Worldwide	2,658,585	19.7 %	2,427,021	19.8 %
Other	244,202	1.8 %	167,360	1.4 %
Total gross premiums written	$ 13,482,863	100.0 %	$ 12,273,136	100.0 %

Catastrophe risk

Catastrophe Risk is managed by monitoring and limiting the accumulation of exposure (such as within geographical proximity for natural catastrophe exposures), maintaining a diverse portfolio of exposures across different business lines, and through purchasing outwards reinsurance protection. The outwards reinsurance purchasing strategy is reviewed at least annually, with reference to the objectives of the business, risk appetite, and prevailing market conditions or trading opportunities.

Proprietary and commercially available tools to quantify catastrophe risk are used to inform underwriting risk selection, portfolio design, and portfolio risk management. Tools include natural catastrophe, weather, casualty, aviation, credit, economic and other specialty risk models, as well as deterministic scenarios for individual events. Approaches to quantifying catastrophe risk rely heavily on past experience. While future trends are considered, there is often a high degree of uncertainty in projections. Areas such as climate change and social inflation are of direct relevance to catastrophe risk, as past experience alone may misrepresent the present nature of the risk. An active role is taken in the evaluation of licensed commercial tools, with feedback provided to improve the effectiveness of the tools.

The use of tools, models or scenarios, the methodologies employed, and the process of achieving an overall complete risk assessment is overseen by the Natural Catastrophe Risk Sub-Committee and, ultimately, by the Sompo International Management Risk Committee.

3. Risk disclosures, cont'd.

(a) Underwriting risks, cont'd.

Reserve risk

The actuarial function maintains a best estimate reserving process that integrates planning, pricing and exposure information to establish a feedback loop between the reserving and underwriting processes. At least annually, each class of business is subject to a detailed reserve review where actuarial and statistical techniques are used to derive loss reserve estimates 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 results of the actuarial reserve reviews are discussed regularly with underwriting leaders for each product line and are monitored against the booked reserve estimates to ensure that in the aggregate, across all classes, booked reserves are considered adequate, as defined in the approved risk appetite. Additionally, the best estimates are compared against experience each quarter by undertaking an analysis of actual versus expected experience as well as other appropriate validations of assumptions, methodology, and results. The quarterly reserve analysis is reviewed by and discussed with underwriters, actuaries, claims, finance and senior management prior to submission to the 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.

In respect of individual claims and/or events where the potential for reserve development is material, reserve selections are informed by an update of the loss circumstances provided by the claims team. For large events the initial loss estimates are determined by the claims team with input from underwriting and exposure management personnel as appropriate.

Oversight of loss reserves is provided by the Sompo International Audit Committee, which meets quarterly to receive reserving information and discharge its oversight duties including monitoring reserve adequacy.

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, 2022 and 2021, 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 $152.5 million gain/loss (2021 – $129.5 million gain/loss). There was no significant change to the Company's reserving methodology during the years ended December 31, 2022, and 2021.

(b) Market risks

Market risk describes the Company's exposure to external influences on assets resulting in financial losses or gains from the level or volatility of market prices of financial instruments. Exposure to market risk is measured by the impact of movements in the level of financial variables such as interest rates, currency exchange rates, equity prices and credit spreads.

The Company manages market risk through both a system of limits and a strategy to optimize the interaction of risks and opportunities, both of which are documented in an investment management policy. To ensure diversification of the investment portfolio and 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 uses a number of capital-at-risk models, which include scenario-based measures, value-at-risk and credit impairment calculations to evaluate its investment portfolio risk. Portfolio risk is affected by four primary risk factors: asset concentration, asset volatility, asset correlation and systematic risk. 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

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 2.53 years at December 31, 2021 to 2.76 years at December 31, 2022. 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, 2022 and 2021.

	Interest Rate Shift in Basis Points				
December 31, 2022	**(100)**	**(50)**	**—**	**50**	**100**
Total fair value	$ 16,301,859	$ 16,080,692	$ 15,860,834	$ 15,642,284	$ 15,425,043
Market value change from base	2.78 %	1.38 %	— %	(1.38)%	(2.74)%
Change in unrealized value	$ 441,025	$ 219,858	$ —	$ (218,550)	$ (435,791)

	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)

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.

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, 2022 and 2021, are as follows:

December 31, 2022	USD	EUR	GBP	Others	Total
Assets					
Cash and cash equivalents	$ 2,971,372	$ 138,882	$ 143,840	$ 147,728	$ 3,401,822
Accrued investment income	78,729	1,444	3,020	(38)	83,155
Investments	13,214,947	248,790	294,213	2,517	13,760,467
Investment in associates	7,259	(411)	6,880	—	13,728
Premium receivable, net	3,530,090	340,222	197,869	302,540	4,370,721
Other insurance and reinsurance balances receivable	67,514	103,021	6,257	55,733	232,525
Receivables on investments sold	90,254	249	283	89	90,875
Prepaid reinsurance premiums	1,451,653	71,305	44,077	74,454	1,641,489
Derivative assets	40,300	(21)	(5,204)	107,621	142,696
Reinsurance recoverables on unpaid losses	4,847,041	578,224	163,818	118,502	5,707,585
Reinsurance recoverables on paid losses	1,694,579	145,913	16,357	23,519	1,880,368
Deferred acquisition costs gross	955,347	65,443	28,970	89,312	1,139,072
Current tax asset	290	409	—	—	699
Deferred tax asset	300,268	533		—	300,801
Property and equipment	173,680	2,554	11,588	2,771	190,593
Goodwill and intangible assets	672,787	10,074	—	—	682,861
Other assets	219,722	329	16,063	1,197	237,311
Due from affiliates	3,903	358	70	—	$ 4,331
Total assets	$ 30,319,735	$ 1,707,318	$ 928,101	$ 925,945	$ 33,881,099
Liabilities					
Reserve for losses and loss expenses	$ 12,707,862	$ 1,284,597	$ 686,160	$ 566,439	$ 15,245,058
Reserve for unearned premiums	5,437,656	274,527	211,103	337,082	$ 6,260,368
Insurance and reinsurance balances payable	2,773,750	290,358	107,902	124,659	$ 3,296,669
Due to affiliates	351,188	(179)	(6,559)	(10,393)	$ 334,057
Payables on purchases of investments	265,097	3,908	—	—	$ 269,005
Derivative liabilities	68,909	10,832	171	1,214	$ 81,126
Deferred acquisition costs ceded	103,583	15,632	(219)	23,037	$ 142,033
Current tax liability	51,917	8,104	—	—	$ 60,021
Deferred tax liability	2,170	—	—	—	$ 2,170
Other liabilities	411,886	13,486	35,358	(2,380)	$ 458,350
Loans and borrowings	447,132	1,981	12,447	2,407	$ 463,967
Total liabilities	$ 22,621,150	$ 1,903,246	$ 1,046,363	$ 1,042,065	$ 26,612,824
Net exposure	$ 7,698,585	$ (195,928)	$ (118,262)	$ (116,120)	$ 7,268,275

3. Risk disclosures, cont'd.

(b) Market risks, cont'd.

