

**American International Reinsurance Company, Ltd.
and Subsidiary**
Audited GAAP Consolidated Financial Statements

December 31, 2017 and 2016

American International Reinsurance Company, Ltd. and Subsidiary

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Report of Independent Auditors

To the Board of Directors of
American International Reinsurance Company, Ltd.

We have audited the accompanying consolidated financial statements of American International Reinsurance Company, Ltd. and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of shareholder’s equity and consolidated statements of cash flows for the years then ended.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American International Reinsurance Company, Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in the notes to the accompanying consolidated financial statements, the Company has entered into significant transactions with its parent company and other affiliated entities. Our opinion is not modified with respect to this matter.

Other Matter

Accounting principles generally accepted in the United States of America require that the information about incurred and paid loss developments for all periods preceding year ended December 31, 2017 and the related historical claims payout percentage disclosure for short-duration insurance contracts on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

New York, New York
April 24, 2018

American International Reinsurance Company, Ltd. and Subsidiary

Consolidated Balance Sheets

<i>(in millions)</i>	December 31, 2017	December 31, 2016
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2017 - \$2,174; 2016 - \$2,100)	\$ 2,356	\$ 2,267
Other bond securities, at fair value (See Note 4)	56	-
Equity securities available for sale, at fair value (cost: 2017 - \$5; 2016 - \$5)	14	12
Short-term investments	157	186
Other invested assets	87	102
Total investments	2,670	2,567
Cash	11	6
Accrued investment income	28	26
Premiums and insurance balances receivable, net of allowance	455	338
Reinsurance assets, net of allowance	3,039	2,824
Deferred policy acquisition costs	168	173
Funds held by companies under reinsurance contracts	244	121
Deferred income taxes	47	89
Other assets	712	778
Total assets	\$ 7,374	\$ 6,922
Liabilities:		
Liability for unpaid losses and loss adjustment expenses	\$ 2,029	\$ 1,873
Unearned premiums	949	870
Future policy benefits for life and accident and health insurance contracts	1,184	1,061
Funds held under reinsurance treaties	929	831
Premiums and insurance balances payable	491	378
Other liabilities	824	834
Total liabilities	\$ 6,406	\$ 5,847
Shareholder's equity:		
Common stock, (\$1 par value, 10,000,000 shares authorized, issued and fully paid)	\$ 10	\$ 10
Additional paid-in capital	574	574
Retained earnings	198	307
Accumulated other comprehensive income	186	184
Total shareholder's equity	\$ 968	\$ 1,075
Total liabilities and shareholder's equity	\$ 7,374	\$ 6,922

See accompanying Notes to Consolidated Financial Statements.

American International Reinsurance Company, Ltd. and Subsidiary

Consolidated Statements of Income

<i>(in millions)</i>	Years Ended December 31,	
	2017	2016
Revenues:		
Net premium earned	\$ 943	\$ 765
Net investment income	71	64
Net realized capital (losses)	(12)	(140)
Other income	32	32
Total revenues	1,034	721
Benefits, losses and expenses:		
Loss and loss adjustment expenses and policyholder benefits and losses incurred	602	353
Policy acquisition and other operating expenses	348	309
Total benefits, losses and expenses	950	662
Income from continuing operations before income taxes	84	59
Income tax expense	43	31
Net income	\$ 41	\$ 28

See accompanying Notes to Consolidated Financial Statements.

American International Reinsurance Company, Ltd. and Subsidiary Consolidated Statements of Comprehensive Income

<i>(in millions)</i>	Years Ended December 31,	
	2017	2016
Net income	\$ 41	\$ 28
Other comprehensive income (loss):		
Change in unrealized appreciation of investments	17	43
Change in foreign currency translation adjustments	(18)	31
Change in retirement plan liability adjustments	1	1
	-	75
Income tax benefit (expense)	2	(27)
Other comprehensive income	2	48
Comprehensive income	\$ 43	\$ 76

See accompanying Notes to Consolidated Financial Statements.

American International Reinsurance Company, Ltd. and Subsidiary Consolidated Statements of Shareholder's Equity

<i>(in millions)</i>	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholder's Equity
Balance, January 1, 2016	\$ 10	\$ 655	\$ 479	\$ 136	\$ 1,280
Dividend to shareholder	-	-	(200)	-	(200)
Capital contribution	-	19	-	-	19
Capital (distribution)	-	(100)	-	-	(100)
Net income	-	-	28	-	28
Other comprehensive income	-	-	-	48	48
Balance, December 31, 2016	\$ 10	\$ 574	\$ 307	\$ 184	\$ 1,075
Dividend to shareholder	-	-	(150)	-	(150)
Net income	-	-	41	-	41
Other comprehensive income	-	-	-	2	2
Balance, December 31, 2017	\$ 10	\$ 574	\$ 198	\$ 186	\$ 968

See accompanying Notes to Consolidated Financial Statements.

American International Reinsurance Company, Ltd. and Subsidiary

Consolidated Statements of Cash Flows

<i>(in millions)</i>	Years Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 41	\$ 28
Adjustments to reconcile net income to net cash provided by operating activities		
Non-cash revenues, expenses, gains and losses included in income:		
Net (gains) losses on sales of bonds available for sale	(1)	7
Net unrealized losses on derivatives and other assets and liabilities	7	4
Losses from equity method investments	6	14
Amortization of deferred policy acquisition costs	256	237
Depreciation and other amortization	2	(2)
Other operating expenses paid by parent	-	(17)
Changes in operating assets and liabilities:		
Insurance reserves	324	149
Premiums and insurance balances receivable and payable – net	8	(173)
Reinsurance assets and funds held under reinsurance treaties	(208)	(256)
Deferred policy acquisition costs	(251)	(253)
Accrued investment income	(2)	8
Current and deferred income taxes – net	41	42
Commissions expenses and taxes payable	(19)	(29)
Other assets and liabilities – net	80	179
Total adjustments	243	(90)
Net cash provided by (used in) operating activities	\$ 284	\$ (62)
Cash flows from investing activities:		
Proceeds from (payments for):		
Sales of fixed maturity securities available for sale	\$ 137	\$ 266
Maturities of fixed maturity securities available for sale	313	383
Sales of other invested assets	12	6
Purchases of fixed maturity securities available for sale and other invested assets	(719)	(535)
Purchases of other securities	(56)	-
Net additions to real estate, fixed assets and other assets	(3)	-
Net change in short-term investments	29	102
Net change in derivative assets and liabilities	8	38
Net cash provided by (used in) investing activities	\$ (279)	\$ 260
Cash flows from financing activities:		
Cash dividend paid to shareholder	\$ -	\$ (100)
Capital distribution to shareholder	-	(100)
Net cash by (used in) financing activities	\$ -	\$ (200)
Change in cash	\$ 5	\$ (2)
Cash at beginning of year	6	8
Cash at end of year	\$ 11	\$ 6
Supplementary disclosure of cash flow information:		
Non-cash financing/investing activities:		
Dividend of bonds available for sale	\$ (150)	\$ (100)
Expenses paid by Parent on Company's behalf	-	19

See accompanying Notes to Consolidated Financial Statements.

American International Reinsurance Company, Ltd. and Subsidiary

Notes to Consolidated Financial Statements

1. Organization and Nature of Operations

American International Reinsurance Company, Ltd. ("AIRCO" or "the Company") is licensed in Bermuda as a Class 4 Insurer and a Class C Insurer. The Company is a wholly owned subsidiary of AIG Property Casualty International, LLC ("AIGPCIL" or "Parent"). AIGPCIL's ultimate holding company is American International Group, Inc. ("AIG") which is an SEC-registered company incorporated in the state of Delaware, USA.

The Company is primarily a reinsurer of general insurance and life insurance, including property and casualty, individual life, annuity and accident and health businesses. The Company also provides catastrophic liability solutions for excess casualty, financial lines and punitive damages, as well as risk management services to third party clients. The risk management services business consists of policies issued by or assumed by the Company that are subsequently ceded to the third party clients' captive insurance company.

Effective January 1, 2015, the Company entered into a Managing General Agency Agreement ("MGA") with a third party to develop and brand an assumed reinsurance platform. The platform mainly participates in property catastrophe reinsurance in targeted regions, as well as marine, casualty and aviation business.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of AIRCO and its wholly owned subsidiary, American International Company Limited ("AICO"). The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All material intercompany transactions have been eliminated.

AICO is the principal representative for Bermuda domiciled affiliated insurance entities and managed third party captives. AICO provides reinsurance administrative and management services to affiliated entities and third party companies. Additionally, AICO is the global employment company for AIG employees working outside of their home country on assignment.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires the application of accounting policies that often involve a significant degree of judgment. The Company's accounting policies that are most dependent on the application of estimates and assumptions are those relating to the determination of:

- Liability for unpaid losses and loss adjustment expenses (loss reserves);
- Valuation of future policy benefit liabilities and timing and extent of loss recognition;
- Reinsurance assets;
- Recoverability of deferred policy acquisition costs;
- Estimates with respect to income taxes, including recoverability of deferred income tax assets;
- Impairment charges, including other-than-temporary investment impairments;
- Liabilities for legal contingencies;
- Fair value measurements of certain assets and liabilities; and
- Allowance for doubtful accounts for premiums and insurance balances receivable and reinsurance assets.

These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, the Company's consolidated financial condition, results of operations and cash flows could be materially affected.

Accounting Policies

Premiums: Premiums on direct and assumed short duration contracts are earned on a pro rata basis over the term of the related coverage. The reserve for unearned premiums includes the portion of premiums written and other considerations relating to the unexpired terms. Premiums for long duration insurance products and life contingent annuities are recognized as revenues when due.

Reinsurance premiums ceded for prospective reinsurance contracts are recognized as a reduction of premiums earned over the period the reinsurance coverage is provided in proportion to the risks to which the premiums relate.

Net investment income: Net investment income primarily represents income from the following sources:

- Interest income and related expenses, including amortization of premiums and accretion of discounts. With changes in the timing and the amount of expected principal and interest cash flows reflected in yield, as applicable;
- Dividend income and distributions from equity securities and other investments when receivable;
- Income from equity method investees, including earnings from investments in private equity partnerships and limited partnerships; and
- Net rental income related to office space leased to third parties.

American International Reinsurance Company, Ltd. and Subsidiary

Notes to Consolidated Financial Statements

Net realized capital gains (losses): Net realized capital gains (losses) are determined by specific identification of individual investments sold. The net realized capital gains and losses are primarily generated from the following sources:

- Sales of investments, real estate and other invested assets;
- Reductions to the amortized cost basis of bond investments, equity securities and other invested assets for other-than-temporary impairments;
- Changes in fair value of derivatives; and
- Exchange gains and losses resulting from foreign currency transactions.

Losses and loss adjustment expenses and policyholders benefits incurred: Loss reserves represent the accumulation of estimates of unpaid claims, including estimates for claims incurred but not reported and loss adjustment expenses (IBNR). The Company regularly reviews and updates the methods used to determine loss reserve estimates. Any adjustments resulting from this review are reflected currently in pre-tax income. Because these estimates are subject to outcome of future events, changes in estimates are common given that loss trends vary and time is often required for changes in trend to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development. Future policy benefits primarily include reserves for traditional life and annuity payout contracts, which represent an estimate of the present value of future benefits. See Note 8 for additional information.

Policy acquisition and other operating expenses: Policy acquisition and other operating expenses include commission expense, salaries, and amortization of deferred policy acquisition amortized costs.

Other income: Other income primarily consists of agency income of \$18 million in 2017 and \$23 million in 2016 for fees earned for arranging and administering reinsurance programs, which are recognized as service is rendered. Agency income fees included \$7 million and \$8 million from affiliated companies for the years ended December 31, 2017 and 2016, respectively.

Fixed maturity and equity securities: Fixed maturity and equity securities classified as available for sale are carried at fair value. Unrealized gains and losses from available for sale Investments in fixed maturity and equity securities are reported within accumulated other comprehensive income (loss) net of deferred income taxes. Realized and unrealized gains and losses from fixed maturity and equity securities measured at fair value at the Company's election are reflected in net investment income. Investments in fixed maturity and equity securities are recorded on a trade-date basis.

Fair value option has been elected for certain bonds as a capital-efficient way to economically hedge interest rate and credit spread-related risk.

Short-term investments: Short-term investments consist of interest-bearing cash equivalents, time deposits, and investments with original maturities within one year from the date of purchase. Short-term investments are carried at amortized cost, which approximates fair value.

Other invested assets: Other invested assets consist primarily of private equity funds, limited partnerships and a real estate property. Private equity funds and limited partnerships in which the Company holds in the aggregate less than a three percent interest are reported as available for sale at fair value. The change in fair value is recognized as a component of accumulated other comprehensive income (loss). With respect to private equity funds and limited partnerships in which the Company holds in the aggregate a three percent or greater interest or less than a three percent interest but in which the Company has more than a minor influence over the operations of the investee, the Company applies equity method of accounting. The Company's carrying value is its share of the net asset value of the funds or the partnerships.

In applying the equity method of accounting, the Company uses the most recently available financial information provided by the general partner or manager of each of these investments, which is generally one to three months prior to December 31. The financial statements of these investees are audited on an annual basis.

The Company's real estate property is classified as a real estate investment given its predominant use as generating rental income from third party lessees. The real estate property is valued at historical cost and is depreciated principally on the straight-line basis over its estimated useful life (maximum of 40 years for buildings). Expenditures for maintenance and repairs are charged to income as incurred and expenditures for improvements are capitalized and depreciated. The Company periodically assesses the carrying amount of the real estate for purpose of determining any asset impairment. Real estate is assessed for impairment when impairment indicators exist.

Cash: Cash consists of cash on hand and non-interest bearing demand deposits.

Premiums and insurance balances receivable, net of allowance: This consists of premium balances due from agents, brokers and insureds. There was no allowance for uncollectible amounts at December 31, 2017 and 2016.

Reinsurance assets, net of allowance: Reinsurance assets include balances due from affiliated and non-affiliated reinsurance companies, net of allowance, under the terms of the Company's reinsurance agreements for paid and unpaid losses and loss adjustment expenses, ceded unearned premiums and ceded future policy benefits for life and accident and health insurance contracts

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Notes to Consolidated Financial Statements

and benefits paid and unpaid. See Note 7 for additional information.

Changes in the allowance for doubtful accounts on reinsurance are reflected in policyholder benefits and losses incurred within the Consolidated Statements of Income.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claims liabilities associated with the reinsurance and presented as a component of reinsurance assets.

Deferred policy acquisition costs (“DAC”): DAC primarily represent the deferral of acquisition costs that are incremental and directly related to the successful acquisition of new or renewal short duration insurance contracts. Such costs generally include agent or broker commissions and bonuses, premium taxes, medical and inspection fees.

