

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

As of and for the Years Ended December 31, 2020 and 2019



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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 Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income (loss), shareholder's equity and 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 Subsidiary as of December 31, 2020 and 2019, 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 consolidated financial statements, the Company is a member of a group of affiliated companies and has entered into significant transactions with members of the group. Our opinion is not modified with respect to this matter.

***Other Matter***

Accounting principles generally accepted in the United States of America require that insurance companies with short-duration insurance contracts present claims development information for the number of years for which claims incurred typically remain outstanding and paid claims to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the 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.

*PricewaterhouseCoopers LLP*

New York, New York  
April 30, 2021

# American International Reinsurance Company, Ltd. and Subsidiary

## Consolidated Balance Sheets

<i>(in millions, except for share data)</i>	December 31, 2020	December 31, 2019
<b>Assets:</b>		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value, net of allowance for credit losses of \$0 in 2020 and 2019 (amortized cost: 2020 - \$2,887; 2019 - \$1,989)	\$ 3,069	\$ 2,183
Other bond securities, at fair value (See Note 4)	6	15
Equity securities:		
Equity securities at fair value (See Note 4)	13	14
Mortgage and other loans receivable	-	10
Other invested assets	33	36
Short-term investments	272	296
<b>Total investments</b>	<b>3,393</b>	<b>2,554</b>
Cash, including restricted cash of \$2 in 2020 and \$2 in 2019	8	5
Accrued investment income	27	24
Premiums and insurance balances receivable, net of allowance for credit losses and disputes	178	116
Reinsurance assets, net of allowance for credit losses and disputes	2,108	2,377
Deferred income taxes	18	34
Deferred policy acquisition costs	111	109
Funds held by companies under reinsurance contracts	384	256
Other assets, including restricted cash of \$10 in 2020 and \$10 in 2019	227	679
<b>Total assets</b>	<b>\$ 6,454</b>	<b>\$ 6,154</b>
<b>Liabilities:</b>		
Liability for unpaid losses and loss adjustment expenses	\$ 1,377	\$ 1,652
Unearned premiums	441	410
Future policy benefits for life and accident and health insurance contracts	1,513	1,364
Funds held under reinsurance treaties	1,755	959
Premiums and insurance balances payable	211	200
Other liabilities	375	797
<b>Total liabilities</b>	<b>\$ 5,672</b>	<b>\$ 5,382</b>
<b>Shareholder's equity:</b>		
Common stock, (\$1 par value, 10,000,000 shares authorized, issued and fully paid)	\$ 10	\$ 10
Additional paid-in capital	523	523
Retained earnings	65	40
Accumulated other comprehensive income	184	199
<b>Total shareholder's equity</b>	<b>\$ 782</b>	<b>\$ 772</b>
<b>Total liabilities and shareholder's equity</b>	<b>\$ 6,454</b>	<b>\$ 6,154</b>

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,	
	2020	2019
<b>Revenues:</b>		
Premiums	\$ 458	\$ 838
Net investment income	65	89
Net realized capital gains (losses)	45	(77)
Other income	18	25
<b>Total revenues</b>	<b>586</b>	<b>875</b>
<b>Benefits, losses and expenses:</b>		
Policyholder benefits and losses incurred	407	581
Policy acquisition costs and other operating expenses	83	266
<b>Total benefits, losses and expenses</b>	<b>490</b>	<b>847</b>
<b>Income from continuing operations before income taxes</b>	<b>96</b>	<b>28</b>
<b>Income tax expense</b>	<b>21</b>	<b>4</b>
<b>Net income</b>	<b>\$ 75</b>	<b>\$ 24</b>

See accompanying Notes to Consolidated Financial Statements.