Foreign currency risk, cont'd.

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
Investments in associates	47,326	(65)	(33,307)	—	13,954
Premiums 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

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 $43.0 million increase or decrease (2021 - $0.5 million) in the net assets held by the Company at December 31, 2022.

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, 2022, the Company's current equity portfolio has a beta of 0.57 (2021 - 0.55) 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, 2022	$ 487,064	$ 518,527	$ 549,989	$ 581,452	$ 612,914
December 31, 2021	343,895	365,181	386,468	407,754	429,041

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, 2022 and 2021:

	Credit Spread Shift in Basis Points				
December 31, 2022	**(100)**	**(50)**	**—**	**50**	**100**
Total fair value	$ 16,316,255	$ 16,088,544	$ 15,860,834	$ 15,633,124	$ 15,405,413
Market value change from base	2.87 %	1.43 %	— %	(1.43)%	(2.87)%
Change in unrealized value	$ 455,421	$ 227,710	$ —	$ (227,710)	$ (455,421)

	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)

(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 Commercial P&C Platform 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, through a tiered approach based on issuer ratings, the Company has limited its exposure to any single corporate issuer.

3. Risk disclosures, cont'd.

(c) Credit risks, cont'd.

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. 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, 2022, the Company held collateral of $1,103.8 million (2021 - $1,042.4 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, 2022 and 2021. 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, 2022	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	$ 17,806	$ 6,764,119	$ —	$ 83,956	$ 137,852	$ —
AA+, AA, AA-	1,004,319	871,222	636	771	—	4,250,494
A+, A, A-	2,168,793	1,834,146	129,946	—	—	2,733,287
BBB+, BBB, BBB-	197,652	1,320,693	55	—	—	46,106
Other / Not rated	13,252	1,668,832	101,888	6,148	4,843	558,066
Total	$ 3,401,822	$ 12,459,012	$ 232,525	$ 90,875	$ 142,696	$ 7,587,953

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

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.

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.

3. Risk disclosures, cont'd.

(c) Credit risks, cont'd.

The following table shows premiums receivable, net that are past due but not impaired at December 31, 2022 and 2021:

	2022	2021
Not yet due	$ 3,708,226	$ 4,258,144
Less than 90 days past due	466,129	512,818
Between 91 and 180 days past due	125,043	53,611
Over 180 days past due	71,323	122,942
Total	$ 4,370,721	$ 4,947,515

An allowance of $34.1 million (December 31, 2021 - $28.5 million) has been recorded as an estimate of impaired or irrecoverable premiums receivable balances, and $17.3 million (2021 - $11.8 million) was charged to the Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income related to bad debts for the year ended December 31, 2022. 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.

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, 2022 and 2021:

	2022		2021	
Marsh & McLennan Companies, Inc.	$ 3,457,332	25.6 %	$ 2,988,143	24.3 %
Aon PLC	1,412,461	10.5 %	1,519,795	12.4 %
Willis Towers Watson PLC	460,579	3.4 %	961,828	7.8 %
Others[(1)]	8,152,491	60.5 %	6,803,370	55.4 %
Total gross premiums written	$ 13,482,863	100.0 %	$ 12,273,136	100.0 %

(1) Others include individual brokers with accumulation of less than five percent of the total gross premiums written in 2021 and 2022.

(d) Liquidity risk

Liquidity Risk represents the risks where the short-term liability obligations cannot be met by the Company due to the inability to convert assets into cash. Such a scenario can be driven by a lack of buyers in an inefficient market.

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.

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, 2022 and 2021. 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.

	2022	2021
Less than one year	$ 389,176	$ 598,740
Between one and five years	4,565,519	4,181,285
Between five and ten years	2,040,315	1,431,650
Over ten years	110,011	128,947
Residential mortgage-backed securities	2,856,773	2,206,422
Commercial mortgage-backed securities	1,057,502	1,071,575
Collateralized loan and debt obligations	823,183	716,282
Asset-backed securities	616,533	651,786
Total	$ 12,459,012	$ 10,986,687

The tables below show the maturity profile of the Company's financial liabilities as at December 31, 2022 and 2021:

	Contractual undiscounted cash flows in years				
December 31, 2022	**Less than one**	**One to three**	**Three to five**	**Over five**	**Total**
Reserve for losses and loss expenses	$ 5,604,340	$ 4,660,699	$ 2,331,852	$ 2,648,167	$ 15,245,058
Insurance and reinsurance balances payable	2,807,865	443,974	25,558	19,272	3,296,669
Payables on purchases of investments	269,005	—	—	—	269,005
Derivative liabilities	81,126	—	—	—	81,126
Other liabilities	456,141	300	1,909	—	458,350
Loans and borrowings[(1)]	12,150	24,300	294,300	—	330,750
Total	$ 9,230,627	$ 5,129,273	$ 2,653,619	$ 2,667,439	$ 19,680,958

(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, 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

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

In undertaking its core underwriting and investment activity the Company accepts exposure to other risks that it does not seek and for which it is not rewarded, in particular operational risk. Operational risk refers to the loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational Risk includes Regulatory and Legal Risk. Regulatory Risk includes the risk of non-compliance with prevailing regulatory requirements; Legal Risk includes the risk of non-compliance with corporate, taxation and employee legislation in any of the jurisdictions in which the Company operates.

The Company seeks to mitigate operational risks through the application of strong risk governance, processes and controls throughout its business and has specific processes and controls in place to manage high-priority operational risk matters such as business resilience and the oversight of third parties that provide key business services on an outsourced basis.