DAC is amortized over the period in which premiums are earned. DAC is grouped consistent with the manner in which the insurance contracts are acquired, serviced and measured for profitability and is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is considered in assessing the recoverability of DAC. The Company assesses the recoverability of DAC on an annual basis or more frequently if circumstances indicate impairment may have occurred.

Deposit contracts: Risk transfer requirements must be met in order for insurance or reinsurance accounting to apply. If risk transfer requirements are not met, the contract is accounted for as a deposit, resulting in the recognition of cash flows under the contract through a deposit asset or liability and not as revenue and related expense. To meet risk transfer requirements, a reinsurance contract must include insurance risk, consisting of both underwriting and timing risk, and provide a reasonable possibility of a significant loss for the assuming entity. Similar risk transfer criteria are used to determine whether directly written insurance contracts or assumed reinsurance contracts should be accounted for as insurance or as a deposit.

The Company has entered into modified coinsurance agreements with an unaffiliated company which are accounted for on a deposit accounting basis. Deposit liabilities of \$54 million and \$61 million at December 31, 2017 and 2016, respectively, are included in other liabilities. As amounts are paid in accordance with the underlying contracts, the deposit liability is reduced. Deposit assets of \$54 million and \$57 million at December 31, 2017 and 2016, respectively, are included in other assets.

Funds held by companies under reinsurance contracts: Funds held consist primarily of a balance due from an insurance company under a reinsurance agreement. Under the terms of the agreement, the insurance company retained certain assets that would have been otherwise paid to the Company.

Other assets: Other assets consist primarily of derivative assets (see Note 13), deposit assets, other fixed assets, capitalized software costs, related party receivables and miscellaneous third party receivables. The cost of furniture and equipment is depreciated principally on the straight-line basis over its estimated useful lives (maximum of 10 years). Capitalized software costs, which represent costs directly related to obtaining, developing or upgrading internal use software, are capitalized and amortized using the straight-line method over a period generally not exceeding five years. Fixed assets and other long-lived assets are assessed for impairment when impairment indicators exist.

Liability for unpaid losses and loss adjustment expenses: The liability for unpaid losses and loss adjustment expenses primarily relate to the Company's property and casualty insurance operations and are charged to income as incurred. The liability for unpaid losses and loss adjustment expenses represents both estimates of unpaid reported losses and losses incurred but not reported. Changes in reserve estimates are reflected in income in the period in which such estimates are changed.

Future policy benefit for life and accident and health insurance contracts: The liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity.

Funds held under reinsurance treaties: Funds held under reinsurance treaties consist primarily of a balance due to an affiliated insurance company under a retrocession agreement. Under the terms of the agreement, the Company retained the premium that would have been paid to the affiliated company which is to be used for the payment of claims under the original reinsurance arrangement. See Note 7 for additional information.

Premiums and insurance balances payable: This consists of premium balances due to reinsurers and claims due to insureds.

Other liabilities: Other liabilities consist of derivative liabilities (see Note 13), a payable to AIG related to an AIG sponsored pension plan (see Note 12), deposit liabilities, post-retirement benefits, management expenses payable, salaries payable and other payables.

Derivative assets and derivative liabilities, at fair value: Derivative financial instruments are entered into in the normal course of business to reduce the Company's exposure to fluctuations in foreign currency exchange rates and interest rates. The Company is neither a dealer nor a trader in derivative financial instruments. Collateral is required, at the discretion of the Company, on certain transactions based on the creditworthiness of the counterparty. These instruments are recognized on a trade-date basis and are carried at fair value as a part of other assets or other liabilities. Gains and losses in the fair value of derivatives are recognized in net realized capital gains (losses) in the Consolidated Statements of Income. In certain instances, a contract's transaction price is the best indication of initial fair value. Aggregate asset or liability positions are netted on the Consolidated Balance Sheets only to the extent permitted by qualifying master netting arrangements in place with each respective counterparty. See Note 13 for additional information.

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Notes to Consolidated Financial Statements

Certain annuity policies include features that are accounted for as embedded derivatives. Bifurcated embedded derivatives are measured at fair value and accounted for in the same manner as a free standing derivative contract. The corresponding host contract is accounted for according to the accounting guidance applicable for that instrument. Bifurcated embedded derivatives are generally presented with the host contract in the Consolidated Balance Sheets. See Note 7 for additional information.

Payroll liabilities: The Company is the global employment company for AIG employees working outside of their home country on assignment. The Company acts as a payroll agent for affiliates of AIG. The Company paid payroll costs on behalf of certain affiliated companies of \$104 million and \$135 million in 2017 and 2016, respectively. Such amounts were reimbursed by the affiliated companies.

Contingent liabilities: Amounts are accrued for legal claims outside of the normal course of business that either have been asserted or are deemed probable of assertion if, in the opinion of management, it is both probable that a liability has been incurred, and the liability can be reasonably estimated. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until years after the contingency arises.

Securities lending arrangement: Securities borrowed under the security lending arrangement may be sold or repledged. The collateral that the Company posts can be cash or noncash. Collateral levels are monitored and are generally maintained at an agreed-upon percentage of the fair value of the loaned securities during the life of the transactions. At the termination of the transactions, both parties are obliged to return the collateral provided and securities transferred. The Company treats this arrangement as secured borrowings, whereby the loaned securities are presented as investments with a corresponding receivable related to the funds exchanged, included in other assets. The Company entered into a security lending agreement with an affiliated company to borrow securities required to meet third party collateral requirements for a reinsurance arrangement. In return, the Company will post eligible US Dollar cash and US Dollar fixed income securities (Permitted Collateral) to an affiliated company as collateral for an amount equal to the value of loaned securities of Great British Pound ("GBP") fixed income securities for standard market fees.

The fair value of securities pledged from counterparties under securities lending agreements were \$425 million and \$446 million as of December 31, 2017 and 2016, respectively.

Income taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax basis. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that in the opinion of management, is more likely than not to be realized.

The Company evaluates uncertain tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are more likely than not to be realized as a tax benefit or expense in the current year. See Note 9 for additional information.

In 2010, the Company elected to be treated as a United States corporation for purposes of its United States tax return. As a result, the Company files as a member of the consolidated US federal income tax return of its ultimate parent, AIG. Effective January 1, 2010, under a written tax allocation agreement, US federal taxes are allocated to the Company as if it were filing its own separate company return, except that benefits for tax losses and attributes are recorded when utilized in the AIG consolidated tax return to the extent they would not have already been utilized on a separate return basis (other than SRLY loss carryovers). In addition, the Internal Revenue Code relating to Alternative Minimum Tax ("AMT") is applied, but only if the AIG consolidated group is subject to Alternative Minimum Tax in the Consolidated Tax Liability.

Interest and penalties related to unrecognized tax benefits and tax authority assessments are recognized in income tax expense.

On December 22, 2017, the United States enacted Public Law 115-97, known as the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act reduces the statutory rate of US federal corporate income tax to 21 percent and enacts numerous other changes generally impacting the Company in tax years beginning January 1, 2018. The Company has made a reasonable estimate of accounting for certain effects of tax reform which impact current and deferred income taxes incurred; however, these estimates are not fully complete because information has yet to be finalized or further analyzed relating to certain provisions. These estimates will be revised in the period the necessary information is determined and as relevant guidance is released by the U.S. Treasury. The Company does not believe such revisions would have a material impact on the financial statements.

Foreign currency: Financial statement accounts expressed in foreign currencies are translated into US dollars. Functional currency assets and liabilities are translated into US dollars generally using rates of exchange prevailing at the balance sheet date and the related translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss), net of any related taxes, in total shareholder's equity. Income statement accounts expressed in functional currencies are translated using average exchange rates during the period. Financial statement accounts expressed in currencies other than the functional currency of a consolidated entity are remeasured into that entity's functional currency resulting in exchange gains or losses recorded in income.

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Notes to Consolidated Financial Statements

Accounting Standards Adopted During 2017

Derivative Contract Novations

In March 2016, the FASB issued an accounting standard that clarifies that a change in the counterparty (novation) to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.

The Company adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial condition, results of operations or cash flows.

Interest Held through Related Parties that are under Common Control

In October 2016, the FASB issued an accounting standard that amends the consolidation analysis for a reporting entity that is the single decision maker of a variable interest entity ("VIE"). The new guidance will require the decision maker's evaluation of its interests held through related parties that are under common control on a proportionate basis (rather than in their entirety) when determining whether it is the primary beneficiary of that VIE. The amendment does not change the characteristics of a primary beneficiary.

The Company adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on the consolidated financial condition, results of operations or cash flows.

Short Duration Insurance Contracts

In May 2015, the FASB issued an accounting standard that requires additional disclosures for short-duration insurance contracts. New disclosures about the liability for unpaid losses and loss adjustment expenses and net incurred losses and loss adjustment expenses are now required (including accident year information). The annual disclosures by accident year include: disaggregated net incurred and paid claims development tables segregated by business type (not required to exceed 10 years), reconciliation of total net reserves included in development tables to the reported liability for unpaid losses and loss adjustment expenses, incurred but not reported (IBNR) information, quantitative information and a qualitative description about claim frequency, and the average annual percentage payout of incurred claims. Further, the new standard requires, when applicable, disclosures about discounting liabilities for unpaid losses and loss adjustment expenses and significant changes and reasons for changes in methodologies and assumptions used to determine unpaid losses and loss adjustment expenses.

The Company adopted this standard on its required effective date of January 1, 2017. The required disclosures, reflected in Note 8, did not have any effect on its consolidated financial condition, results of operations or cash flows.

Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued an accounting standard that eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods during which the investment had been held.

The Company adopted the standard on its required effective date of January 1, 2017. The adoption of this standard did not have a material effect on its reported consolidated financial condition, results of operations or cash flows.

Future Application of Accounting Standards

Revenue Recognition

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and certain other agreements that are governed under other GAAP guidance, but could affect the revenue recognition for certain of other activities.

The Company will adopt the standard effective January 1, 2018 using a modified retrospective approach. Based on the Company's review, substantially all of the assets and liabilities are not within the scope of the standard. The adoption of the standard will not have a material effect on the Company's reported consolidated financial condition, results of operations, cash flows or required disclosures.

Financial Instruments - Credit Losses

In June 2016, the FASB issued an accounting standard that will change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new

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“current expected credit loss model” that generally will result in earlier recognition of credit losses. The standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. Additionally, the impairment of available-for-sale debt securities, including purchased credit deteriorated securities, are subject to the new guidance and will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will also require additional information to be disclosed in the footnotes.

The standard is effective on January 1, 2020, with early adoption permitted on January 1, 2019. The Company is continuing to develop an implementation plan to adopt the standard and is assessing the impact of the standard on its reported consolidated financial condition, results of operations, cash flows and required disclosures. While the Company expects an increase in the allowances for credit losses for the financial instruments within scope of the standard, given the objective of the new standard, the amount of any change will be dependent on the Company’s portfolios’ composition and quality at the adoption date as well as economic conditions and forecasts at that time.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued an accounting standard that addresses diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide clarity on the treatment of eight specifically defined types of cash inflows and outflows.

The Company will adopt this standard retrospectively on its effective date of January 1, 2018. The standard addresses presentation in the Statement of Cash Flows only and will have no effect on the reported consolidated financial condition, results of operations or required disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued an accounting standard that will require equity investments that do not follow the equity method of accounting or are not subject to consolidation to be measured at fair value with changes in fair value recognized in earnings, while financial liabilities for which fair value option accounting has been elected, changes in fair value due to instrument-specific credit risk will be presented separately in other comprehensive income. The standard allows the election to record equity investments without readily determinable fair values at cost, less impairment, adjusted for subsequent observable price changes with changes in the carrying value of the equity investments recorded in earnings. The standard also updates certain fair value disclosure requirements for financial instruments carried at amortized cost.

The Company will adopt this standard on its effective date of January 1, 2018, using the modified retrospective approach. Based on the Company’s review, substantially all of the Company’s assets and liabilities are not within the scope of the standard. The adoption of the standard will not have a material effect on the reported consolidated financial condition, results of operations, cash flows or required disclosures.

Restricted Cash

In November 2016, the FASB issued an accounting standard that provides guidance on the presentation of restricted cash in the Statement of Cash Flows. Entities will be required to explain the changes during a reporting period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents in the Statement of Cash Flows.

The Company plans to adopt the standard retrospectively on its effective date of January 1, 2018. The standard addresses presentation of restricted cash in the Statement of Cash Flows only and will have no effect on the reported consolidated financial condition, results of operations or required disclosures.

Clarifying the Definition of a Business

In January 2017, the FASB issued an accounting standard that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The new standard will require an entity to evaluate if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar assets; if so, the set of transferred assets and activities is not a business. At a minimum, a set must include an input and a substantive process that together significantly contribute to the ability to create output.

The standard is effective on January 1, 2018, with early adoption permitted. The Company is evaluating the timing of adoption and is assessing the impact of the standard on the reported consolidated financial condition, results of operations and cash flows. Because the standard requires prospective adoption, the impact is dependent on future acquisitions, dispositions and those entities that are consolidated due to obtaining a controlling financial interest.

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Improving the Presentation of Net Periodic Pension and Postretirement Benefit Cost

In March 2017, the FASB issued an accounting standard that requires entities to report the service cost component of net periodic pension and postretirement benefit costs in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit costs are required to be separately presented in the income statement. The amendments also allow only the service cost component to be eligible for capitalization when applicable.

The Company will adopt this standard on its effective date of January 1, 2018 by retrospectively presenting the service cost and other components, and prospectively capitalizing the service cost component. The standard addresses presentation of net periodic benefit costs in the income statement and will have no effect on the reported consolidated financial condition, results of operations, cash flows or required disclosures.

Modification of Share-Based Payment Awards

In May 2017, the FASB issued an accounting standard that provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting.

The Company will prospectively adopt this standard on its effective date of January 1, 2018 and does not expect the standard to have a material effect on the reported consolidated financial condition, results of operations, cash flows or required disclosures.

Derivatives and Hedging

In August 2017, the FASB issued an accounting standard that improves and expands hedge accounting for both financial and commodity risks. The provisions of the amendment are intended to better align the accounting with an entity's risk management activities, enhance the transparency on how the economic results are presented in the financial statements and the footnote, and simplify the application of hedge accounting treatment.

The standard is effective on January 1, 2019, with early adoption permitted. The Company is evaluating the timing of adoption and is assessing the impact of the standard on the reported consolidated financial condition, results of operations, cash flows and required disclosures.