# American International Reinsurance Company, Ltd. and Subsidiary

## Consolidated Statements of Comprehensive Income (Loss)

<i>(in millions)</i>	Years Ended December 31,	
	2020	2019
<b>Net income</b>	\$ 75	\$ 24
<b>Other comprehensive income (loss), net of tax</b>		
Change in unrealized appreciation (depreciation) of investments	(7)	90
Change in foreign currency translation adjustments	(2)	(5)
Change in retirement plan liability adjustments	(6)	(7)
<b>Other comprehensive income (loss), net of tax</b>	<b>(15)</b>	<b>78</b>
<b>Comprehensive income (loss), net of tax</b>	<b>\$ 60</b>	<b>\$ 102</b>

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 (loss)	Total Shareholder's Equity
<b>Balance, January 1, 2019</b>	\$ 10	\$ 574	\$ 166	\$ 121	\$ 871
Dividend to shareholder	-	-	(150)	-	(150)
Net income	-	-	24	-	24
Return of Capital	-	(51)	-	-	(51)
Other comprehensive income (loss)	-	-	-	78	78
<b>Balance, December 31, 2019</b>	\$ 10	\$ 523	\$ 40	\$ 199	\$ 772
Dividend to shareholder	-	-	(50)	-	(50)
Net income	-	-	75	-	75
Other comprehensive income (loss)	-	-	-	(15)	(15)
<b>Balance, December 31, 2020</b>	\$ 10	\$ 523	\$ 65	\$ 184	\$ 782

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,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net income	\$ 75	\$ 24
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
<b>Non-cash revenues, expenses, gains and losses included in income:</b>		
Net (gains) losses on sales of securities available for sale and other invested assets	(109)	(17)
Net unrealized (gains) losses on derivatives and other investments	(33)	11
Losses from equity method investments	-	11
Amortization of deferred policy acquisition costs	65	210
Depreciation and other amortization	10	3
<b>Changes in operating assets and liabilities:</b>		
Insurance reserves	(95)	(424)
Premiums and insurance balances receivable and payable – net	(51)	171
Reinsurance assets and funds held under reinsurance treaties	1,016	(77)
Deferred policy acquisition costs	(68)	(73)
Accrued investment income	(3)	3
Current and deferred income taxes, net	22	25
Commissions expenses and taxes payable	-	1
Other, net	368	(122)
Total adjustments	1,122	(278)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 1,197</b>	<b>\$ (254)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from (payments for):		
Sales of fixed maturity securities available for sale	\$ 1,361	\$ 449
Maturities of fixed maturity securities available for sale	187	228
Sales of other invested assets	-	8
Purchases of fixed maturity securities available for sale	(2,346)	(371)
Purchases of other securities	(3)	-
Sales of other securities	20	28
Maturities of other securities	2	8
Net additions to real estate, fixed assets and other assets	-	(1)
Net change in short-term investments	24	(33)
Net change in derivative assets and liabilities	(439)	94
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (1,194)</b>	<b>\$ 410</b>
<b>Cash flows from financing activities:</b>		
Cash dividend paid to shareholder	\$ -	\$ (150)
Capital distribution - Cash	-	(8)
<b>Net cash provided by (used in) financing activities</b>	<b>\$ -</b>	<b>\$ (158)</b>
Net increase (decrease) in cash and restricted cash	\$ 3	\$ (2)
Cash and restricted cash at beginning of year	15	17
<b>Cash and restricted cash at end of year</b>	<b>\$ 18</b>	<b>\$ 15</b>
<b>Supplementary disclosure of cash flow information:</b>		
Cash	\$ 8	\$ 5
Restricted cash included in other assets	10	10
<b>Total cash and restricted cash shown in Consolidated Statement of Cash Flows</b>	<b>\$ 18</b>	<b>\$ 15</b>
<b>Non-cash financing/investing activities:</b>		
Fixed maturity securities transferred in connection with reinsurance transactions	\$ (78)	\$ -
Dividend of bonds available for sale	\$ (50)	\$ (42)

See accompanying Notes to Consolidated Financial Statements.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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### 1. Basis of Presentation

American International Reinsurance Company, Ltd. ("AIRCO" or "the Company") is licensed in Bermuda as a Class 4 Insurer and a Class C Insurer. We are 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. Unless the context indicates otherwise, the terms "AIRCO", "we", "us" or "our" mean American International Reinsurance Company, Ltd. and its consolidated subsidiary.

We are primarily a reinsurer of general insurance and life insurance, including property and casualty, individual life, travel, mortgage, annuity and accident and health businesses. We also provide 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 us that are subsequently ceded to the third-party clients' captive insurance company.