Individual accountability for all key business risks and controls is clear and documented in the risk register. Through the Risk & Control Self-Assessment ("RCSA") framework, each risk owner is responsible for assessing the design and operating effectiveness of their control environment, and, to the extent any gaps or deficiencies exist, assessing the corresponding impacts and level of operational risk / exposure to the company.

The internal audit function is responsible for performing an independent review of the adequacy and effectiveness of the Company’s internal controls. The audit function considers the operational risk self-assessment to develop its audit universe and annual risk-based audit plan. In executing the audit plan a feedback loop exists where the recommendations arising from review of the control environment are considered by management and the risk function and, as appropriate, reflected in the risk register. All findings are reported to the Audit Committee.

(f) Sustainability risk

The Company’s various stakeholders – including its employees, customers, reinsurers, investors, business partners, regulators, and communities – have become increasingly interested in ESG (environmental, social, and governance) principles. These principles are closely aligned with the Company’s overarching purpose to "create a society in which every person can live a healthy, prosperous, and happy life in one’s own way."

The Company has been designing and executing its ESG strategy, a key component of which is its response to the risks associated with climate change. Climate change has the potential to have a material impact on the global economy, and as an insurer and asset manager, the Company plays a role in facilitating the world’s green transition. Thus, the Company has taken a multi-faceted, strategic approach to climate change risk assessment and management, as described below. The following are the most significant climate change risks facing the Company:

- Physical risk involves the risk that shifts in the frequency, severity, or other characteristics of natural catastrophes due to climate change may lead to an increase in insurance payments, leading to a possible deterioration in underwriting results. The Company considers this a prospective and material risk.
- Transition risk involves the risk associated with the transition to a decarbonized society. Technological progress or the introduction of stricter laws and regulations aimed at transitioning toward a decarbonized society could result in structural changes to many industries. Transition risk could also have an impact on the value of the Company’s investment assets. It also introduces reputational risk if the Company fails to adequately address the energy transition. The Company considers this a prospective and material risk.
- Liability risk involves customers who may have contributed to climate change or who have failed to ensure that their companies were sufficiently protected from the effects of climate change. The Company considers this both a prospective and retrospective risk; the latter in the form of reserve risk for its liability classes of business. The Company monitors and manages this risk through its claims and reserving processes.

The existing Sompo International Board-approved risk management framework sets forth the roles and responsibilities of those overseeing the implementation and monitoring of the risk management framework, which encompasses those risks facing the Company, including climate change. As greater understanding of financial risks from climate change develops, the risk management framework continues to evolve to reflect the distinctive elements of this risk to ensure effective management and oversight, including enhancement of scenario testing in this area.

3. Risk disclosures, cont'd.

(f) Sustainability risk, cont'd.

In addition, the Company's ultimate parent, Sompo Holdings, has made sustainability and climate change key components of their Medium-Term Management Plan, which includes establishment of a Sustainability Management Office and a Chief Sustainability Officer, as well as pursuit of several climate related commitments. Most notably, the group has joined the UN-convened Net-Zero Insurance Alliance and Net-Zero Asset Owner Alliance, committing to become net zero in both its underwriting and its investments by 2050. These initiatives will require the Company to measure its current footprint associated with these activities and then set and pursue targets for emissions reduction, customer and investee engagement, and transition financing.

Sompo International has a Head of Sustainability to develop and implement an environmental, social and governance framework to strengthen our position as a responsible global corporate citizen in support of Sompo Holdings' broader efforts to address ESG issues.

(g) Events Updates

The risks associated with COVID-19 and the war in Ukraine continue to be monitored by the Company.

Though management's best estimate of claims is reflected in the total booked reserves, some uncertainty remains, mainly in relation to property / business interruption exposure with the potential for further losses resulting from decisions in regulator and market-led test cases or legislative developments in certain jurisdictions that could impact the scope of intended coverage. These potential developments are being closely monitored by the Company and to date, have been in line with our coverage intentions. The Company continues to monitor for COVID-19 mutations and potential new variants of the disease, although any impact on the Company's operations and results is expected to be more contained in relation to underwriting losses given the actions taken during COVID-19 (e.g., adopting communicable disease exclusions when permitted by law).

The Company's direct exposure to the war in Ukraine through its underwriting and investment portfolio has so far been limited. The Company is also closely monitoring the indirect impact of the conflict on the Company's financial condition driven by the conflict's contribution to the global inflationary and recessionary pressures, and the increased volatility in the financial markets.

4. Business combinations

Divestiture of Lloyd's Business

On August 27, 2022, the Company entered into an agreement for the sale of its wholly-owned subsidiary companies Syndicate 5151, Endurance at Lloyd's Limited, and Endurance Corporate Capital Limited for consideration of $174.4 million. At December 31, 2022 $32.2 million of the consideration had been received and $142.2 million was outstanding. The transaction closed on December 19, 2022 after all conditions pertaining to the sale agreement were met, including approval by the applicable regulatory bodies. As a result, the Company lost control over assets, other than $127.1 million cash and cash equivalents, of $713.9 million and liabilities of $684.3 million. The transaction generated a gain of $17.5 million for the Company and is reflected in Net realized (losses) gains on investments in the Consolidated Statement of (Loss) Profit.

5. Cash and cash equivalents

The components of cash and cash equivalents as at December 31, 2022 and 2021, are as follows:

	2022	2021
Cash at bank and in hand	$ 3,263,700	$ 2,816,281
Cash equivalents	138,122	91,013
Total cash and cash equivalents	$ 3,401,822	$ 2,907,294

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.

6. Investments

The components of investments as at December 31, 2022 and 2021 are as follows:

	2022	2021
Short-term investments, at FVTPL (designated as such upon initial recognition)	$ 65,019	$ 101,204
Equity securities, at FVTPL (designated as such upon initial recognition)	549,989	386,468
Alternative funds, at FVTPL (designated as such upon initial recognition)	751,466	829,557
Fixed maturity investments, at FVTPL (designated as such upon initial recognition)		
U.S. government and agencies securities	1,935,470	2,006,672
U.S. state and municipal securities	119,476	96,741
Foreign government securities	132,603	340,993
Government guaranteed corporate securities	14,608	22,432
Corporate securities	4,837,845	3,772,580
Residential mortgage-backed securities	2,856,773	2,206,422
Commercial mortgage-backed securities	1,057,502	1,071,575
Collateralized loan and debt obligations	823,183	716,282
Asset-backed securities	616,533	651,786
Total fixed maturity investments	12,393,993	10,885,483
Total investments	$ 13,760,467	$ 12,202,712

(a) Composition of net investment income

The components of net investment income for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Cash and cash equivalents	$ 32,808	$ 2,555
Fixed income investments[1] at FVTPL	364,922	237,194
Equity securities at FVTPL	16,122	5,530
Alternative funds at FVTPL	27,223	113,330
Sub-total	$ 441,075	$ 358,609
Investment management expenses	(22,267)	(22,960)
Net investment income	$ 418,808	$ 335,649

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

(b) Composition of net realized and unrealized (losses) gains

The components of net realized and unrealized (losses) gains recorded on the Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Fixed income investments at FVTPL	$ (124,129)	$ 41,330
Equity securities at FVTPL	(8,730)	411
Derivative financial instruments	(976)	962
Disposal of subsidiary (1)	$ 17,574	$ —
Net realized (losses) gains on investments	$ (116,261)	$ 42,703

(1) Disposal of Lloyd's Syndicate 5151.