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

In February 2018, the FASB issued an accounting standard that allows the optional reclassification of standard tax effects within accumulated other comprehensive income to retained earnings that arise due to the enactment of the Tax Cuts and Jobs Act of 2017 ("Tax Act"). The amount of the reclassification would reflect the effect of the change in the US federal corporate income tax rate on the gross deferred tax amounts and related valuation allowances, if any, at the date of the enactment of the Tax Act and the other income tax effects of the Tax Act on the items remaining in accumulated other comprehensive income.

The Company plans to early adopt the standard using a retrospective approach effective January 1, 2018. *For more information on the adoption of the Tax Act, see Note 9.*

3. Fair Value Measurements

Fair Value Measurements on a Recurring Basis

The Company carries certain of its financial instruments at fair value. The Company defines the fair value of a financial instrument as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions.

The degree of judgment used in measuring the fair value of financial instruments generally inversely correlates with the level of observable valuation inputs. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

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Fair Value Hierarchy

Assets and liabilities recorded at fair value in the Consolidated Balance Sheets are measured and classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of valuation inputs:

- **Level 1:** Fair value measurements based on quoted prices (unadjusted) in active markets that the Company has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. The Company does not adjust the quoted price for such instruments.
- **Level 2:** Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, 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.
- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, the Company must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the levels discussed above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

Valuation Methodologies of Financial Instruments Measured at Fair Value

Fixed Maturity Securities

Whenever available, the Company obtains quoted prices in active markets for identical assets at the balance sheet date to measure fixed maturity securities at fair value. Market price data is generally obtained from dealer markets.

The Company employs independent third-party valuation service providers to gather, analyze, and interpret market information to derive fair value estimates for individual investments, based upon market-accepted methodologies and assumptions. The methodologies used by these independent third-party valuation service providers are reviewed and understood by management, through periodic discussion with and information provided by the independent third-party valuation service providers. In addition, as discussed further below, control processes are applied to the fair values received from independent third-party valuation service providers to ensure the accuracy of these values.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of market-accepted valuation methodologies, which may utilize matrix pricing, financial models, accompanying model inputs and various assumptions, provide a single fair value measurement for individual securities. The inputs used by the valuation service providers include, but are not limited to, market prices from completed transactions for identical securities and transactions for comparable securities, benchmark yields, interest rate yield curves, credit spreads, prepayment rates, default rates, recovery assumptions, currency rates, quoted prices for similar securities and other market-observable information, as applicable. If fair value is determined using financial models, these models generally take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

The Company has control processes designed to ensure that the fair values received from independent third-party valuation service providers are accurately recorded, that their data inputs and valuation techniques are appropriate and consistently applied and that the assumptions used appear reasonable and consistent with the objective of determining fair value. The Company assesses the reasonableness of individual security values received from independent third-party valuation service providers through various analytical techniques, and have procedures to escalate related questions internally and to the independent third-party valuation service providers for resolution. To assess the degree of pricing consensus among various valuation service providers for specific asset types, the Company conducts comparisons of prices received from available sources. The Company uses these comparisons to establish a hierarchy for the fair values received from independent third-party valuation service providers to be used for particular security classes. The Company also validates prices for selected securities through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

When the Company's independent third-party valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are

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knowledgeable about these securities to provide a price quote, which is generally non-binding, or by employing market accepted valuation models. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to particular security types. For structured securities, such inputs may include ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies and defaults, loss severity assumptions, prepayments, and weighted average coupons and maturities. When the volume or level of market activity for a security is limited, certain inputs used to determine fair value may not be observable in the market. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. Fair values provided by brokers are subject to similar control processes to those noted above for fair values from independent third-party valuation service providers, including management reviews. For those corporate debt instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations reflect illiquidity and non-transferability, based on available market evidence. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of comparable securities, adjusted for illiquidity and structure. Fair values determined internally are also subject to management review to ensure that valuation models and related inputs are reasonable.

The methodology above is relevant for all fixed maturity securities including residential mortgage backed securities (RMBS), commercial mortgage backed securities (CMBS), collateralized debt obligations (CDO), other asset backed securities (ABS) and fixed maturity securities issued by government sponsored entities, government and corporate entities.

Equity Securities Traded in Active Markets

Whenever available, the Company obtains quoted prices in active markets for identical assets at the balance sheet date to measure equity securities at fair value. Market price data generally is obtained from exchange or dealer markets.

Short-term Investments

For short-term investments that are measured at amortized cost, the carrying amounts of these assets approximate fair values because of the relatively short period of time between origination and expected realization, and their limited exposure to credit risk.

Other Invested Assets

The Company initially estimates the fair value of investments in certain hedge funds, private equity funds and other investment partnerships by reference to the transaction price. Subsequently, the Company generally obtains the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are generally audited annually. The Company considers observable market data and performs certain control procedures to validate the appropriateness of using the net asset value as a fair value measurement. The fair values of other investments carried at fair value, such as direct private equity holdings, are initially determined based on transaction price and are subsequently estimated based on available evidence such as market transactions in similar instruments, other financing transactions of the issuer and other available financial information for the issuer, with adjustments made to reflect illiquidity as appropriate.

Freestanding Derivatives – Other Assets and Other Liabilities

Derivative assets and liabilities are traded over-the-counter (“OTC”). The Company generally values exchange traded derivatives using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about assets and liabilities measured at fair value on a recurring basis and indicate the level of the fair value measurement based on the levels of the inputs used:

December 31, 2017	Level 1	Level 2	Level 3	Counterparty Netting and Cash Collateral ^(a)	Total
<i>(in millions)</i>					
Assets:					
Bonds available for sale:					
US government and US government sponsored entities	\$ -	\$ -	\$ -	\$ -	\$ -
Non US governments	3	284	-	-	287
Corporate debt	-	1,571	-	-	1,571
CDO/ABS	-	127	10	-	137
RMBS	-	127	110	-	237
CMBS	-	124	-	-	124
Total bonds available for sale	3	2,233	120	-	2,356
Other bond securities:					
CDO/ABS	-	17	-	-	17
RMBS	-	-	2	-	2
CMBS	-	37	-	-	37
Total other bonds securities	-	54	2	-	56
Equity securities available for sale:					
Mutual funds	14	-	-	-	14
Total equity securities available for sale	14	-	-	-	14
Short term investments	157	-	-	-	157
Other invested assets	-	48	-	-	48
Derivative assets	-	643	-	(632)	11
Total	\$ 174	\$ 2,978	\$ 122	\$ (632)	\$ 2,642
Liabilities:					
Total derivative liabilities	\$ -	\$ (193)	\$ -	\$ (193)	\$ -

(a) Counterparty netting represents netting of derivative exposures covered by a qualifying master netting agreement. See Note 13 for additional information.

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December 31, 2016

<i>(in millions)</i>	Level 1	Level 2	Level 3	Counterparty Netting and Cash Collateral ^(a)	Total
Assets:					
Bonds available for sale:					
US government and US government sponsored entities	\$ -	\$ 10	\$ -	\$ -	\$ 10
Non US governments	-	296	-	-	296
Corporate debt	-	1,673	-	-	1,673
CDO/ABS	-	106	-	-	106
RMBS	-	75	48	-	123
CMBS	-	54	5	-	59
Total bonds available for sale	-	2,214	53	-	2,267
Equity securities available for sale:					
Mutual funds	12	-	-	-	12
Total equity securities available for sale	12	-	-	-	12
Short term investments	186	-	-	-	186
Other invested assets	-	-	63	-	63
Derivative assets	-	606	-	(588)	18
Total	\$ 198	\$ 2,820	\$ 116	\$ (588)	\$ 2,546
Liabilities:					
Total derivative liabilities	\$ -	\$ (215)	\$ -	\$ (215)	\$ -

Transfers of Level 1 and Level 2 Assets and Liabilities

The Company transfers assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of the fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. The Company had no transfers from Level 1 to Level 2 during the years ended December 31, 2017 and 2016. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. The Company had no transfers from Level 2 to Level 1 during the years ended December 31, 2017 and 2016.

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Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the years ended December 31, 2017 and 2016 in Level 3 assets measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets in the Consolidated Balance Sheets at December 31, 2017 and 2016:

December 31, 2017

<i>(in millions)</i>	Fair Value Beginning of Year	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair Value End of Year	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Year
Assets:								
Bonds available for sale:								
RMBS	\$ 48	\$ 9	\$ 4	\$ 38	\$ 11	\$ -	\$ 110	\$ -
CMBS	5	-	-	-	-	(5)	-	-
CDO/ABS	-	-	-	10	-	-	10	-
Total bonds available for sale	53	9	4	48	11	(5)	120	-
Other bond securities:								
RMBS	-	-	-	2	-	-	2	-
CMBS	-	-	2	22	-	(24)	-	2
Total other bond securities	-	-	2	24	-	(24)	2	2
Other invested assets	63	-	-	-	-	(63)	-	-
Total	\$ 116	\$ 9	\$ 6	\$ 72	\$ 11	\$ (92)	\$ 122	\$ 2

December 31, 2016

<i>(in millions)</i>	Fair Value Beginning of Year	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair Value End of Year	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Year
Assets:								
Bonds available for sale:								
RMBS	\$ -	\$ 1	\$ 2	\$ 45	\$ -	\$ -	\$ 48	\$ -
CMBS	-	-	-	5	-	-	5	-
CDO/ABS	-	-	-	-	-	-	-	-
Total bonds available for sale	-	1	2	50	-	-	53	-
Other bond securities:								
RMBS	-	-	-	-	-	-	-	-
CMBS	-	-	-	-	-	-	-	-
Total other bond securities	-	-	-	-	-	-	-	-
Other invested assets	84	-	-	(21)	-	-	63	-
Total	\$ 84	\$ 1	\$ 2	\$ 29	\$ -	\$ -	\$ 116	\$ -

Transfers of Level 3 Assets and Liabilities

The Company transfers assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. There were transfers in of \$11 million and transfers out of \$92 million during the year ended December 31, 2017. There were no transfers in or out of Level 3 during the year ended December 31, 2016.

Quantitative Information about Level 3 Fair Value Measurements

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments, and includes only those instruments for which information about the inputs is reasonably available to the Company, such as data from independent third-party valuation service providers and from internal valuation models. Because input information from third-parties with respect to certain Level 3 instruments (primarily CDO/ABS) may not be reasonably available to the Company, balances shown below may not equal total amounts reported for such Level 3 assets:

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<i>(in millions)</i>	Fair Value at December 31, 2017	Valuation Technique	Unobservable Input ^(b)	Range (Weighted Average)
Assets				
RMBS ^(a)	\$ 93	Discounted cash flow	Constant prepayment rate	5.1 %-11.3 % (8.20 %)
			Constant default rate	1.08 %-8.16 % (4.62 %)
			Severity	29.22 %-78.22 % (54.11 %)
			Yield	2.08 % - 4 % (3.04 %)
CDO/ABS ^(a)	10	Discounted cash flow	Yield	3.42 % - 4.41 % (3.91 %)

<i>(in millions)</i>	Fair Value at December 31, 2016	Valuation Technique	Unobservable Input ^(b)	Range (Weighted Average)
Assets				
RMBS ^(a)	\$ 39	Discounted cash flow	Constant prepayment rate	1.91 %-8.86 % (5.38 %)
			Constant default rate	4.00 %-8.13 % (6.06 %)
			Severity	50.83 %-74.07 % (62.48 %)
			Yield	3.53 %-5.66 % (4.59 %)
CMBS	5	Discounted cash flow	Yield	3.64%

(a) Information received from third-party valuation service providers. The ranges of the unobservable inputs for constant prepayment rate, loss severity and constant default rate relate to each of the individual underlying mortgage loans that comprise the entire portfolio of securities in the RMBS and CDO securitization vehicles and not necessarily to the securitization vehicle bonds (tranches) purchased by the Company. The ranges of these inputs do not directly correlate to changes in the fair values of the tranches purchased by the Company, because there are other factors relevant to the fair values of specific tranches owned by us including, but not limited to, purchase price, position in the waterfall, senior versus subordinated position and attachment points.

(b) Represents discount rates, estimates and assumptions that we believe would be used by market participants when valuing these assets and liabilities.

Fair Value Measurements on a Non-Recurring Basis

It is the Company's policy to measure the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity method investments, real estate and other fixed assets. The Company uses a variety of techniques to measure the fair value of these assets when appropriate. When the Company determines that the carrying value of these assets may not be recoverable, the Company records the assets at fair value with any corresponding loss recognized in earnings. In such cases, the Company measures the fair value of these assets using the techniques discussed in Fair Value Measurements on a Recurring Basis — Fair Value Hierarchy, above, for other invested assets.

The Company had no assets measured at fair value on a non-recurring basis during the years ended December 31, 2017 and 2016.

4. Investments

Fixed Maturity and Equity Securities

Bonds held to maturity are carried at amortized cost when the Company has the ability and positive intent to hold these securities until maturity. When the Company does not have the ability or positive intent to hold bonds until maturity, these securities are classified as available for sale or are measured at fair value at its election. None of the Company's bonds met the criteria for held to maturity classification at December 31, 2017 or 2016.

Fixed maturity and equity securities classified as available for sale are carried at fair value. Unrealized gains and losses from available for sale investments in fixed maturity and equity securities are reported as a separate component of accumulated other comprehensive income, net of deferred income taxes, in shareholder's equity. Realized and unrealized gains and losses from fixed maturity and equity securities measured at fair value at the Company's election are reflected in net investment income. Investments in bonds and equity securities are recorded on a trade-date basis.

Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their

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estimated holding periods, until maturity, or call date, if applicable. For investments in certain CDO, ABS, RMBS and CMBS (collectively, structured securities), recognized yields are updated based on current information regarding the timing and amount of expected undiscounted future cash flows. For high credit quality structured securities, effective yields are recalculated based on actual payments received and updated prepayment expectations, and the amortized cost is adjusted to the amount that would have existed had the new effective yield been applied since acquisition with a corresponding charge or credit to net investment income. For structured securities that are not high credit quality, effective yields are recalculated and adjusted prospectively based on changes in expected undiscounted future cash flows. For purchased credit impaired (PCI) securities, at acquisition, the difference between the undiscounted expected future cash flows and the recorded investment in the securities represents the initial accretable yield, which is to be accreted into net investment income over the securities' remaining lives on an effective level-yield basis. Subsequently, effective yields recognized on PCI securities are recalculated and adjusted prospectively to reflect changes in the contractual benchmark interest rates on variable rate securities and any significant increases in undiscounted expected future cash flows arising due to reasons other than interest rate changes.