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

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 accounts and transactions have been eliminated.

#### 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. Our 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, including the allowance for credit losses;
- recoverability of deferred policy acquisition costs;
- allowances for credit losses primarily on loans and available for sale fixed maturity securities;
- liabilities for legal contingencies;
- fair value measurements of certain assets and liabilities; and
- income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset and estimates associated with the Tax Cuts and Jobs Act (the "Tax Act").

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, our consolidated financial condition, results of operations and cash flows could be materially affected.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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### 2. Summary of Significant Accounting Policies

The following list identifies our significant accounting policies presented in other Notes to these Consolidated Financial Statements, with a reference to the Note where a detailed description can be found:

#### Note 4. Investments

- Fixed maturity and equity securities
- Other invested assets
- Short-term investments
- Net investment income
- Net realized capital gains (losses)
- Allowance for credit losses/Other-than-temporary impairments

#### Note 5. Deferred Policy Acquisition Costs

- Deferred policy acquisition costs
- Amortization of deferred policy acquisition costs

#### Note 6. Reinsurance

- Reinsurance assets – net of allowance

#### Note 7. Insurance Liabilities

- Liability for unpaid losses and loss adjustment expenses
- Future policy benefits

#### Note 8. Income Taxes

#### Note 12. Derivative Financial Instruments

- Derivative assets and liabilities, at fair value

#### Note 15. Commitments and Contingencies

- Legal contingencies

### OTHER SIGNIFICANT ACCOUNTING POLICIES

**Premiums** for short-duration contracts are recorded as written on the inception date of the policy. Premiums for 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. Estimates for premiums due but not yet collected are accrued.

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

**Other income** primarily consists of agency income fees of \$17 million in 2020 and \$16 million in 2019 for fees earned for arranging and administering reinsurance programs, which are recognized as service is rendered. Agency income fees included \$6 million and \$6 million from affiliated companies for the years ended December 31, 2020 and 2019, respectively.

**Cash** represents cash on hand and demand deposits.

**Short-term Investments** include highly liquid securities and other investments with remaining maturities of one year or less, but greater than three months, at the time of purchase. Securities included within short-term investments are stated at estimated fair value, while other investments included within short-term investments are stated at amortized cost, which approximates estimated fair value.

**Premiums and insurance balances receivable, net of allowance for credit losses and disputes** consists of premium balances due from agents, brokers and insureds. The allowance for credit losses and disputes on premiums and other receivables was insignificant at December 31, 2020 and 2019, respectively.

**Deposit assets and liabilities:** We have entered into certain insurance and reinsurance contracts that do not contain sufficient insurance risk to be accounted for as insurance or reinsurance. When we receive premiums on such contracts, the premiums received, after deduction for certain related expenses, are recorded as deposits within Other liabilities in the Consolidated Balance Sheets. Net proceeds of these deposits are invested and generate Net investment income. When we pay premiums on such contracts, the premiums paid are recorded as deposits within Other assets in the Consolidated Balance Sheets. The deposit asset or liability is adjusted as amounts are paid, consistent with the underlying contracts.

We have modified coinsurance agreements with an unaffiliated company which are accounted for on a deposit accounting basis. Deposit

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

assets of \$41 million and \$42 million at December 31, 2020 and 2019, respectively, are included in Other assets. Deposit liabilities of \$41 million and \$42 million at December 31, 2020 and 2019, respectively, are included in Other liabilities. As amounts are paid in accordance with the underlying contracts, the deposit liability is reduced.

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

**Other assets** consist primarily of derivative assets (see Note 12), 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.

**Funds held under reinsurance treaties** consist primarily of a balance due under a retrocession agreement. Under the terms of the agreement, we retained the premium that would have been paid to the retrocessionaire which is to be used for the payment of claims under the original reinsurance arrangement. See Note 6 for additional information.

**Premiums and insurance balances payable** consist of premium balances due to reinsurers and unpaid loss and loss adjustment expenses.

**Other liabilities** consist of derivative liabilities (see Note 12), a payable to AIG related to an AIG sponsored pension plan (see Note 11), deposit liabilities, post-retirement benefits payable, management expenses payable, salaries payable and other payables.