6. Investments, cont'd.

(b) Composition of net realized and unrealized (losses) gains, cont'd.

	2022	2021
Fixed income investments at FVTPL	$ (1,080,196)	$ (266,517)
Equity securities at FVTPL	(75,909)	4,997
Derivative financial instruments	313	(1,465)
Net unrealized losses on investments	$ (1,155,792)	$ (262,985)

Net realized and unrealized (losses) 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, 2021, the Company had invested $14.0 million in associates. During the year ended December 31, 2022, the Company's Investment in associates decreased to $13.7 million. The Investment in associates is classified as non-current.

(d) Investment commitments

As of December 31, 2022, the Company had pledged cash and cash equivalents and fixed maturity investments of $1,438.6 million (2021 - $1,554.0 million), in favor of certain ceding companies to collateralize obligations. As of December 31, 2022, the Company had also pledged $67.5 million (2021 - $48.5 million) of its cash and fixed maturity investments as required to meet collateral obligations for $44.6 million (2021 - $41.7 million) in secured letters of credit outstanding under its credit facilities. In addition, at December 31, 2022, cash and fixed maturity investments with fair values of $224.3 million (2021 - $216.8 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, 2022, the Company had invested, net of capital returned, a total of $548.6 million in alternative funds (2021 - $637.2 million). The following tables summarize the unfunded commitments and redemption restrictions of alternative funds as at December 31, 2022 and 2021:

December 31, 2022	Fair value	Unfunded Commitments	Ineligible for Redemption in 2023
Hedge funds	$ 277,116	$ —	$ 266,674
Private investment funds	454,730	285,902	454,729
Other investment funds	19,620	—	860
Total alternative funds	$ 751,466	$ 285,902	$ 722,263

December 31, 2021	Fair value	Unfunded Commitments	Ineligible for Redemption in 2022
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

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 3.8% 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 as at December 2021 included funds on deposit with Lloyd's, which were restricted. These funds were included in the disposal of Lloyd's Syndicate 5151 and the balance is zero at December 31, 2022.

(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. As at December 31, 2022, the Company did not have any securities lent out.

	2022	2021
Fair value of lent assets	—	91,757
Fair value of net position	—	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 (Loss) Profit and Comprehensive (Loss) 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:

7. Fair value measurement, cont'd.

- 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 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.

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, 2022 and 2021:

	2022	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)	$ 65,019	$ —	$ 65,019	$ —
Equity securities at FVTPL (designated as such upon initial recognition)	549,989	485,414	64,575	—
Alternative funds, at FVTPL (designated as such upon initial recognition)	751,466	—	—	751,466
Fixed maturity investments at FVTPL (designated as such upon initial recognition)				
U.S. government and agencies securities	1,935,470	18,021	1,917,449	—
U.S. state and municipal securities	119,476	—	119,476	—
Foreign government securities	132,603	—	132,603	—
Government guaranteed corporate securities	14,608	—	14,608	—
Corporate securities	4,837,845	—	4,242,076	595,769
Residential mortgage-backed securities	2,856,773	—	2,856,773	—
Commercial mortgage-backed securities	1,057,502	—	1,057,502	—
Collateralized loan and debt obligations	823,183	—	795,043	28,140
Asset-backed securities	616,533	—	616,533	—
Total fixed maturity investments	12,393,993	18,021	11,752,063	623,909
Total investments measured at fair value	13,760,467	503,435	11,881,657	1,375,375
Derivative instruments at FVTPL (Note 8)				
Derivative assets	142,696	—	139,869	2,827
Derivative liabilities	(81,126)	(14)	(81,056)	(56)
Total derivative instrument	61,570	(14)	58,813	2,771
Total investments and derivative instruments measured at fair value	$ 13,822,037	$ 503,421	$ 11,940,470	$ 1,378,146
Assets and liabilities for which fair values are disclosed				
Loans and borrowings (Note 15)[1]	$ 288,548	$ —	$ 288,548	$ —

(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.

7. Fair value measurement, cont'd.

	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)]	$ 291,940	$ —	$ 291,940	$ —

(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 2022, $13.5 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 (2021 - $7.4 million). There were no other transfers made between Levels 1, 2 and 3 of the fair value hierarchy during the years ended December 31, 2022 and 2021.

Financial instruments included in Level 3

Alternative funds measured at fair value included assets of $751.5 million (2021 - $829.6 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.

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, 2022 and 2021:

2022	**Alternative funds**	**Fixed income investments**	**Derivative assets**	**Derivative liabilities**
Level 3, beginning of year	$ 829,557	$ 155,469	$ 19,413	$ (11,736)
Total realized and unrealized (losses) gains included in earnings	19,067	(9,962)	—	—
Total losses included in other underwriting (loss) income	—	—	431	(1,201)
Purchases	167,505	548,866	—	—
Issues	—	—	—	12
Sales	(264,663)	(70,464)	—	—
Settlements	—	—	(17,017)	12,869
Level 3, end of year	$ 751,466	$ 623,909	$ 2,827	$ (56)

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
Level 3, end of year	$ 829,557	$ 155,469	$ 19,413	$ (11,736)

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.

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.