Investments Available for Sale

The following tables present the amortized cost and fair value of the Company's available for sale investments:

December 31, 2017						
<i>(in millions)</i>	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value		
Bonds available for sale:						
US government and government sponsored entities	\$ -	\$ -	\$ -	\$ -		
Non US governments	268	21	(2)	287		
Corporate debt	1,418	156	(3)	1,571		
CDO/ABS	135	2	-	137		
RMBS	228	10	(1)	237		
CMBS	125	-	(1)	124		
Total bonds available for sale	2,174	189	(7)	2,356		
Equities securities available for sale:						
Mutual funds	5	9	-	14		
Total equity securities available for sale	5	9	-	14		
Total	\$ 2,179	\$ 198	\$ (7)	\$ 2,370		

December 31, 2016						
<i>(in millions)</i>	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value		
Bonds available for sale:						
US government and government sponsored entities	\$ 10	\$ -	\$ -	\$ 10		
Non US governments	277	22	(3)	296		
Corporate debt	1,524	152	(3)	1,673		
CDO/ABS	105	1	-	106		
RMBS	124	1	(2)	123		
CMBS	60	-	(1)	59		
Total bonds available for sale	2,100	176	(9)	2,267		
Equities securities available for sale:						
Mutual funds	5	7	-	12		
Total equity securities available for sale	5	7	-	12		
Total	\$ 2,105	\$ 183	\$ (9)	\$ 2,279		

Certain assets of the Company are subject to a security agreement between the Company and a third party which support the Company's obligations in relation to a closed block of deferred annuities assumed by the Company from that third party. Under the

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terms of the agreement, the subject assets are assigned as security for payment and discharge of all obligations of the Company to the third party. The total assets subject to this agreement were \$925 million and \$830 million as of December 31, 2017 and 2016, respectively. See Note 7 for additional information.

Investments Available for Sale in a Loss Position

The following table summarizes the fair value and gross unrealized losses on the Company's available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position:

	12 Months or Less		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(in millions)</i>						
December 31, 2017						
Bonds available for sale:						
Non US governments	\$ 22	\$ -	\$ 55	\$ (2)	\$ 77	\$ (2)
CDO/ABS	25	-	-	-	25	-
RMBS	61	(1)	18	-	79	(1)
CMBS	122	(1)	1	-	123	(1)
Corporate debt	385	(3)	4	-	389	(3)
Total bonds available for sale	615	(5)	78	(2)	693	(7)
Total	\$ 615	\$ (5)	\$ 78	\$ (2)	\$ 693	\$ (7)

	12 Months or Less		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<i>(in millions)</i>						
December 31, 2016						
Bonds available for sale:						
Non US governments	\$ 60	\$ (2)	\$ 5	\$ (1)	\$ 65	\$ (3)
CDO/ABS	20	-	-	-	20	-
RMBS	46	(1)	-	-	46	(1)
CMBS	79	(2)	-	-	79	(2)
Corporate debt	204	(2)	16	(1)	220	(3)
Total bonds available for sale	409	(7)	21	(2)	430	(9)
Total	\$ 409	\$ (7)	\$ 21	\$ (2)	\$ 430	\$ (9)

At December 31, 2017, the Company held 291 individual bonds available for sale that were in an unrealized loss position, of which 23 individual bonds available for sale were in an unrealized loss position for a continuous period of 12 months or longer. At December 31, 2016, the Company held 201 individual bonds available for sale that were in an unrealized loss position, of which 14 individual bonds available for sale were in an unrealized loss position for a continuous period of 12 months or longer. The Company did not recognize the unrealized losses on these bonds available for sale in earnings for the years ended December 31, 2017 or 2016, because management neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost or cost basis. Furthermore, management expects to recover the entire amortized cost basis of these securities. In performing this evaluation, management considered the recovery periods for securities in previous periods of broad market declines. For bonds available for sale with significant declines, management performed fundamental credit analysis on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data. At December 31, 2017 and December 31, 2016, there were no equity securities available for sale that were in an unrealized loss position.

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Contractual Maturities of Bonds Available for Sale

The following tables present the amortized cost and fair value of bonds available for sale by contractual maturity:

December 31, 2017 <i>(in millions)</i>	Total Bonds Available for Sale Securities		Total Bonds Available for Sale Securities in a Loss Position	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 281	\$ 287	\$ 60	\$ 60
Due after one year through five years	615	637	187	184
Due after five years through ten years	427	467	162	161
Due after ten years	851	965	291	288
Total available for sale	\$ 2,174	\$ 2,356	\$ 700	\$ 693

December 31, 2016 <i>(in millions)</i>	Total Bonds Available for Sale Securities		Total Bonds Available for Sale Securities in a Loss Position	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 341	\$ 344	\$ 34	\$ 34
Due after one year through five years	929	962	201	197
Due after five years through ten years	267	299	43	42
Due after ten years	563	662	161	157
Total available for sale	\$ 2,100	\$ 2,267	\$ 439	\$ 430

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Other Securities Measured at Fair Value

The following table presents the fair value of other securities measured at fair value based on the Company's election of the fair value option:

December 31, <i>(in millions)</i>	Year 2017		Year 2016	
	Fair Value	Percent of Total	Fair Value	Percent of Total
Assets:				
Other bond securities				
ABS	\$ 17	30%	\$ -	-%
CMBS	37	66%	-	-%
RMBS	2	4%	-	-%
Total mortgage-backed, asset-backed and collateralized	\$ 56	100%	\$ -	-%
Total other bond securities	56	100%	-	-%
Total	\$ 56	100%	\$ -	-%

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Net Investment Income

The following table presents the components of net investment income:

Years Ended December 31, (in millions)		2017		2016
Bonds available for sale, including short-term investments	\$	82	\$	79
Other invested assets - partnerships		(6)		(14)
Other investments		(4)		1
Total investment income		72		66
Investment expenses		(1)		(2)
Net investment income	\$	71	\$	64

Net Realized Capital Gains and Losses

The following table presents the components of net realized capital gains (losses):

Years Ended December 31, (in millions)		2017		2016
Sales of bonds available for sale	\$	1	\$	(7)
Foreign exchange transactions		19		(17)
Derivative instruments		(7)		(4)
Embedded derivative		(25)		(112)
Net realized capital gains (losses)	\$	(12)	\$	(140)

Change in Unrealized Appreciation (Depreciation) of Investments

The following table presents the increase (decrease) in net unrealized appreciation of the Company's available for sale investments:

Years Ended December 31, (in millions)		2017		2016
Increase in unrealized appreciation of investments:				
Bonds available for sale	\$	15	\$	43
Equity securities available for sale		2		-
Increase in unrealized appreciation of investments:	\$	17	\$	43

Evaluating Investments for Other-Than-Temporary Impairments

Fixed Maturity Securities

If the Company intends to sell fixed maturity securities or it is more likely than not that the Company will be required to sell fixed maturity securities before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized capital losses. When assessing its intent to sell fixed maturity securities, or whether it is more likely than not that the Company will be required to sell fixed maturity securities before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition its investment portfolio, sales of securities to meet cash flow needs and sales of securities to take advantage of favorable pricing.

For fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recoverable value with a corresponding charge to realized capital losses. The estimated recoverable value is the present value of cash flows expected to be collected, as determined by management. The difference between fair value and amortized cost that is not related to a credit impairment is presented in unrealized appreciation (depreciation) of fixed maturity securities on which other-than-temporary credit impairments were recognized (a separate component of accumulated other comprehensive income).

When estimating future cash flows for structured fixed maturity securities (e.g., RMBS, CMBS, CDO, ABS) management considers historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and priority of payment structure of the security. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by asset class:

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- Current delinquency rates;
- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Expected prepayment speeds.

For corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers the fair value as the recoverable value when available information does not indicate that another value is more relevant or reliable. When management identifies information that supports a recoverable value other than the fair value, the determination of a recoverable value considers scenarios specific to the issuer and the security, and may be based upon estimates of outcomes of corporate restructurings, political and macroeconomic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

The following table presents Other-Than-Temporary Impairments of the Company's bond investments:

Years Ended December 31, (in millions)	2017		2016	
Bonds:				
Non US governments	\$	-	\$	4
Corporate debt		1		4
Total Other-Than-Temporary Impairment	\$	1	\$	8

Equity Securities

The Company evaluates its available for sale equity securities and equity method investments for impairment by considering such securities as candidates for other-than-temporary impairment if they meet any of the following criteria:

- The security has traded at a significant (25 percent or more) discount to cost for an extended period of time (nine consecutive months or longer);
- A discrete credit event has occurred resulting in (i) the issuer defaulting on a material outstanding obligation; (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for court-supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than the par value of their claims; or
- The Company has concluded that it may not realize a full recovery on its investment, regardless of the occurrence of one of the foregoing events.

The determination that an equity security is other-than-temporarily impaired requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. In addition to the above criteria, all equity securities that have been in a continuous decline in value below cost over twelve months are impaired. The Company also considers circumstances of a rapid and severe market valuation decline (50 percent or more) discount to cost, in which the Company could not reasonably assert that the impairment period would be temporary (severity losses).

Other Invested Assets

The Company's equity method investments in private equity funds, hedge funds and other entities are evaluated for impairment similar to the evaluation of equity securities for impairments as discussed above. Such evaluation considers market conditions, events and volatility that may impact the recoverability of the underlying investments within these private equity funds and hedge funds and is based on the nature of the underlying investments and specific inherent risks. Such risks may evolve based on the nature of the underlying investments.

Also included in other invested assets is property classified as a real estate investment which is reported at cost, less depreciation. The Company periodically assesses the carrying amount of the real estate investment for purposes of determining any asset impairment. The real estate investment is assessed for impairment when impairment indicators exist.

5. Variable Interest Entities

A variable interest entity (VIE) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights or do not substantively participate in the gains and losses of the entity. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but is based on other criteria discussed below.

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The Company enters into various arrangements with VIEs in the normal course of business and consolidate the VIEs when the Company determines they are the primary beneficiary. This analysis includes a review of the VIE's capital structure, related contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and the Company's involvement with the entity. When assessing the need to consolidate a VIE, the Company evaluates the design of the VIE as well as the related risks the entity was designed to expose the variable interest holders to.

The primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of the Company's decision-making ability and the ability to influence activities that significantly affect the economic performance of the VIE. The Company is not the primary beneficiary of any VIE.

The Company calculates the maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where the Company has also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by the Company generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to the Company, except in limited circumstances when the Company has provided a guarantee to the VIE's interest holders.

Balance Sheet Classification and Exposure to Loss

The following table presents total assets of unconsolidated VIEs in which the Company holds a variable interest, as well as the Company's maximum exposure to loss associated with these VIEs:

Years Ended December 31, 2017					
<i>(in millions)</i>	Total VIE Assets	On-Balance sheet Exposure	Off-Balance sheet Exposure	Total	
Real Estate and investment entities	\$ 495	\$ 48	\$ 1	\$	\$ 49
Balance at end of year	\$ 495	\$ 48	\$ 1	\$	\$ 49

Years Ended December 31, 2016					
<i>(in millions)</i>	Total VIE Assets	On-Balance sheet Exposure	Off-Balance sheet Exposure	Total	
Real Estate and investment entities	\$ 627	\$ 63	\$ 1	\$	\$ 64
Balance at end of year	\$ 627	\$ 63	\$ 1	\$	\$ 64

6. Deferred Policy Acquisition Costs

The following table presents a rollforward of deferred policy acquisition costs:

Years Ended December 31,				
<i>(in millions)</i>		2017		2016
Balance at beginning of year	\$	173	\$	158
Increase due to acquisition costs deferred		251		253
Decrease due to amortization expense		(256)		(238)
Balance at end of year	\$	168	\$	173

There were no impairments as a result of the Company's assessment of the recoverability of deferred policy acquisition costs for the year ended December 31, 2017 or 2016.

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7. Reinsurance

In the ordinary course of business, the Company places reinsurance with other related and unrelated insurance companies in order to provide greater diversification of the business and limit the potential for losses arising from large risks. In addition, the Company assumes reinsurance from other insurance companies.

The following tables present supplemental information for reserves, gross and net of reinsurance:

December 31, 2017 <i>(in millions)</i>	As Reported	Net of Reinsurance
Liability for unpaid losses and loss adjustment expenses	\$ 2,029	\$ 651
Unearned premiums	949	544
Future policy benefits for life and accident and health insurance contracts	1,184	25

December 31, 2016 <i>(in millions)</i>	As Reported	Net of Reinsurance
Liability for unpaid losses and loss adjustment expenses	\$ 1,873	\$ 505
Unearned premiums	870	519
Future policy benefits for life and accident and health insurance contracts	1,061	24

Property and Casualty Reinsurance

Property and casualty insurance premiums written and earned among related and unrelated parties were comprised of the following:

Year Ended December 31, 2017 <i>(in millions)</i>	Related Parties		Unrelated Parties		Total
Premiums Written					
Direct	\$	-	\$	137	\$ 137
Assumed		527		1,058	1,585
Ceded		(738)		(15)	(753)
Net	\$	(211)	\$	1,180	\$ 969
Premiums Earned					
Direct	\$	-	\$	138	\$ 138
Assumed		558		958	1,516
Ceded		(633)		(78)	(711)
Net	\$	(75)	\$	1,018	\$ 943

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Year Ended December 31, 2016 (in millions)	Related Parties		Unrelated Parties		Total
Premiums Written					
Direct	\$	-	\$	258	\$ 258
Assumed		604		797	1,401
Ceded		(650)		(157)	(807)
Net	\$	(46)	\$	898	\$ 852
Premiums Earned					
Direct	\$	-	\$	273	\$ 273
Assumed		471		771	1,242
Ceded		(594)		(156)	(750)
Net	\$	(123)	\$	888	\$ 765

Ceded premium to unrelated parties includes \$11 million and \$136 million of cessions to captive reinsurers for the years ended December 31, 2017 and 2016, respectively.

Cessions to Affiliated Entities

The Company has a reinsurance agreement with a third party insurer, under which the Company assumes accident and health business on a quota share basis from that insurer. Effective January 1, 2012, the Company retroceded 100% of the obligations associated with the aforementioned business to an affiliated company. The retrocession covered both obligations existing at January 1, 2012 as well as obligations arising subsequent to that date. The portion of the reinsurance agreement that covers obligations existing at January 1, 2012 is accounted for as retroactive reinsurance, as the associated insured events occurred prior to the inception of the contract. The portion of the reinsurance contract that covers subsequently arising obligations is treated as prospective reinsurance. As of December 31, 2017 and 2016, the Company has ceded loss reserves of \$218 million and \$175 million, respectively, associated with this retrocession contract.