**Payroll liabilities:** We are the global employment company for AIG employees working outside of their home country on assignment. We act as a payroll agent for affiliates of AIG. We incurred payroll costs on behalf of certain affiliated companies of \$58 million and \$79 million in 2020 and 2019, respectively. Such amounts were reimbursed by the affiliated companies. Payroll liabilities are included in Other liabilities.

**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.

**Reclassifications:** There were no reclassifications during 2020. During 2019, we reclassified \$16 million from Policy acquisition and other operating expenses to Net realized capital gains (losses). This reclassification was made in order to record all the activity related to the embedded derivative on a funds held under a reinsurance treaty through the same financial statement line item. This reclassification has no impact to our consolidated statements of income.

## ACCOUNTING STANDARDS ADOPTED DURING 2020

### Financial Instruments - Credit Losses

In June 2016, the FASB issued an accounting standard that changed how entities account for current expected credit losses ("CECL") for most financial assets, premiums receivable, off-balance sheet exposures and reinsurance receivables. The standard requires an allowance for credit losses based on the expectation of lifetime credit losses related to such 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 ("PCD") securities, is 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 allows for reversals of credit impairments in the event that the credit of an issuer improves. The standard also requires additional disclosures.

We adopted the standard on its effective date of January 1, 2020. The adoption of the standard did not have a material impact on our financial position.

The following presents the impact of the adoption of the standard on premiums and insurance balances receivable.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### Premiums and insurance balances receivable — Credit Losses

Premiums and insurance balances receivable, net of allowance for credit losses include premium balances receivable, amounts due from agents and brokers and policyholders and other receivables. The allowance for credit losses and disputes for premiums and other receivables was insignificant at December 31, 2020. Our allowance for credit losses for premium receivables considers a combination of internal and external information relating to past events, current conditions and reasonable and supportable forecasts. Our allowance contemplates our contractual provisions. Upon default or delinquency of the policyholder we may be able to cease coverage for the remaining period. In certain jurisdictions we are unable to cancel coverage even in the event of delinquency or default by the policyholder. We consider premium and other receivable balances to be past due if the payment is not received after 90 days from the contractual obligation due date and record an allowance for disputes when there is reasonable uncertainty of the collectability of a disputed amount during the reporting period.

*For further information regarding the impacts of the adoption of this standard, see Notes 4, 6 and 7 to the Consolidated Financial Statements.*

### FUTURE APPLICATION OF ACCOUNTING STANDARDS

#### Targeted Improvements to the Accounting for Long-Duration Contracts

In August 2018, the FASB issued an accounting standard update with the objective of making targeted improvements to the existing recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The standard prescribes significant and comprehensive changes to recognition, measurement, presentation and disclosure as summarized below:

- Requires the review and if necessary, update of future policy benefit assumptions at least annually for traditional and limited pay long duration contracts, with the recognition and separate presentation of any resulting re-measurement gain or loss (except for discount rate changes as noted below) in the income statement.
- Requires the discount rate assumption to be updated at the end of each reporting period using an upper medium grade (low-credit risk) fixed income instrument yield that maximizes the use of observable market inputs and recognizes the impact of changes to discount rates in other comprehensive income.
- Simplifies the amortization of deferred acquisition costs (“DAC”) to a constant level basis over the expected term of the related contracts with adjustments for unexpected terminations, but no longer requires an impairment test.
- Requires the measurement of all market risk benefits associated with deposit (or account balance) contracts at fair value through the income statement with the exception of instrument-specific credit risk changes, which will be recognized in other comprehensive income.
- Increased disclosures of disaggregated roll-forwards of policy benefits, account balances, market risk benefits, separate account liabilities and information about significant inputs, judgments and methods used in measurement and changes thereto and impact of those changes.

In November 2020, the FASB issued ASU 2020-11, which deferred the effective date of the standard for all entities. Our implementation efforts are underway for a January 1, 2023 effective date; we continue to evaluate the method of adoption and impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures. The adoption of this standard is expected to have a significant impact on our consolidated financial condition, results of operations, cash flows and required disclosures, as well as systems, processes and controls.