	2022		2021	
	Fair Value	Notional Principal Amount	Fair Value	Notional Principal Amount
Derivative assets				
Foreign exchange forward contracts	$ 1,846	$ 133,389	$ 12,369	$ 37,522
Credit default swaps	149	9,200	197	9,900
Interest rate futures	22	14,785	75	35,774
TBAs	137,852	154,100	85,030	83,470
Energy and weather contracts	2,827	—	19,570	14,395
Total derivative assets	$ 142,696		$ 117,241	
Derivative liabilities				
Foreign exchange forward contracts	$ 222	$ 12,805	$ 12,497	$ 33,361
Credit default swaps	13	1,013	7	1,055
Interest rate swaps	618	24,724	330	25,333
Zero coupon swaps	—	—	127	13,393
Inflation Swaps	—	1,925	539	8,851
Interest rate futures	42	23,692	176	10,310
TBAs	79,866	88,800	56,184	55,302
Loss development cover	295	25,344	439	25,356
Energy and weather contracts	70	—	11,750	35,987
Total derivative liabilities	$ 81,126		$ 82,049	

At December 31, 2022, derivative assets of $142.7 million (2021 - $117.2 million) and liabilities of $81.1 million (2021 - $81.9 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.

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, 2022 and 2021:

	Gross	Ceded	Net
Balance at January 1, 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, 2020	$ 1,038,363	$ 180,123	$ 858,240
Expense deferred	1,965,976	312,405	1,653,571
Amortization	(1,855,165)	(315,063)	(1,540,102)
Other	(10,102)	(35,432)	25,330
Balance at December 31, 2021	$ 1,139,072	$ 142,033	$ 997,039

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, 2022 and 2021:

	2022	2021
Premiums receivable, net	$ 4,370,721	$ 4,947,515
Other insurance and reinsurance balances receivable	232,525	169,780
Receivables on investments sold	90,875	81,432
Derivative assets	142,696	117,241
Reinsurance recoverables on unpaid losses	5,707,585	4,933,457
Reinsurance recoverables on paid losses	1,880,368	1,661,448
Other assets	237,311	101,995
Due from Affiliates	4,331	406
Total	$ 12,666,412	$ 12,013,274

The current and non-current portions of above balances at December 31, 2022 and 2021 are as follows:

	2022	2021
Current	$ 9,657,592	$ 7,864,252
Non-current	3,008,820	4,149,022
Total	$ 12,666,412	$ 12,013,274

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.

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, 2022 and 2021:

	Gross balance at December 31, 2021	Acquisitions - business combinations (Note 4)	Acquisitions - separately acquired	Disposals	Foreign currency translation	Gross balance at December 31, 2022
Agent, broker and customer relationships	$ 305,936	$ —	$ —	$ —	$ —	$ 305,936
Renewal rights	129,831	—	—	—	—	129,831
Insurance licenses	37,937	—	—	—	—	37,937
Computer software	132,747	—	24,171	(26,652)	16	130,282
Goodwill	420,113	—	—	—	(712)	419,401
Other intangible assets	24,294	—	—	(17,379)	—	6,915
	$ 1,050,858	$ —	$ 24,171	$ (44,031)	$ (696)	$ 1,030,302

	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
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
	$ 1,037,870	$ 270	$ 19,707	$ (6,154)	$ (835)	$ 1,050,858

For the year ended December 31, 2022, acquisitions of separately acquired computer software amount included additions of internally developed software costs that were capitalized of $16.0 million (2021- $12.0 million).

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, 2022 and 2021:

	Accumulated amortization and impairment loss at December 31, 2021	Amortization expense	Disposals	Foreign currency translation	Accumulated amortization and impairment loss at December 31, 2022
Agent, broker and customer relationships	$ 165,960	$ 23,391	$ —	$ —	$ 189,351
Renewal rights	56,152	11,355	—	—	67,507
Insurance licenses	8,500	—	—	—	8,500
Computer software	88,533	14,118	(26,091)	17	76,577
Other intangible assets	21,247	1,638	(17,379)	—	5,506
	$ 340,392	$ 50,502	$ (43,470)	$ 17	$ 347,441

	Accumulated amortization and impairment loss at December 31, 2020	Amortization expense	Disposals	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
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
	$ 294,010	$ 45,588	$ —	$ 794	$ 340,392

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, 2022 and 2021:

	2022	2021
Agent, broker and customer relationships	$ 116,585	$ 139,976
Renewal rights	62,324	73,679
Insurance licenses	29,437	29,437
Computer software	53,705	44,214
Goodwill	419,401	420,113
Other intangible assets	1,409	3,047
	$ 682,861	$ 710,466

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 2 to 10 years as at December 31, 2022;
- 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 2 to 13 years as at December 31, 2022;
- 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, 2022; and
- Other intangible assets - Includes value of non-competition agreement and other intangible assets which are acquired through prior business combinations.

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, 2022 and 2021 is shown below.

	2022	2021
Goodwill	$ 419,401	$ 420,113
Intangible assets with indefinite lives	29,437	29,437
	$ 448,838	$ 449,550

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 12.9% (2021 - 11.8%) is used to discount the projected cash flow as at December 31, 2022, which reflects a combination of factors including the Company's expected cost of equity. The growth rate used at December 31, 2022 to extrapolate the cash flow is 3.6% (2021 - 4.3%) 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.

12. Reserve for losses and loss expenses

Activity in the reserve for losses and loss expenses for the years ended December 31, 2022 and 2021 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, 2021	$ 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
Incurred losses for:			
Current year	10,019,298	4,221,090	5,798,208
Prior years	363,440	235,121	128,319
Total incurred	10,382,738	4,456,211	5,926,527
Paid losses for:			
Current year	(2,973,231)	(1,429,159)	(1,544,072)
Prior years	(4,368,565)	(1,953,740)	(2,414,825)
Total paid	(7,341,796)	(3,382,899)	(3,958,897)
Reserve movement from disposal of/acquired entities	(560,959)	(247,823)	(313,136)
Foreign currency translation and other	(180,740)	(51,361)	(129,379)
Balance at December 31, 2022	$ 15,245,058	$ 5,707,585	$ 9,537,473

During the year ended December 31, 2022, the Company's estimated ultimate losses for prior accident years were increased by $128.3 million (2021 - $65.1 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.