The Company has an 85% quota share treaty placement (net of all other reinsurance) ceded to an affiliate for certain excess casualty, financial lines, and punitive damages risks. As of December 31, 2017 and 2016, there are ceded loss reserves of \$755 million and \$798 million, respectively. There is also an excess of loss reinsurance agreement on certain excess casualty business with an affiliated company. As of December 31, 2017 and 2016, there are ceded loss reserves of \$18 million and \$79 million. In addition, the Company has a quota share treaty placement ceded to an affiliate for excess casualty risks. As of December 31, 2017 and 2016, there are ceded reserves of \$19 million and \$23 million, respectively.

The Company has an excess of loss reinsurance agreement ceded to an affiliate covering all property business and relating to losses arising from a catastrophe. As of December 31, 2017 and 2016, there are ceded loss reserves of \$75 million and zero million, respectively.

Reinsurance of Deferred Annuities and Retrocession to Affiliate

The Company assumed a closed block of deferred annuities through a reinsurance agreement with a third party. As security for the reinsurance obligations, the Company is required to hold assets under the terms of a security agreement. Under the terms of the agreement, the assets subject to the agreement are assigned as security for payment and discharge of all obligations of the Company to the third party.

As of December 31, 2017 and 2016, the Company had assigned assets of \$925 million and \$830 million, respectively. See Note 4 for additional information. As of December 31, 2017 and 2016, future policy benefits associated with this business were \$1,159 million and \$1,037 million, respectively.

Effective in 2010, the Company entered into a retrocession agreement to retrocede 100% of the obligation associated with this business to an affiliate. Under the contractual arrangement, the Company retained the premium that would have been paid to be used for payment of the reinsurance liability. This retained premium is recorded as funds held under reinsurance treaties. Under the terms of the contractual arrangement the realized and unrealized investment gains and losses and net investment income related to a specified underlying investment portfolio, used to collateralize the fund balance, inures to the benefit of the affiliate insurer. As of December 31, 2017 and 2016, the balance of funds held under insurance treaties due to affiliate was \$925 million and \$830 million, respectively.

Under the terms of the retrocession, the funds held balance contains an embedded derivative. The features of this embedded

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derivative are deemed similar to a total return swap on the specified underlying investment portfolio. The fair value of the embedded derivative is included in funds held under insurance treaties, with changes in the fair value of the embedded derivative recorded in net realized capital gains (losses). The fair value of the embedded derivative liability was \$107 million and \$100 million as of December 31, 2017 and 2016, respectively.

Reinsurance Security

The Company's reinsurance arrangements do not relieve it from its direct obligation to its insureds in the event of default of the reinsurer. Thus, a credit exposure exists with respect to reinsurance ceded to the extent that any reinsurer fails to meet the obligations assumed under any reinsurance agreement. The reinsurance asset is net of an allowance of less than \$1 million and \$1 million at December 31, 2017 and 2016, respectively. The Company evaluates the financial condition of its reinsurers and establishes limits per reinsurer. Although the Company has significant exposure to a few reinsurers, the Company is not exposed to significant risks.

8. Liability for Unpaid Losses and Loss Adjustment Expenses and Future Policy Benefits for Life and Accident and Health Insurance Contracts

The following analysis provides a reconciliation of the activity in the liability for unpaid losses and loss adjustment expenses:

Years Ended December 31, (in millions)	2017	2016
Liability for unpaid losses and loss adjustment expenses, beginning of year	\$ 1,873	\$ 1,776
Reinsurance recoverable	(1,368)	(1,307)
Net Liability for unpaid losses and loss adjustment expenses, beginning	505	469
Foreign exchange effect	20	1
Losses and loss adjustment expenses incurred:		
Current year	612	361
Prior years	(10)	(8)
Total losses and loss adjustment expenses incurred:	602	353
Losses and loss adjustment expenses paid:		
Current year	(287)	(187)
Prior years	(189)	(131)
Total losses and loss adjustment expenses paid:	(476)	(318)
Liability for unpaid losses and loss adjustment expenses, end of year:		
Net liability for unpaid losses and loss adjustment expenses	651	505
Reinsurance recoverable	1,378	1,368
Total	\$ 2,029	\$ 1,873

Although the Company regularly reviews the adequacy of the established reserves for unpaid losses and loss adjustment expenses, there can be no assurance that the Company's ultimate liability for unpaid losses and loss adjustment expenses will not develop adversely and materially exceed the Company's current liability for unpaid losses and loss adjustment expenses. Estimation of ultimate net losses, loss adjustment expenses and the liability for unpaid losses and loss adjustment expenses, is a complex process for certain long-tail casualty lines of business, which include excess and umbrella liability, directors' and officers' liability, professional liability, workers compensation, general liability, and related classes. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in inflation, in labor and material costs or in the judicial environment, or in other social or economic phenomena affecting claims.

For the year ended December 31, 2017, the Company recognized \$10 million of net favorable prior year development due to lower than expected loss emergence mainly within US and Canada financial lines and Worldwide property via MGA. For the year ended December 31, 2016, the Company recognized \$8 million of net favorable prior year development due to lower than expected loss emergence in US and Canada financial lines, Japan auto and Japan personal accident and health.

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The table below presents the reconciliation of the liability for unpaid losses and loss adjustment expenses to Loss Reserves in the Consolidated Balance Sheets for the year ended December 31, 2017:

<i>(in millions)</i>	Net liability for unpaid losses and loss adjustment expenses as presented in the disaggregated tables below	Reinsurance recoverable on unpaid losses and loss adjustment expenses included in the disaggregated tables below	Gross liability for unpaid losses and loss adjustment expenses
US and Canada Excess Casualty	\$ 89	\$ 768	\$ 857
US and Canada Financial Lines	44	256	300
Japan Excess Casualty	21	-	21
Japan Primary Casualty	32	-	32
Worldwide Property via MGA	123	75	198
Japan Personal Lines Auto	63	-	63
Japan Personal Accident and Health	60	-	60
Ireland Healthcare	118	-	118
Total	\$ 550	\$ 1,099	\$ 1,649
Reconciling Items			
Other Product Lines			376
Unallocated loss adjustment expenses			4
Total Loss Reserves			\$ 2,029

Loss Development Information

The following is information about incurred and paid loss developments as of December 31, 2017, net of reinsurance. The cumulative number of reported claims, the total of IBNR liabilities and expected development on reported loss included within the net incurred loss amounts are presented in the following section.

Reserving Methodology

The Company uses a combination of methods to project ultimate losses for both long-tail and short-tail exposures, which include:

- **Paid Development method:** The Paid Development method estimates ultimate losses by reviewing paid loss patterns and selecting paid ultimate loss development factors. These factors are then applied to paid losses by applying them to accident years, with further expected changes in paid loss. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.
- **Incurred Development method:** The Incurred Development method is similar to the Paid Development method, but it uses case incurred losses instead of paid losses. Since this method uses more data (case reserves in addition to paid losses) than the Paid Development method, the incurred development patterns may be less variable than paid development patterns.
- **Expected Loss Ratio method:** The Expected Loss Ratio method multiplies premiums by an expected loss ratio to produce ultimate loss estimates for each accident year. This method may be useful if loss development patterns are inconsistent, losses emerge very slowly, or there is relatively little loss history from which to estimate future losses.
- **Bornhuetter-Ferguson method:** The Bornhuetter-Ferguson method using earned premiums and paid losses is a combination of the Paid Development method and the Expected Loss Ratio method where the weights given to each method is the reciprocal of the loss development factor. This method normally determines expected loss ratios similar to the method used for the Expected Loss Ratio method. The Bornhuetter-Ferguson method using premiums and incurred losses is similar to the Bornhuetter-Ferguson method using premiums and paid losses except that it uses case incurred losses.
- **Cape Cod Method:** The Cape Cod method is mechanically similar to the Bornhuetter-Ferguson method with the difference being that the Expected Loss Ratio estimates are determined based on a weighting of the loss estimates that come from the Paid/Incurred Development Methods. This method may be more responsive to recent loss trend than Bornhuetter-Ferguson method.

In updating the loss reserve estimates, the Company considered and evaluated inputs from many sources, including actual claims data, the performance of prior reserve estimates, observed industry trends, internal peer review processes, including challenges and recommendations from Enterprise Risk Management group, and where applicable the views of third party actuarial firms on similar classes of business written by affiliated companies. These inputs were used to improve evaluation techniques, and to analyze and assess the change in estimated ultimate loss for each accident year by product line. The analyses produce a range of indications from various methods, from which the best estimate was selected.

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In determining the actual carried loss reserves, the Company considered both the internal actuarial best estimate and numerous other internal and external factors, including:

- An assessment of economic conditions, including real GDP growth, inflation, employment rates or unemployment duration, stock market volatility and changes in corporate bond spreads;
- Changes in the legal, regulatory, judicial and social environment, including changes in road safety, public health and cleanup standards;
- Changes in medical cost trends (inflation, intensity and utilization of medical services) and wage inflation trends;
- Underlying policy pricing, terms and conditions including attachment points and policy limits;
- Claims handling processes and enhancements;
- Third-party claims reviews that are periodically performed for key classes of claims such as toxic tort, environmental and other complex casualty claims;
- Third-party actuarial reviews that are periodically performed for key classes of business written by affiliated companies similar to classes of business written by the Company;
- Input from underwriters on pricing, terms, and conditions and market trends; and
- Changes in the Company's reinsurance program, pricing and commutations.

The following factors are relevant to the loss development information included in the tables below:

- **Table Organization:** The tables are organized by accident year and include policies written on an occurrence and claims-made basis. The tables are grouped to distinguish expected claim emergence from:
 - a. Claims made (financial lines) and occurrence (liability/casualty lines).
 - b. Short tail lines (primarily property, personal auto, accident and health) and long tail lines (primary and excess casualty lines).
- **Groupings:** The groupings have homogenous risk characteristics with similar development patterns and would generally be subject to similar trends.
- **Reinsurance:** The reinsurance program varies by exposure type and may change from year to year. This may affect the comparability of the data presented in the Company's tables.
- **Incurred but not reported liabilities (IBNR):** The Company includes development from past reported losses in IBNR.
- **Data excluded from tables:** Information with respect to accident years older than ten years is excluded from the development tables. Unallocated loss adjustment expenses are also excluded.
- **Foreign exchange:** The loss development for operations outside of the US is presented for all accident years using the current exchange rate at December 31, 2017. Although this approach requires restating all prior accident year information, the changes in exchange rates do not impact incurred and paid loss development trends.
- **Claim counts:** Reported claims are considered to be one claim for each claimant or feature for each loss occurrence. Claims relating to losses that are 100 percent reinsured are excluded from the reported claims in the tables below.
- There are limitations that should be considered on the reported claim count data in the tables below, including:
 - Claim counts are presented only on a reported (not an ultimate) basis;
 - The tables below include lines of business and geographies at a certain aggregated level which may indicate different frequency and severity trends and characteristics, and may not be as meaningful as the claim count information related to the individual products within those lines of business and geographies;
 - Certain lines of business are more likely to be subject to occurrences involving multiple claimants and features, which can distort measures based on the reported claim counts in the table below; and
 - Reported claim counts are not adjusted for ceded reinsurance, which may distort the measure of frequency or severity.

Supplemental Information: The information about incurred and paid loss development for all periods preceding year ended December 31, 2017 and the related historical claims payout percentage disclosure is unaudited and is presented as supplementary information.

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The following tables present undiscounted, incurred and paid losses and allocated loss adjustment expenses by accident year, on a net basis after reinsurance, for 10 years:

US and Canada Excess Casualty

US and Canada Excess Casualty is coverage for Fortune 500 sized companies.

Incurring Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										December 31, 2017	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Expected Development on Reported Losses	Cumulative Number of Reported Claims
	Unaudited											
2008	\$ 17	\$ 17	\$ 11	\$ 11	\$ 9	\$ 13	\$ 12	\$ 11	\$ 11	\$ 10	\$ 3	46
2009		14	18	18	15	11	11	17	17	16	3	54
2010			28	28	22	15	15	13	12	13	10	71
2011				14	21	17	16	13	10	10	3	37
2012					13	12	15	20	19	18	1	55
2013						11	11	9	6	6	6	79
2014							11	10	8	7	7	34
2015								9	20	22	(3)	49
2016									9	9	9	110
2017										9	9	19
Total										\$ 120		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										(47)		
Liabilities for losses and loss adjustment expenses and prior year development before 2008, net of reinsurance										16		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										\$ 89		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
	Unaudited										
2008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	8
2009		-	-	-	3	5	5	13	13	13	13
2010			-	-	3	3	3	3	3	3	3
2011				-	-	-	-	6	6	6	6
2012					-	-	7	7	7	7	14
2013						-	-	-	-	-	-
2014							-	-	-	-	-
2015								-	-	-	3
2016									-	-	-
2017											-
Total										\$	47

Reserving Process and Methodology

The business is excess casualty coverage for Fortune 500 sized companies. The typical attachment point for a policy is \$100 million and can be higher for certain classes of business, which causes the loss development pattern to be lagged significantly. Many of the claims notified to the excess layers are closed without payment because the claims never reach the Company's layer as a result of high deductibles and other underlying coverages, the claims that reach the Company's layer and close with payment can be large and highly variable in terms of reported timing and amount. The underlying primary policies are sometimes issued by other insurance companies, which can limit the Company's access to relevant information to help inform its judgments as the loss events evolve and mature.

The Company generally uses a combination of paid and incurred loss development, paid and incurred Bornhuetter-Ferguson, and Expected loss ratio methods for excess casualty product lines. In general, expected loss ratio methods are given more weight in the more recent accident years, and loss development methods are given more weight in more mature accident years. A generalized Cape Cod method is used to derive the expected loss ratios for the Bornhuetter-Ferguson method. An expected loss ratio, which considers

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both rate and loss trend changes, is applied to the current accident year. Mass tort claims in particular may develop over an extended period of time and impact multiple accident years when they emerge.

The significant increase in reported claim count for accident year 2016 is attributable to multiple claimants filed against one insured.

US and Canada Financial Lines

US and Canada Excess Financial Lines is coverage for Fortune 500 sized companies.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										December 31, 2017	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
	Unaudited											
2008	\$ 17	\$ 18	\$ 15	\$ 15	\$ 14	\$ 14	\$ 12	\$ 14	\$ 14	\$ 17	\$ 1	30
2009		16	11	11	10	10	10	9	10	12	-	46
2010			10	10	10	11	5	5	6	7	1	54
2011				10	11	12	7	5	3	3	1	58
2012					10	10	10	9	7	7	-	68
2013						10	9	9	7	3	3	60
2014							9	10	12	9	2	51
2015								8	9	9	7	87
2016									8	7	7	41
2017										6	6	82
Total										\$ 80		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										\$ (36)		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										\$ 44		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Unaudited									
2008	\$ -	\$ -	\$ -	\$ 3	\$ 7	\$ 9	\$ 9	\$ 11	\$ 14	\$ 14
2009		-	-	1	2	6	6	7	10	10
2010			-	-	-	-	-	-	3	3
2011				-	-	-	-	1	1	1
2012					-	-	2	2	2	2
2013						-	-	-	-	-
2014							-	2	4	4
2015								-	-	2
2016									-	-
2017										-
Total										\$ 36

Reserving Process and Methodology

The business consists of excess directors and officers liability (D&O), excess employment practices liability (EPLI), and excess errors and omissions liability (E&O). This includes cyber coverages, which has been a growing and evolving portion of this portfolio. These product lines are predominantly claims-made in nature, losses are characterized by low frequency and high severity, and results are often significantly impacted by external economic conditions.

The Company generally uses a combination of paid and incurred loss development, paid and incurred Bornhuetter-Ferguson, paid and incurred Cape Cod methods and expected loss ratio methods for D&O, E&O, and EPLI. In general, expected loss ratio methods are given more weight in the more recent accident years, and loss development methods are given more weight in more mature accident years. A generalized Cape Cod method is used to derive the expected loss ratios for the Bornhuetter-Ferguson method. An expected loss ratio, which considers both rate and loss trend changes, is applied to the current accident year. The loss development factors for the different segments differ significantly in some cases, based on specific coverage characteristics and other factors such as industry

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group, attachment points, and limits offered. Individual claims projections for accident years ended over eighteen months prior are also reviewed for the analysis.

Japan Excess Casualty

Japan Excess Casualty consists of business assumed from affiliated companies in Japan under a quota share agreement.

Incurring Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										December 31, 2017	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Losses
	Unaudited											
2008	\$ 2	\$ 2	\$ 2	\$ -	\$ -	\$ 1	\$ 1	\$ -	\$ -	\$ -	\$ -	4
2009		1	1	-	-	-	-	-	-	-	-	3
2010			1	-	-	-	1	1	1	1	-	7
2011				-	-	-	1	10	9	9	-	4
2012					-	-	-	9	8	8	1	1
2013						-	1	9	8	8	-	7
2014							1	10	15	15	1	22
2015								1	-	1	-	36
2016									1	-	-	2
2017										1	1	-
Total										\$ 43		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										\$ (22)		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										\$ 21		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
	Unaudited										
2008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
2009		-	-	-	-	-	-	-	-	-	-
2010			-	-	-	-	-	-	-	-	-
2011				-	-	-	1	1	1	1	6
2012					-	-	-	-	-	-	7
2013						-	-	-	-	-	2
2014							-	-	6	-	7
2015								-	-	-	-
2016									-	-	-
2017										-	-
Total										\$ 22	

Reserving Process and Methodology

Japan excess casualty policies attach above underlying policies, which causes the loss development pattern to be lagged significantly. Many of the claims notified to the excess layers are closed without payment because the claims are settled within underlying policy limits and do not reach the Company's layer. Claims that reach the Company's layer and close with payment can be large and highly variable in terms of reported timing and amount. For approximately half of this business, the underlying primary policies are issued by other insurance companies, which may limit the Company's access to relevant information in a timely manner to help inform its judgments as the loss events evolve and mature.

The Company generally uses a combination of paid and incurred loss development methods and paid and incurred Bornhuetter-Ferguson methods for excess casualty product lines. The prior expected loss ratios used for recent accident years in the Bornhuetter-Ferguson methods are based on a combination of the projected ultimate loss ratios for older years and budget loss ratios which take

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into consideration rate changes and loss trend. Mass tort claims in particular may develop over an extended period of time and impact multiple accident years when they emerge.

Japan Primary Casualty

Japan Primary Casualty consists of general liability and workers' compensation business assumed from affiliated companies in Japan under a quota share agreement.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										December 31, 2017	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Losses
Unaudited												
2008	\$ 30	\$ 30	\$ 31	\$ 31	\$ 31	\$ 32	\$ 32	\$ 31	\$ 31	\$ 31	\$ -	34,586
2009		31	32	32	32	33	32	31	31	31	-	36,501
2010			31	29	29	29	30	30	30	30	-	42,248
2011				33	32	31	32	31	31	31	-	35,779
2012					29	30	31	31	30	29	-	34,541
2013						32	32	32	30	30	-	34,241
2014							35	33	33	33	-	34,284
2015								34	29	30	1	33,030
2016									30	29	2	31,587
2017										33	8	27,726
Total										\$ 308		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below										\$ (276)		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance										\$ 32		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
Unaudited											
2008	\$ 17	\$ 26	\$ 28	\$ 29	\$ 30	\$ 31	\$ 31	\$ 31	\$ 31	\$ 31	31
2009		18	27	29	30	31	31	31	31	31	31
2010			17	25	26	28	29	29	30	30	30
2011				17	27	29	30	30	31	31	31
2012					17	25	27	28	28	28	29
2013						16	26	27	28	28	29
2014							17	26	28	28	30
2015								16	25	25	26
2016									16	24	24
2017										15	15
Total										\$ 276	

Reserving Process and Methodology

Japan workers' compensation and general liability are guaranteed cost contracts. Loss emergence patterns for these classes in Japan tend to be have more like short-tailed lines as compared to other jurisdictions like the US. The claims are handled by AIG Japan claims adjusters and the loss development patterns are relatively consistent from one accident year to the next. Generally, a combination of both paid and incurred loss development and paid and incurred Bornhuetter-Ferguson methods are employed for both workers' compensation and general liability.

In general, loss development for Japan Primary Casualty has been very stable, with only modest changes in the initial selected loss ratios for this business.

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Worldwide Property via MGA

Worldwide Property consists of property catastrophe reinsurance written on an occurrence basis. The below table only represents three years of activity as the MGA agreement was effective January 1, 2015.

Incurring Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)			December 31, 2017	
	2015	2016	2017	Expected Development on Reported Losses	Cumulative Number of Reported Claims
	Unaudited				
2015	\$ 9	\$ 3	\$ 5	\$ -	32
2016		28	21	11	47
2017			122	56	72
Total			\$ 148		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below			\$ (25)		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance			\$ 123		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)			2017
	2015	2016	2017	
	Unaudited			
2015	\$ -	\$ 1	\$ 2	2
2016		1	5	5
2017			18	18
Total		\$		25

Reserving Process and Methodology

Property classes cover exposures to natural catastrophes for medium to high layers on a US nationwide basis or a non US basis.

The exposure is predominately individual natural catastrophic events. Claim department estimates for each of the events are used in developing the appropriate loss reserve estimate. Frequency/severity methods, loss development methods, and IBNR factor methods may also be used in combination with the claim department estimate to set reserves for short-tail classes such as property.

IBNR factor methods are used when the nature of losses is low frequency/high severity. The IBNR factors, when applied to earned premium, generate the ultimate expected losses (or other exposure measure) yet to be reported. The factors are determined based on prior accident quarters' loss costs adjusted to reflect current cost levels and the historical emergence of those loss costs. The factors are continually reevaluated to reflect emerging claim experience, rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

There was an increase in net incurred losses in 2017 due to the to the significant catastrophe activity during the year.

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Japan Personal Lines Auto

Japan Personal Line Auto consists of business assumed from affiliated companies in Japan under a quota share agreement.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)											December 31, 2017	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	
	Unaudited												
2008	\$ 118	\$ 114	\$ 114	\$ 114	\$ 115	\$ 114	\$ 115	\$ 115	\$ 115	\$ 115	\$ 115	\$ -	189,551
2009		112	112	114	114	114	114	113	114	114	114	-	188,311
2010			115	116	116	116	116	116	116	116	116	-	219,269
2011				106	107	107	107	107	107	107	106	-	186,299
2012					109	108	107	106	106	106	106	-	174,849
2013						97	97	96	96	96	96	-	159,776
2014							91	91	90	90	90	-	153,115
2015								89	90	90	90	-	147,191
2016									85	87	87	1	135,152
2017										76	76	5	114,435
Total										\$ 996			
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below											(933)		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance											\$ 63		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
	Unaudited										
2008	\$ 79	\$ 100	\$ 106	\$ 110	\$ 112	\$ 113	\$ 113	\$ 114	\$ 115	\$ 115	\$ 115
2009		78	98	105	109	110	112	113	113	113	114
2010			79	100	107	110	113	114	114	114	115
2011				73	92	98	101	104	105	105	105
2012					71	91	98	102	103	103	105
2013						64	82	88	91	91	93
2014							58	76	81	81	85
2015								56	74	74	81
2016									55	55	71
2017											49
Total											\$ 933

Reserving Process and Methodology

Japan personal auto insurance includes collision, comprehensive and liability coverage. Personal auto in Japan is generally short-tail in nature.

The analysis is performed for physical damage and liability separately. Frequency/severity methods, loss development methods, Bornhuetter-Ferguson, and IBNR factor methods are used alone or in combination to set reserves for short-tail product lines such as personal auto.

Frequency/severity methods are often utilized for personal auto classes. Claim counts emerge quickly for personal auto. Frequency/severity methods allow for more immediate analysis of resulting loss trends as well as comparison to industry and other diagnostic metrics.

IBNR factor methods are also used when the nature of losses is high frequency and stable severity. The IBNR factors, when applied to earned premium generate the ultimate expected losses yet to be reported. The factors are determined based on prior accident quarters' loss costs adjusted to reflect current cost levels and the historical emergence of those loss costs. The factors are continually reevaluated to reflect emerging claim experience, rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

In general, loss development for Japan personal automobile has been very stable, with only modest changes in the initial selected loss ratios for this business.

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Japan Personal Accident & Health

Japan Personal Accident & Health consists of business assumed from affiliated companies in Japan under a quota share agreement.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)											December 31, 2017	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	
	Unaudited												
2008	\$ 115	\$ 117	\$ 117	\$ 116	\$ 117	\$ 117	\$ 117	\$ 117	\$ 117	\$ 117	\$ 117	\$ -	523,471
2009		114	108	108	108	108	108	108	108	108	109	-	511,952
2010			117	110	111	111	110	110	111	111	111	-	589,360
2011				119	116	115	114	114	114	114	114	-	515,811
2012					108	101	102	101	101	101	102	-	523,444
2013						98	98	98	97	97	97	-	510,739
2014							97	93	93	93	93	-	525,235
2015								90	87	87	87	1	518,690
2016									87	86	86	1	527,960
2017										90	90	12	454,692
Total										\$ 1,006			
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below											(946)		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance											\$ 60		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	Years Ended December 31, (amount in millions)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
	Unaudited										
2008	\$ 60	\$ 107	\$ 114	\$ 116	\$ 116	\$ 117	\$ 117	\$ 117	\$ 117	\$ 117	\$ 117
2009		57	99	105	107	107	108	108	108	108	108
2010			61	102	108	109	110	110	111	111	111
2011				60	105	111	112	113	113	113	114
2012					55	91	97	99	100	100	101
2013						52	88	94	95	95	96
2014							47	83	89	89	91
2015								46	79	79	83
2016									45	45	77
2017											48
Total										\$	946

Reserving Process and Methodology

Japan personal accident insurance includes voluntary and sponsor-paid personal accident and supplemental health products for individuals, employees, associations and other organizations as well as a broad range of travel insurance products and services for leisure and business travelers. Personal accident insurance is generally short-tail in nature.

Frequency/severity methods, loss development methods, Bornhuetter-Ferguson, and IBNR factor methods are used alone or in combination to set reserves for short-tail product lines such as personal accident.

Frequency/severity methods are often utilized for personal accident products. Claim counts emerge quickly for most personal accident classes. Frequency/severity methods allow for more immediate analysis of resulting loss trends as well as comparison to industry and other diagnostic metrics.

IBNR factor methods are also used when the nature of losses is high frequency and stable severity. The IBNR factors, when applied to earned premium generate the ultimate expected losses yet to be reported. The factors are determined based on prior accident quarters' loss costs adjusted to reflect current cost levels and the historical emergence of those loss costs. The factors are continually reevaluated to reflect emerging claim experience, rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

In general, loss development for Japan personal accident insurance has been very stable generally, with only modest decreases in the initial selected loss ratios for this business.

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Ireland Healthcare

Healthcare consists of Irish medical expense business assumed under a quota share agreement. Effective January 1, 2017, the Company changed the participation percentage of the quota share agreement for this business from 35% to 50%. The below table only represents two years of activity as the agreement was effective January 1, 2016.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance				
Accident Year	Years Ended December 31, (amount in millions)		December 31, 2017	
	2016	2017	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
	Unaudited			
2016	\$ 109	\$ 107	\$ 6	
2017		258	112	
Total		\$ 365		
Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below		\$ (247)		
Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance		\$ 118		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance				
Accident Year	Years Ended December 31, (amount in millions)		2016	2017
			Unaudited	
2016			\$ 53	\$ 102
2017			-	145
Total			\$	\$ 247

Reserving Process and Methodology

Healthcare consists of medical expense policies, for in hospital admissions, outpatient services and other services. Medical expense business is generally short-tail in nature.

Paid loss development method and paid Bornhuetter-Ferguson are used alone or in combination to set reserves for short-tail product lines such as healthcare as individual case reserves are not typically established.

Loss emergence development for healthcare has been stable for the one observable year, with only a modest change in the initial selected loss ratio.

The cumulative number of reported claim counts as relates to the total reported losses have not been disclosed in the table above. Inpatient claims, which represent the bulk of the claims activity, were the only claim counts provided to AIRCO. Disclosing incomplete claim count data would produce a distorted view of average severities.

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Claims Payout Patterns

The following table presents the historical average annual percentage claims payout on an accident year basis at the same level of disaggregation as presented in the claims development table.

Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance (unaudited)										
Year	1	2	3	4	5	6	7	8	9	10
US and Canada Excess Casualty	-%	0.1%	8.4%	2.9%	12.8%	8.9%	12.0%	1.2%	0.3%	72.7%
US and Canada Financial Lines	-	2.1	12.1	4.3	17.1	2.7	10.5	11.1	8.8	-
Japan Excess Casualty	-	0.2	5.1	2.7	18.3	18.1	13.6	-	-	-
Japan Primary Casualty	54.0	29.4	5.4	3.7	2.8	1.7	0.5	0.1	0.3	-
Worldwide Property via MGA	7.0	21.9	1.1	-	-	-	-	-	-	-
Japan Personal Lines Auto	66.2	18.8	5.9	3.4	1.9	1.1	0.7	0.4	0.8	0.2
Japan Personal Accident and Health	52.7	38.1	5.7	1.6	0.7	0.4	0.2	0.1	0.1	0.1
Ireland Healthcare	53.0	45.1	-	-	-	-	-	-	-	-

Due to less than 10 years of experience available for presentation, the cumulative percentage payout of Incurred losses will not be appropriate for Worldwide Property and Ireland Healthcare. For Excess classes, the low frequency and high severity nature of the losses lead to results that may not be indicative of the expected payout percentages on future claims.