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**	**2022**	**Total**
At end of accident year	$3,093,760	$3,277,454	$4,663,722	$5,078,328	$5,828,416	$6,645,972	$7,844,845	$9,983,079	$ 46,415,576
One year later	2,906,271	3,162,635	4,862,535	5,540,770	5,790,746	6,759,509	7,211,919		36,234,385
Two years later	2,936,520	3,154,051	4,843,361	5,553,678	5,813,816	6,654,486			28,955,912
Three years later	2,965,218	3,063,440	5,028,544	5,611,608	5,913,633				22,582,443
Four years later	2,951,481	3,089,415	5,062,103	5,795,325					16,898,324
Five years later	2,968,674	3,161,131	5,178,894						11,308,699
Six years later	2,998,294	3,260,556							6,258,850
Seven years later	3,032,631								3,032,631
Gross ultimate liability 2015-2022	$3,032,631	$3,260,556	$5,178,894	$5,795,325	$5,913,633	$6,654,486	$7,211,919	$9,983,079	$ 47,030,523
Gross ultimate liability pre-2015									23,210,874
Total gross ultimate liability									$ 70,241,397
Gross paid 2015-2022	(2,895,337)	(2,993,207)	(4,710,734)	(5,063,418)	(4,932,168)	(4,827,599)	(3,837,886)	(2,973,231)	(32,233,580)
Gross paid pre-2015									(22,762,759)
Total gross paid									$ (54,996,339)
Total gross liability as at December 31, 2022									$ 15,245,058

(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, 2022 and approximated the foreign exchange rate impact for all other previous periods. The most recent ultimate liability diagonal values have been adjusted to remove the reserves associated with the Lloyd's Business disposed of in 2022. In aggregate across all accident years, the reserve balance removed totals $561.0 million.

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**	**2022**	**Total**
At end of accident year	$1,526,619	$1,683,950	$2,191,893	$2,084,341	$2,359,514	$3,181,208	$4,510,083	$5,775,374	$ 23,312,982
One year later	1,483,627	1,656,909	2,176,019	2,252,251	2,444,792	3,141,663	4,179,854		17,335,115
Two years later	1,496,253	1,639,252	2,167,864	2,267,320	2,450,062	3,039,854			13,060,605
Three years later	1,497,836	1,576,330	2,191,961	2,282,608	2,482,075				10,030,810
Four years later	1,505,740	1,610,279	2,215,538	2,368,806					7,700,363
Five years later	1,514,844	1,662,938	2,300,606						5,478,388
Six years later	1,532,479	1,721,535							3,254,014
Seven years later	1,545,901								1,545,901
Net ultimate liability 2015-2022	$1,545,901	$1,721,535	$2,300,606	$2,368,806	$2,482,075	$3,039,854	$4,179,854	$5,775,374	$ 23,414,005
Net ultimate liability pre-2015									18,260,711
Total net ultimate liability									$ 41,674,716
Net paid 2015-2022	(1,444,193)	(1,526,006)	(1,997,298)	(1,930,936)	(1,865,647)	(2,007,146)	(1,903,533)	(1,544,072)	(14,218,831)
Net paid pre-2015									(17,918,412)
Total net paid									$ (32,137,243)
Total net liability as at December 31, 2022									$ 9,537,473

(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, 2022 and approximated the foreign exchange rate impact for all other previous periods. The most recent net ultimate liability diagonal values have been adjusted to remove the reserves associated with the Lloyd's Business disposed of in 2022. In aggregate across all accident years, the reserve balance removed totals $313.1 million.

13. Reserve for unearned premium

Activity in the reserve for unearned premiums for the years ended December 31, 2022 and 2021 is summarized as follows:

	Reserve for unearned premium	Prepaid reinsurance premiums	Net reserve for unearned premium
Balance at January 1, 2021	$ 5,106,517	$ 1,627,259	$ 3,479,258
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
Premiums written during the year	13,482,863	4,577,969	8,904,894
Premiums earned during the year	(13,052,804)	(4,608,048)	(8,444,756)
Other	(27,999)	(45,304)	17,305
Foreign currency translation	(12,380)	(5,172)	(7,208)
Balance at December 31, 2022	$ 6,260,368	$ 1,641,489	$ 4,618,879

14. Property and equipment

The components of property and equipment as at December 31, 2022, and 2021 are as follows:

	Right-of-use assets	Other property and equipment	Total
Cost			
Balance at January 1, 2021	$ 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
Additions	1,081	7,204	8,285
Disposals	(13,600)	(31,499)	(45,099)
Foreign currency translation	4,743	(83)	4,660
Balance at December 31, 2022	241,703	124,338	366,041
Accumulated depreciation			
Balance at January 1, 2021	$ 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
Depreciation	24,209	10,377	34,586
Disposals	(13,600)	(30,493)	(44,093)
Accumulated foreign currency translation	(380)	14	(365)
Balance at December 31, 2022	99,084	76,363	175,448
Net property and equipment			
Balance at December 31, 2021	$ 160,624	$ 52,251	$ 212,875
Balance at December 31, 2022	$ 142,619	$ 47,975	$ 190,593

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 (Loss) Profit and Comprehensive (Loss) 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.

14. Property and equipment, cont'd.

Leases as a lessee, cont'd.

A maturity analysis for the undiscounted liabilities related to leases as at December 31, 2022 and 2021 is summarized as follows:

	2022	2021
Less than one year	$ 26,219	$ 24,620
One to five years	75,266	92,483
More than five years	72,229	71,477
Total undiscounted lease payments to be paid	$ 173,714	$ 188,580

Interest on lease liabilities is recognized as financing costs on the Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income and for the year ended December 31, 2022 is $5.9 million (2021 - $6.1 million).

The total cash outflow for leases recognized in the Consolidated Statements of Cash Flows for the year ended December 31, 2022 is $19.3 million (2021 - $29.0 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, 2022, right-of-use assets included subleases accounted for as operating leases of $4.2 million (2021 - $4.8 million).

The following table sets out the maturity analysis of the undiscounted lease payments to be received after December 31, 2022 and 2021:

	2022	2021
Less than one year	$ 545	$ 532
One to five years	2,016	2,057
More than five years	914	1,418
Total undiscounted lease payments to be received	$ 3,475	$ 4,007

Sub-lease income of $0.5 million is recorded in the Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income for the year ended December 31, 2022 (2021 - $0.4 million).

15. Loans and borrowings

Credit Facilities

The Company, Sompo International and certain designated subsidiaries have been parties to the Uncommitted Letter of Credit and Reimbursement Agreement with Mizuho Bank, Ltd. (the "Mizuho Credit Facility") since 2017. The line of credit provided by the Mizuho Credit Facility has increased periodically since its inception and from 2021 has stood at $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, 2022, there were letters of credit outstanding under the Mizuho Credit Facility of approximately $1.1 billion (2021 - $1.1 billion).