Future Policy Benefits for Life and Accident and Health Insurance Contracts

The following table presents the components of the future policy benefits:

As at December 31, (in millions)		2017	2016
Future policy benefits:			
Closed block of deferred annuities ^(a)	\$	1,159	\$ 1,037
Long duration life insurance contracts		11	12
Accident and health insurance contracts		14	12
Total future policy benefits	\$	1,184	\$ 1,061

(a) The Company has entered into a retrocession agreement to retrocede 100% of the obligation associated with this business to an affiliate. See Note 7 for additional information.

The closed block of deferred annuities was issued in conjunction with the termination of occupational pension programs in the U.K. Insofar as annuitization at retirement is required, they are treated as "limited-payment contracts". The liability for future policy benefits is computed using mortality tables and assumptions for mortality improvement published by the Faculty of Actuaries in the U.K. Present values are calculated at an interest rate of 3.34% and 3.90% as of December 31, 2017 and 2016, respectively.

The liability for future life policy benefits is computed using mortality tables and assumptions for mortality improvement as determined by the Company's appointed actuary. Present values are calculated using an interest rate of 3.32% and 3.64% as of December 31, 2017 and 2016, respectively.

9. Income Taxes

The Company made an election to be treated as a United States corporation for purposes of imposing United States tax under section 953(d) of the Internal Revenue Code. A \$10 million letter of credit was secured for the benefit of the Internal Revenue Service ("IRS") that may be drawn upon in the event that the Company does not pay tax in accordance with the terms of the statement of notice and demand. See Note 16 for additional information.

The Company files a consolidated US federal income tax return with AIG. The Company is allocated US federal income taxes based upon a tax payment allocation agreement with AIG, effective January 1, 2010 and approved by the Company's Board of Directors. This agreement provides that the Company shall accrue taxes that would have been paid by the Company if it had filed a separate federal income tax return and AIG shall reimburse the Company for certain tax benefits, with limited exceptions.

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Additionally, while the agreement described above governs the current and deferred tax recorded in the income tax provision, the amount of cash that will be paid or received for US federal income taxes may at times be different. The terms of this agreement are based on principles consistent with the allocation of income tax expense or benefit on a separate company basis, except that:

- The Company's separate company taxable income shall include net capital gains as reported in consolidated taxable income and any separate return limitation year ("SRLY") loss carryovers as set forth in Treas. Reg. §1.1502-21(c) that would have been absorbed on a separate return basis.
- The Company has a reinsurance treaty in place with an AIG affiliate that also files a consolidated US federal income tax return with AIG. Any taxable income or loss attributable to that treaty is excluded from the Company's separate company taxable income.
- The Company's separate company taxable income shall exclude charitable contributions, carryovers or carrybacks attributable to net operating losses (other than SRLY loss carryovers), net capital losses and dividends received from companies included in the consolidated return.

AIG agrees to reimburse the Company for any tax benefit arising out of the use in the consolidated return of any of the Company's charitable contributions, carryovers or carrybacks attributable to net operating losses (other than SRLY loss carryovers), net capital losses, tax credits and dividends received deduction to the extent not used to offset other income of the Company as calculated on a separate return basis and for an amount by which, but for such benefit, the federal income tax liability of AIG's consolidated group would have been greater. Once the Company is compensated for such benefit, it cannot use such benefits in the calculation of its tax liability under the separate return basis.

Federal income taxes payable under the payment allocation agreement at December 31, 2017 and 2016 were \$2 million and \$4 million, respectively.

US Tax Reform Overview

On December 22, 2017, the United States enacted Public Law 115-97, known as the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act reduces the statutory rate of US federal corporate income tax to 21 percent and enacts numerous other changes impacting the Company.

Provisions of the Tax Act include reductions or elimination of deductions for certain items, e.g. reductions to corporate dividends received deductions, disallowance of entertainment expenses, and limitations on the deduction of certain executive compensation costs. These provisions, generally, result in an increase in the Company's taxable income in the years beginning after December 31, 2017. Changes specific to the property and casualty insurance industry include the changes to the calculation of insurance tax reserves and related transition adjustments and computation of proration adjustments.

The Securities and Exchange Commission staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 addresses situations where accounting for certain income tax effects of the Tax Act under ASC 740 may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from the enactment date to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the following:

- Income tax effects of those aspects of the Tax Act for which accounting under ASC 740 is complete;
- Provisional estimate of income tax effects of the Tax Act to the extent accounting is incomplete but a reasonable estimate is determinable; and
- If a provisional estimate cannot be determined, ASC 740 should still be applied on the basis of tax law provisions that were in effect immediately before the enactment of the Tax.

Consistent with current income tax accounting requirements, the Company has remeasured its deferred tax assets and liabilities with reference to the statutory income tax rate of 21 percent and taken into consideration other provisions of the Tax Act. As of December 31, 2017, the Company had not fully completed the accounting for the tax effects of the Tax Act. The provision for income taxes for the period ended December 31, 2017, is based in part on a reasonable estimate of the effects on existing deferred tax balances and of certain provisions of the Tax Act. To the extent a reasonable estimate of the impact of certain provisions was determinable, the Company recorded provisional estimates as a component of the provision for income taxes on continuing operations. To the extent a reasonable estimate of the impact of certain provisions was not determinable, the Company has not recorded any adjustments and has continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the Tax Act.

The Tax Act includes provisions for Global Intangible Low-Taxed Income ("GILTI") under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax ("BEAT") under which taxes are imposed on certain base eroding payment to affiliated foreign companies. Consistent with accounting guidance, the Company intends to treat BEAT as an in period tax charge when incurred in future periods for which no deferred taxes need to be

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provided and have made an accounting policy election to treat GILTI taxes in a similar manner. Accordingly, no provision for income taxes related to GILTI or BEAT was recorded as of December 31, 2017.

Tax Effects for Which a Reasonable Estimate Can Be Determined

Provisions Impacting Property and Casualty Insurance Companies

The Tax Act modified computations of insurance reserves for property and casualty insurance companies. Specifically, the Act extends the discount period for certain long-tail lines of business from 10 years to 24 years and increases the discount rate, replacing the applicable federal rate for a higher-yield corporate bond rate, and eliminates the election allowing companies to use their historical loss payment patterns for loss reserve discounting. Adjustments related to the differences in insurance reserves balances computed historically versus the Tax Act have to be taken into income over eight years. Accordingly, at December 31, 2017, these changes give rise to a new deferred tax liability. The Company has recorded a reasonable estimate of \$9 million with respect to this deferred tax liability. This increase in deferred tax liabilities is offset by an increase in the deferred tax asset related to loss reserves as a result of applying the new provisions of the Tax Act.

Provisions Impacting Projections of Taxable Income and Admissibility of Deferred Tax Assets

Certain provisions of the Tax Act impact the projections of future taxable income used in analyzing realizability of the deferred tax assets. In certain instances, provisional estimates have been included in the future taxable income projections for these specific provisions to reflect application of the new tax law. The Company does not currently anticipate that the reliance on provisional estimates would have a material impact on the Company's determination of realizability of its deferred tax assets.

Tax Effects for Which No Estimate Can Be Determined

The Tax Act may affect the results in certain investments and partnerships in which the Company is a non-controlling interest owner. The information needed to determine a provisional estimate is not currently available (such as for interest deduction limitations in those entities and the changed definition of a US Shareholder). Accordingly, the Company continued accounting for these investments in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the Tax Act, and no provisional estimates were recorded.

Total Income Tax Expense

The tax provision from continuing operations differs from the amount that would be computed by taking the pretax income from continuing operations and multiplying it by the US statutory tax rate primarily because of the statutory rate differential from income earned in Bermuda. Additionally, the impact of tax reform had a material impact on the effective tax rate.

The following table presents the income tax expense attributable to pre-tax income from continuing operations:

Years Ended December 31, (in millions)	2017	2016
Income tax expense (benefit) attributable to income from continuing operations:		
Current	\$ -	\$ -
Deferred	43	31
Total	\$ 43	\$ 31

Deferred Taxes

As of December 31, 2017 and 2016, the Company had gross deferred tax assets of \$159 million and \$300 million and gross deferred tax liabilities of \$112 million and \$211 million, respectively. As of December 31, 2017 and 2016, the Company had net deferred tax assets of \$47 million and \$89 million, respectively, resulting in a \$42 million change overall. Of the \$42 million change in net deferred tax assets, \$32 million is attributable to the impact of tax reform. The remaining significant components of this balance include deferred tax items relating to temporary differences associated with loss reserves, unearned premiums, deferred acquisition costs, unrealized gains on investments, and net operating losses. The Company had no valuation allowance as of December 31, 2017 and 2016. See the section "Valuation Allowance on Deferred Tax Assets" below for further details.

As of December 31, 2017, the Company had federal net operating loss carry forwards of \$554 million which were generated by the Company, a foreign operation, prior to making the election to be taxed as a US domestic corporation. The losses were generated through operations effectively connected to US related business, the use of which is limited to future income generated by the Company's US Tax Filing Group and subject to utilization limitations under the IRC's SRLY rules. The federal net operating loss carry

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forwards expire between 2028 and 2029.

As of December 31, 2017, the Company had federal capital loss carryforwards of \$1 million. Pursuant to the Company's tax sharing agreement, any capital losses that are not expected to be utilized on the consolidated tax return will be carried forward until such time that they can be utilized. The capital loss carry forwards will expire by 2022.

Valuation Allowance on Deferred Tax Assets

The Company evaluates the recoverability of deferred tax assets and establishes a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized (a likelihood of more than 50 percent).

The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires the Company to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

The Company's framework for assessing the recoverability of deferred tax assets requires consideration of all available evidence, including:

- The nature, frequency, and severity of cumulative financial reporting losses in recent years;
- The predictability of future operating profitability of the character necessary to realize the net deferred tax asset;
- The carry forward periods for the net operating loss, capital loss and foreign tax credit carry forwards, including the effect of reversing taxable temporary differences; and
- Prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

For the years ended December 31, 2017 and December 31, 2016, management believes that it is more likely than not that these assets will be realized, therefore, the Company has not recorded a valuation allowance against its deferred tax assets.

Accounting for Uncertainty in Income Taxes

At December 31, 2017 and December 31, 2016, the Company has no accrued reserves for uncertain tax positions, and the Company does not believe that there will be a significant change within the next twelve months.

The Company is subject to tax in the US and has open tax years from 2007 to 2016 that remain subject to examination. The statute of limitation for all tax years prior to 2000 has expired for its federal jurisdiction in the US. The Company is currently under examination for the tax years 2000 through 2010 and open to examination through 2016.

10. Related Party Transactions

Reinsurance

Reinsurance transactions with related parties are shown in Note 7 – Reinsurance.

Affiliated Services

AIG and its subsidiaries provide various services to the Company pursuant to written cost sharing arrangements that the Company is party to, and for which the Company is charged various fees. Such charges are not necessarily indicative of what the Company would have incurred if the Company were a separate, stand-alone entity from AIG. The amount of such affiliated charges included in the Consolidated Income Statements was \$2 million and \$1 million for the years ended December 31, 2017 and 2016, respectively.

Additionally, AIG incurs certain cost on the Company's behalf for which is recharged to the Company. During 2017 and 2016, amounts of \$17 million and \$15 million, respectively, were recognized as expenses by the Company.

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Balance Due To / From Related Parties

In addition to the amounts described elsewhere in these financial statements, the Consolidated Balance Sheets also include the following balances with related parties:

As at December 31, (in millions)		2017		2016
Non-insurance balances receivable	\$	589	\$	660
Premium and insurance balances receivable		120		130
Reinsurance assets		2,297		2,082
Non-insurance balances payable		84		72
Reinsurance balances payable		81		79
Premium and insurance balances payable		259		213
Funds held under reinsurance treaties liability		925		830

Derivative Agreements

The Company has derivatives agreements with an affiliate. See Note 13 for additional information.

Return of Capital and Dividends

In the ordinary course of business, the Company issued a dividend comprised of bonds available for sale to its parent for \$150 million in March 2017.

In the ordinary course of business, the Company issued a dividend comprised of bonds available for sale to its parent for \$100 million in September 2016.

In the ordinary course of business, the Company issued a cash dividend for \$100 million and a cash capital contribution for \$100 million to its parent in March 2016.

11. Share-based and Other Compensation Plans

AIG sponsors Long Term Incentive Plans ("LTIP") that provide for annual awards to certain employees, including senior executive officers and other highly compensated employees. In 2017, each award recipient was granted performance share units (PSUs) and/or restricted stock units (RSUs), and in 2013 through 2016, each award recipient was granted PSUs.

The number of PSUs issued on the grant date (the target) provides the opportunity for the LTIP participant to receive shares of AIG Common Stock based on AIG achieving specified performance goals at the end of a three-year performance period. These performance goals are pre-established by AIG's Compensation and Management Resources Committee for each annual grant and may differ from year to year. The actual number of PSUs earned can vary from zero to 200 percent of the target for the 2017 awards, or zero to 150 percent of the target for the 2013 through 2016 awards, depending on AIG's performance relative to a specified peer group. RSUs are earned based on continued service by the participant. For the 2017 awards, vesting occurs on January 1 of the year immediately following the end of the three-year performance period. For awards granted prior to 2017, vesting occurs in three equal installments beginning on January 1 of the year immediately following the end of a performance period and January 1 of each of the next two years. Recipients must be employed at each vesting date to be entitled to share delivery, except upon the occurrence of an accelerated vesting event, such as an involuntary termination without cause, disability, retirement eligibility or death during the vesting period.

The Company gets an allocation from AIG for these expenses. The Company recognized compensation expense of \$65 million and \$51 million as of December 31, 2017 and 2016, respectively, based on the value of AIG's common stock on the date of grant.

Prior to 2014, some of the Company's officers and key employees were granted restricted stock units and stock appreciation rights that provide for cash settlement linked to the value of AIG common stock if certain requirements were met. The Company recorded expenses of \$4 million and \$5 million for these awards at December 31, 2017 and 2016, respectively, to reflect changes in the value of AIG common stock.

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Modification of LTI awards

During the fourth quarter of 2017, AIG modified certain outstanding LTI awards by concurrently issuing service-based RSUs and canceling some previously granted PSUs. The change applied to most recipients who participate in the 2016 and 2017 LTI awards, excluding certain of the Company's senior executives. In addition, AIG also issued supplemental RSU grants to certain active employees, which vest in installments over a period of up to three years. The Company did not incur any material incremental compensation expense as a result of these actions.

12. Defined Benefit Pension Plans

Employees of AIG, its subsidiaries and certain affiliated companies, are generally covered under various pension plans. US salaried employees who are employed by a participating company on or before December 1, 2014 and who have completed 12 months of continuous service are eligible to participate in the plan. AIG, as sponsor, is ultimately responsible for the maintenance of these plans in compliance with applicable laws. The Company is not directly liable for obligations under these plans; its obligation results from AIG's allocation of its share of expenses from the plans based on participants' earnings for the pension plans and on estimated claims less contributions from participants for the postretirement plans.

Effective January 1, 2016, the US defined benefit pension plans were frozen. Consequently, these plans are closed to new participants and current participants no longer earn benefits. However, interest credits continue to accrue on the existing cash balance accounts and participants are continuing to accrue years of service for purposes of vesting and early retirement eligibility and subsidies as they continue to be employed by AIG and its subsidiaries.

The Company has participants in each of the following AIG employee retirement plans:

Postretirement Benefit Plans

The Postretirement Benefit plan provides postretirement medical care and life insurance benefits in the US and in certain non-US countries. The Company's employees covered in this plan are for the Mobile Overseas Personnel ("MOPS") which are US citizens stationed abroad. Eligibility in the various plans is generally based upon completion of a specified period of eligible service and attaining a specified age. Overseas, benefits vary by geographic location. The Company's allocated share of net expense for the postretirement plan was \$1 million and \$1 million for the years ended December 31, 2017 and 2016, respectively.

Bermuda Postretirement Benefit Plan

In addition, the Company provides a postretirement plan in Bermuda for its local employees. Employees hired prior to January 1, 2007 are eligible for normal or early retirement with medical benefits after attaining the age of 55 with five years of service. Employees hired on or after January 1, 2007 are eligible for early retirement with medical benefits after the earlier of attaining age 50 with 20 years of service or age 65 with 15 years of service. Employees hired on or after February 1, 2009 are not eligible for postretirement medical benefits. The postretirement expense for the local plan was \$4 million and \$3 million for the years ended December 31, 2017 and 2016, respectively.

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The following table presents the funded status of the plans reconciled to the amount reported in the Consolidated Balance Sheets. The measurement date for the post retirement plan is December 31, consistent with the fiscal year end of the sponsoring company.

As of or for the Years Ended December 31, (in millions)	2017	2016
Change in projected benefit obligation:		
Benefit obligation at beginning of year	\$ 50	\$ 47
Service cost	1	1
Interest cost	2	2
Actuarial loss	(2)	-
Projected benefit obligation at end of year	51	50
Change in plan assets:		
Employer direct benefit payments	(1)	(1)
Direct benefit payments	1	1
Fair value of plan assets at end of year	-	-
Funded status at end of year	51	50
Amounts recognized in the balance sheet:		
Liabilities	51	50
Pre-tax amounts recognized in accumulated other comprehensive income:		
Net gain	(10)	(12)
Total amounts recognized	\$ (10)	\$ (12)

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

As at December 31, (in millions)	2017	2016
Components of net periodic benefit cost		
Service cost	\$ 1	\$ 1
Interest cost	2	2
Net periodic benefit cost	3	3
Total recognized in accumulated other comprehensive loss (income)	(2)	(1)
Total recognized in net periodic benefit cost and other comprehensive loss	\$ 1	\$ 2

The estimated amortization from accumulated other comprehensive income for net loss that will be amortized into net periodic benefit cost over the next fiscal year will be less than \$1 million.

Assumptions

The following table summarizes the weighted average assumptions used to determine the benefit obligations:

As at December 31,	2017	2016
Discount rate	3.61%	4.15%
Rate of compensation increase	N/A	N/A

The following table summarizes assumed health care cost trend rates:

As at December 31,	2017	2016
Immediate trend rate	6.58%	6.84%
Ultimate trend rate	4.50%	4.50%
Year that the rate reaches ultimate trend rate	2038	2038

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A one percent point change in the assumed healthcare cost trend rate would have the following effect on the Company's postretirement benefit obligations:

As at December 31, (in millions)	2017	2016
One percent increase	12	12
One percent decrease	(8)	(9)

The following table presents the weighted average assumptions used to determine the net periodic benefit costs:

As at December 31,	2017	2016
Discount rate	4.15%	4.28%
Rate of compensation increase	N/A	N/A
Expected return on assets	N/A	N/A

Defined Contribution Plans

AIG sponsors a 401(k) plan which provides for pre-tax salary reduction contributions by its US employees. The Company made 100 percent matching contributions of the first 6 percent of employee contributions, subject to IRS imposed limitations. Pre-tax expenses associated with these plans were \$1 million and \$2 million in 2017 and 2016, respectively.

Effective January 1, 2016, AIG provides participants in the AIG Incentive Savings Plan an additional fully vested, non-elective, non-discretionary employer contribution equal to three percent of the participant's annual base compensation for the plan year, paid each pay period regardless of whether the participant currently contributes to the plan, and subject to the IRS-imposed limitations.

13. Derivative Financial Instruments

Derivative financial instruments are financial arrangements among two or more parties with returns linked to or "derived" from some underlying equity, debt, commodity or other asset, liability, or foreign exchange rate or other index or the occurrence of a specified payment event. Derivative payments may be based on interest rates, exchange rates, prices of certain securities, commodities, or financial or commodity indices or other variables. Derivatives are reflected at fair value in the accompanying Consolidated Balance Sheets in other assets and other liabilities.

The Company uses derivatives and other instruments as part of its financial risk management programs. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with its investments in fixed income securities, and other interest rate sensitive assets and liabilities. In addition, foreign exchange derivatives (principally cross currency swaps and forwards) are used to reduce the risk from fluctuations in foreign exchange rates associated with non-US dollar denominated investments and net capital exposures. Changes in value are reported in realized capital gains and losses.

The Company has engaged in derivative transactions with an affiliate under an International Swaps and Derivatives Association, Inc. (ISDA) Master Agreement, which also includes Credit Support Annex (CSA) provisions. Collateral posted by the Company for derivative transactions was \$40 million and \$37 million at December 31, 2017 and December 31, 2016, respectively. Collateral provided to the Company for derivative transactions was \$479 million and \$410 million at December 31, 2017 and December 31, 2016, respectively. Collateral can be in the form of cash or US government obligations. The Company has elected to present all derivative receivables and derivative payables, and the related cash collateral received and paid, on a net basis on its Consolidated Balance Sheets when a legally enforceable ISDA Master Agreement exists.

The Company is party to derivative contracts with an affiliate, which are specifically related to the closed block of deferred annuities. The Company, under this contract, is party to interest rate swaps and cross currency swaps. The Company uses these interest rate swaps on this business to drive the effective duration of the liability and the assets to zero, for protection against interest rate volatility and the cross currency swaps to reduce volatility attributed to foreign currency exchange rates.

Under the terms of a retrocession agreement, an affiliated reinsurance company is entitled to gains and losses associated with the aforementioned interest rate swaps and foreign currency derivatives. As such, an equal and opposite position to the net derivative asset as of December 31, 2017 has been recorded in the balance sheet as a liability to the affiliated reinsurance company. See Note 7 for additional information.

During 2016, the Company entered into a derivative with an affiliate as a fair value hedge of an available for sale investment security. The fair value hedge is a cross currency swap designated as a hedge of the change in fair value of a foreign currency denominated available for sale security attributable to changes in foreign exchange rates.

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The following table presents the fair value of derivative positions held by the Company:

December 31, 2017	Gross Derivative Assets		Liabilities	
	Notional Amount ^(a)	Fair Value ^(b)	Notional Amount ^(a)	Fair Value ^(b)
<i>(in millions)</i>				
Derivatives designated as hedging instruments:				
Foreign exchange contracts	\$ -	\$ -	\$ 40	\$ 1
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	43	-	427	54
Interest rate contracts	759	643	639	138
Total derivatives not designated as hedging instruments	802	643	1,066	192
Total derivatives, gross	802	643	1,106	193
Counterparty netting	-	(193)	-	(193)
Cash Collateral ^(c)	-	(439)	-	-
Total derivatives, net	\$ 802	\$ 11	\$ 1,106	\$ -
December 31, 2016				
<i>(in millions)</i>				
Derivatives designated as hedging instruments:				
Foreign exchange contracts	\$ 10	\$ -	\$ -	\$ -
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	173	3	362	74
Interest rate contracts	667	603	571	141
Total derivatives not designated as hedging instruments	840	606	933	215
Total derivatives, gross	850	606	933	215
Counterparty netting	-	(215)	-	(215)
Cash Collateral ^(c)	-	(373)	-	-
Total derivatives, net	\$ 850	\$ 18	\$ 933	\$ -

(a) Notional amount represents a standard of measurement of the volume of derivatives business. Notional amount is generally not a quantification of market risk or credit risk and is not recorded on the Consolidated Balance Sheet. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps.

(b) Represents netting of derivative exposures covered by a qualifying master netting agreement.

(c) Represents cash collateral posted and received that is eligible for netting.

14. Accumulated Other Comprehensive Income

The following table shows the components of accumulated other comprehensive income:

<i>(in millions)</i>	Unrealized Investment Gains (Losses)	Foreign Currency Translation Adjustments	Retirement Plan Liability	Total Accumulated Other Comprehensive Income (Loss)
	Balance at December 31, 2015	\$ 147	\$ (2)	\$ (9)
Other comprehensive income (loss)	43	31	1	75
Other comprehensive income (loss) - tax	(15)	(12)	-	(27)
Other comprehensive income (loss) net of tax	28	19	1	48
Balance at December 31, 2016	\$ 175	\$ 17	\$ (8)	\$ 184

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<i>(in millions)</i>	Unrealized Investment Gains (Losses)	Foreign Currency Translation Adjustments	Retirement Plan Liability	Total Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2016	\$ 175	\$ 17	\$ (8)	\$ 184
Other comprehensive income (loss)	17	(18)	1	-
Other comprehensive income (loss) - tax	2	-	-	2
Other comprehensive income (loss) net of tax	19	(18)	1	2
Balance at December 31, 2017	\$ 194	\$ (1)	\$ (7)	\$ 186

15. Statutory Financial Data and Restrictions

The Company prepares financial statements in accordance with statutory accounting practices prescribed or permitted by the Bermuda Monetary Authority ("BMA"). The principal difference between statutory financial statements and financial statements prepared in accordance with GAAP are that for statutory financial statements assets and liabilities are presented net of reinsurance and certain assets are non-admitted.

As of December 31, 2017 and 2016, the Company's statutory net income was \$41 million and \$42 million and unconsolidated statutory capital and surplus was \$1,082 million and \$1,190 million, respectively.

As of or for the Years Ended December 31, 2017

<i>(in millions)</i>	AIRCO		AICO		Total
Statutory surplus	\$	991	\$	91	\$ 1,082
Statutory net income	\$	37	\$	4	\$ 41

As of or for the Years Ended December 31, 2016

<i>(in millions)</i>	AIRCO		AICO		Total
Statutory surplus	\$	1,102	\$	88	\$ 1,190
Statutory net income	\$	33	\$	9	\$ 42

Under Bermuda insurance law, the Company is permitted to pay shareholder dividends in any year, without prior approval from the BMA, in an amount less than 25% of prior year statutory capital and surplus and that does not reduce statutory capital by 15% or more.

16. Commitments and Contingencies

In the normal course of business, various commitments and contingent liabilities are entered into by the Company or its subsidiary. Contingent liabilities arising from litigation, income taxes and regulatory and other matters are not considered material in relation to the consolidated financial position, results of operations or cash flows of the Company.

Commitments

Pension related obligations – Maturity Annuity Fund (MAF) and Deposit Administration Fund (DAF)

AIG is a sponsor of an unfunded defined benefit plan (AIO Plan) for select third country nationals (TCNs) who are not US citizens and are, or have been, employed by an affiliate of the Company. In November 2006, the Company executed a Letter of Agreement (the Agreement) with AIG to contractually bind the Company for the pension benefit obligation associated with TCNs who had retired in 2005 and prior. In addition the Company is also contractually obligated to pay certain annuity benefits for third party plans, in total (the MAF Liability). As of December 31, 2017 and 2016, the future policy benefits associated with the MAF Liabilities were \$11 million and \$12 million, respectively.

In regards to TCNs who were active or who retire post 2005, the Agreement established that the pension benefit obligation would remain with AIG and that the Company would only act as a service agent of AIG. In its role as service agent, the Company collects plan contributions, pays benefit payments and issues periodic statements showing the period movement for the DAF, including interest earned and expenses incurred. As of December 31, 2017 and 2016, the DAF balance is \$14 million and \$18 million, respectively, and is reflected by the Company as a liability to AIG in other liabilities.

Letters of Credit

The Company has directed a third party bank to issue a letter of credit in the amount of \$10 million in favor of the IRS. See Note 9 for additional information. The letter of credit is a condition of the IRS in granting the 953(d) election and is collateralized by a \$10 million time deposit. In the ordinary course of business, the Company has also directed two other third party banks to issue letter of credits

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totaling \$48 million and \$2 million in favor of third party insurers at December 31, 2017 and December 31, 2016, respectively.

AIG, as applicant, arranged with third party banks to issue standby letters of credit in the aggregate amount of \$125 million in favor of the Company, as beneficiary, to be included as statutory capital. The aggregate amount as of the standby letters of credit as of December 31, 2017 and 2016 is \$125 million.

Reinsurance Collateral

As referenced in Note 7, the Company maintains a custodial account with certain assets related to its assumption of a closed block of deferred annuities. However, the Company has retroceded to an affiliate its obligation to pledge or otherwise provide any additional collateral required to satisfy the contractual insufficiency. Therefore, the pledging of such collateral did not have a significant impact on the Company's equity or net income.

Contingent Liabilities

The Company is sometimes involved in litigation and arbitration, both as a defendant and as a plaintiff. The litigation and arbitration ordinarily involves the Company's activities as an insurer, employer, or investor.

It is not feasible to predict or determine the ultimate outcome of all legal or arbitration proceedings or to provide reasonable ranges of potential losses. Based on current available information, management believes that the outcomes of litigation and arbitration matters are not likely, either individually or in aggregate, to have a material adverse effect on the Company's consolidated financial condition. However, it is possible that the effect would be material to the Company's results of operations for an individual reporting period.

17. Subsequent Events

The Company evaluated the need to disclose events that occurred subsequent to the balance sheet date through April 24, 2018, the date these financial statements were available to be issued.

In the ordinary course of business, the Company issued a cash dividend of \$50 million in March, 2018. The Company has concluded that no other subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.