15. Loans and borrowings, cont'd.

The Company, Sompo International and certain designated subsidiaries have been parties to 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") since 2017. The MUFG Credit Facility was initially a $100.0 million unsecured letter of credit facility and has increased periodically since its inception rising to $500.0 million in 2021. 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, 2022, there were letters of credit outstanding under the MUFG Credit Facility of approximately $488.5 million (2021 - $483.9 million).

The Company, Sompo International and certain designated subsidiaries were previously parties to a five-year letter of credit facility originally established on March 23, 2016 with JPMorgan Chase Bank, N.A. ("JPMorgan") as administrative agent (the "JPM Credit Facility"). The facility expired in accordance with its terms on March 31, 2021. 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. As of December 31, 2022, there were no outstanding borrowings under the JPM Credit Facility (2021 - $nil).

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, 2022, there were letters of credit outstanding under the LOC Agreements of $54.1 million (2021 - $41.7 million).

CGB Note

On December 28, 2020, Endurance U.S. Holdings Corp. ("Endurance U.S. Holdings") 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, 2022 and 2021.

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, 2022 resulted in an expense of $40.4 million (2021 - $39.5 million) included in General and administrative expenses within the Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income.

17. Commitments and contingencies

Letters of credit

As of December 31, 2022, the Company had issued letters of credit of $1,622.1 million (2021 - $1,594.6 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, 2022, the fair value of the assets held in the Endurance Reinsurance Trust exceeded $34.2 million (2021 - exceeded $60.3 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, 2022, the fair value of the assets held in the Reduced Collateral Trust exceeded $42.6 million (2021 - exceeded $44.4 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, 2022, the fair value of the assets held in the MUSIC Trust was $10.6 million (2021 - $11.6 million), the minimum value required on each balance sheet date.

Prior to the sale of Syndicate 5151, the Company was party to a Lloyd's Deposit Trust Deed (the "Lloyd's Capital Trust") in order to meet Endurance Corporate Capital Limited's ("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, 2022, the fair value of assets held in the Lloyd's Capital Trust was $nil (2021 - $6.0 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, 2022, the fair value of assets held in the Premiums Trust Funds was $nil (2021 - $400.6 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 (2022 - 0.35%; 2021 - 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 prior to the sale of the business in December 2022.

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, 2022 Syndicate 5151 had been sold and the Company's total syndicate loan was $nil (2021 - $6.2 million).

17. Commitments and contingencies, cont'd.

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.

18. Shareholder's equity

The Company’s share capital for the years ended December 31, 2022 and 2021 is summarized as follows:

	2022	2021
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	12,000,005	12,000,003

For the year ended December 31, 2022, the ordinary common shares have increased as a result of a capital injection from Sompo International.

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, 2022 and 2021 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	Bermuda
Sompo International Holdings, Ltd.	Bermuda
Sompo Seguros S.A.	Brazil
Sompo Insurance China Co., Ltd.	China
Sompo Japan Nipponkoa Reinsurance Company Limited	Hong Kong
Sompo Insurance (Hong Kong) Company Limited	Hong Kong
SJNK Asset Management Co., Ltd.	Japan
SOMPO Digital Lab Inc.	Japan
Sompo Japan Nipponkoa Insurance	Japan
Sompo Risk Management Inc.	Japan
Berjaya Sompo Insurance Berhad	Malaysia
Sompo Insurance Singapore Pte. Ltd.	Singapore
Sompo Insurance (Thailand) Public Company Limited	Thailand
Sompo Sigorta Anonim Sirketi	Turkey

Cogent3D, Inc and Sompo Taiwan Brokers Co., Ltd were Company affiliates during 2021. The Company's Consolidated Statement of Profit and Comprehensive Income for the year ended December 31, 2021 included transactions with these then affiliates.

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 (Loss) Profit and Comprehensive (Loss) Income of the related party reinsurance arrangements for the years ended December 31, 2022 and 2021:

	2022	2021
Gross premiums written	$ 53,025	$ 45,655
Ceded premiums written	(218,190)	(252,338)
Net premiums earned	(160,438)	(207,825)
Losses and loss adjustment expenses incurred	238,683	37,962
Acquisition expenses	61,134	80,830
Other underwriting income	1,893	1,956

As of December 31, 2022, the Company has rendered services of $6.1 million (2021 - $9.0 million) and received services of $NIL (2021 - $2.1 million) from its affiliates.

19. Related party transactions, cont'd.

The following table presents the impact in the Consolidated Balances Sheets of the related party reinsurance arrangements at December 31, 2022 and 2021:

	2022	2021
Premiums receivable	$ 73,818	$ 66,728
Insurance and reinsurance balances receivable	1,860	2,226
Deferred acquisition costs, net	5,527	(27,543)
Prepaid reinsurance premiums	90,786	82,182
Reinsurance recoverable on unpaid losses	405,531	256,246
Reinsurance recoverable on paid losses	82,191	45,965
Other assets	315,953	153
Reserve for losses and loss expenses	46,722	43,280
Reserve for unearned premiums	31,733	26,452
Insurance and reinsurance balances payable	117,402	101,930
Other liabilities	13,438	2,532

Other intercompany balances

At December 31, 2022, the Company had a balance of $4.3 million (2021 - $0.4 million) due from affiliates. At December 31, 2022, the Company had a balance of $334.1 million (2021 - $161.1 million) due to affiliates. On October 14, and October 31, 2022 Sompo International contributed a total of $1.3 billion to the Company as capital contributions and 2 shares were issued. As at December 31, 2022 and 2021, the amount due to affiliates include 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, 2022 and 2021 comprised the following:

	2022	2021
Short-term employee benefits	9,150	7,989
Post-employment benefits	351	413
Other long-term benefits	3,469	3,352
Total	$ 12,970	$ 11,754

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

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, 2022	December 31, 2021
Required statutory capital	$ 4,147,303	$ 3,955,909
Actual statutory capital	8,358,833	6,513,653

For Endurance Bermuda, the consolidated statutory net loss for the year ended December 31, 2022 is $212.8 million (2021 - $586.9 million income).

As a Bermuda holding company, Sompo International is subject to the Bermuda Companies Act 1981, which limits the Company's ability to pay dividends and make distributions to its shareholders. The Company's retained earnings are unrestricted; however, the Company is not permitted to declare or pay a dividend, or make a distribution out of contributed surplus, if it is, or would after the payment be, unable to pay its liabilities as they come due, or if the realizable value of its assets would be less than its liabilities. Sompo International remained in compliance with the Bermuda Companies Act 1981 following such dividend or distribution. Sompo International relies on dividends from Endurance Bermuda to provide cash flow required for debt service and dividends to shareholders.

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, 2022	December 31, 2021
Required statutory capital	$ 1,088,307	$ 919,137
Actual statutory capital	4,329,136	2,924,221

For the entities registered in the United States, the aggregate statutory net income for the year ended December 31, 2022 is $84.9 million (2021 - $221.3 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.

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

United States, cont'd.

Dividends are limited to available and accumulated surplus funds derived from net operating profits plus realized capital gains without additional regulatory approval 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 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 2022, Endurance American, Endurance Risk Solutions and Endurance American Specialty did not have earned surplus and thus were precluded from declaring or distributing dividends during 2022 without the prior approval of the applicable insurance regulator. At December 31 2022, Endurance Assurance had earned surplus funds of $141.6 million that could be paid as a dividend to its parent, Endurance U.S. Holdings Corporation in 2023. 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, 2022	December 31, 2021
Required statutory capital	$ 381,138	$ 322,496
Actual statutory capital	653,537	533,238

For the entities registered in the United Kingdom, the aggregate statutory net loss for the year ended December 31, 2022 is $31.9 million (2021 - $37.4 million income).

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 the Solvency II regime from December 31, 2016. As of December 31, 2022, the provisional SCR of Endurance U.K. was $381.1 million (2021 - $322.5 million) and there was surplus capital of $272.4 million (2021 - $210.7 million) with actual Own Funds Available of $653.5 million (2021 - $533.2 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

During the year, the Company participated 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.

On December 19, 2022, Endurance at Lloyd's was sold to an external third party, RiverStone Holdings Limited, following approval from the UK PRA Regulation Authority and Bermuda Monetary Authority. All assets and liabilities in respect of this business were transferred to the third party which marked the exit in the Company's participation in the Lloyd's market.

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

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. In 2022, Sompo Europe established an insurance branch in Zurich named SI Insurance (Europe) SA, Luxembourg, Zurich Branch and is awaiting licensing approval from the Swiss regulator ("FINMA").

Singapore

	December 31, 2022	December 31, 2021
Required statutory capital	$ 3,728	$ 3,708
Actual statutory capital	90,247	120,702

For the entity registered in Singapore, the aggregate statutory net loss for the year ended December 31, 2022, is $27.6 million (2021 - $39.4 million profit).

Endurance Bermuda's Singapore branch ("Singapore Branch") is regulated by the Monetary Authority of Singapore pursuant to the Singapore Insurance Act. At December 31, 2022 and 2021, the Singapore Branch complied with the capital requirements promulgated by the Monetary Authority of Singapore.

Luxembourg

	December 31, 2022	December 31, 2021
Required statutory capital	$ 116,013	$ 134,610
Actual statutory capital	242,857	266,168

For the entity registered in Luxembourg, the statutory net loss for the year ended December 31, 2022, is $15.0 million (2021 - $11.0 million profit).

In 2018, Sompo Europe was established under the laws of the Grand Duchy in Luxembourg. Under the jurisdiction of the Commissariat aux Assurances, Sompo Europe must maintain a margin of solvency at all times under the Solvency II Directive. Sompo Europe has utilized the standard formula for the SCR. As of December 31 2022, the provisional SCR was $116.0 million (2021 - $134.6 million) and there was surplus capital of $126.8 million (2021 - $131.6 million) with actual Own Funds Available of $242.9 million (2021 - $266.2 million).

21. Taxes

The following table shows the components of income tax expense for the years ended December 31, 2022 and 2021:

	2022	2021
Current tax:		
Current corporate tax expense for the year	$ 130,308	$ 149,041
Adjustments for prior year corporation tax	(7,720)	17,565
Total current tax expense	122,588	166,606
Deferred tax:		
Origination and reversal of temporary differences	(189,801)	(84,007)
Adjustments for prior year deferred tax	8,142	(3,614)
Total deferred tax (benefit)	(181,659)	(87,621)
Total income tax (benefit) expense	$ (59,071)	$ 78,985

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 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, 2022, 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, 2022 and 2021 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:

	2022	2021
(Loss) Profit before tax	$ (336,271)	$ 611,340
Corporate tax at 0% under Bermuda law	—	—
Tax expense effect on foreign taxes	(73,059)	71,881
Adjustments in respect of prior period	422	(854)
Other permanent differences	10,471	8,433
Changes in tax rates	(1,591)	327
Tax losses for which no deferred tax asset is recognized	4,863	1,941
Utilization of tax losses previously unrecognized for deferred tax	(177)	(2,743)
Total income tax expense (benefit)	$ (59,071)	$ 78,985

21. Taxes, cont'd.

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, 2022 and 2021:

2022	Net deferred tax asset (liability) at December 31, 2021	Recognized in Consolidated Statement of (Loss) Profit in 2022	December 31, 2022 Net	Deferred tax asset	Deferred tax liability
Investments	$ (20,438)	$ 141,313	$ 120,875	$ 120,875	
Intangible assets	(17,902)	(2,836)	(20,738)	(20,738)	
Insurance related items	107,485	12,010	119,495	119,495	
Employee benefits	26,674	(2,048)	24,626	24,626	
Losses carried forward	39,879	14,732	54,611	54,611	
Other	(18,609)	18,371	(238)	1,932	(2,170)
Total	$ 117,089	$ 181,542	$ 298,631	$ 300,801	$ (2,170)

2021	Net deferred tax asset (liability) at January 1, 2021	Recognized in Consolidated Statement of Profit in 2021	December 31, 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)

For the years ended December 31, 2022 and 2021, the Company had no material uncertain tax positions.

At December 31, 2022 and 2021, 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, 2022, Endurance Bermuda's Singapore branch had no remaining net operating loss carry forwards. Net operating loss carry forwards have no expiration date in Singapore.

At December 31, 2022, Sompo Europe's Italian and Spanish and branches did not recognize deferred tax assets in relation to net operating loss carry forwards of $134.0 million (2021 - $133.0 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 28, 2023, the Company's board of directors declared the payment of an ordinary dividend of $52.5 million, with an expected settlement date during June 2023.