#### Reference Rate Reform

On March 12, 2020, the FASB issued an accounting standard that provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The standard allows us to account for certain contract modifications that result from the discontinuation of the London Inter-Bank Offered Rate (“LIBOR”) or another reference rate as a continuation of the existing contract without additional analysis.

This guidance is not expected to have a significant impact on our consolidated financial statements and notes to the consolidated financial statements. Where applicable, we would account for the change for the modification due to the discontinuation of LIBOR or another reference rate as a continuation of the existing contract. As part of our implementation efforts, we will continue to assess our operational readiness and current and alternative reference rates’ merits, limitations, risks and suitability for our investment and insurance processes.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

This standard may be elected and applied prospectively over time from March 12, 2020 through December 31, 2022 as reference rate reform activities occur. We are evaluating the method of adoption and impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures.

### Clarification of Accounting for Certain Equity Method Investments

On January 16, 2020, the FASB issued an accounting standard to clarify how a previously issued standard regarding a company's ability to measure the fair value of certain equity securities without a readily determinable fair value should interact with equity method investments standards. The previously issued standard provides that such equity securities could be measured at cost, minus impairment, if any, unless an observable transaction for an identical or similar security occurs (measurement alternative). The new standard clarifies that a company should consider observable transactions that require the company to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with the equity method immediately before applying or upon discontinuing the equity method.

The standard further clarifies that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option.

The standard is effective for annual reporting periods beginning after December 15, 2020. We do not expect the adoption of this standard to be material to our consolidated financial condition, results of operations, cash flows and required disclosures.

## 3. Fair Value Measurements

### FAIR VALUE MEASUREMENTS ON A RECURRING BASIS

We carry certain of our financial instruments at fair value. We define 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. We are 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. We maximize the use of observable inputs and minimize 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.

### 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 we have the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. We do 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, we 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.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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

#### Incorporation of Credit Risk in Fair Value Measurements

- **Our Own Credit Risk** Fair value measurements for certain liabilities incorporate our own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to us at the balance sheet date by reference to observable AIG Credit Default Swap (“CDS”) or cash bond spreads. We calculate the effect of credit spread changes using discounted cash flow techniques that incorporate current market interest rates. A derivative counterparty’s net credit exposure to us is determined based on master netting agreements, when applicable, which take into consideration all derivative positions with us, as well as collateral we post with the counterparty at the balance sheet date.
- **Counterparty Credit Risk** Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for us to protect against our net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty CDS spreads, when available. When not available, other directly or indirectly observable credit spreads will be used to derive the best estimates of the counterparty spreads. Our net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date.

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly incorporate counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

For fair values measured based on internal models, the cost of credit protection is determined under a discounted present value approach considering the market levels for single name CDS spreads for each specific counterparty, the mid-market value of the net exposure (reflecting the amount of protection required) and the weighted average life of the net exposure. CDS spreads are provided to us by an independent third party. We utilize an interest rate based on the benchmark LIBOR curve to derive our discount rates.

While this approach does not explicitly consider all potential future behavior of the derivative transactions or potential future changes in valuation inputs, we believe this approach provides a reasonable estimate of the fair value of the assets and liabilities, including consideration of the impact of non-performance risk.

#### Fixed Maturity Securities

Whenever available, we obtain 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.

We employ 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.

We have 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. We assess 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

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of pricing consensus among various valuation service providers for specific asset types, we conduct comparisons of prices received from available sources. We use 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. We also validate 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 our 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 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, we obtain 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

We initially estimate the fair value of investments in certain private equity funds and other investment partnerships by reference to the transaction price. Subsequently, we generally obtain 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. We consider observable market data and perform 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"). 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. We generally use 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.

### Funds Held Under Reinsurance Treaties

The funds held under reinsurance treaties contains an embedded derivative and changes in fair value of the embedded derivative related to the reinsurance treaty are recognized in earnings through realized capital gains (losses). This embedded derivative is considered a



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total return swap with contractual returns that are attributable to various assets and liabilities associated with these reinsurance agreements. The fair value of the underlying assets is generally based on market observable inputs using industry standard valuation techniques. The valuation also requires certain significant inputs, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy. For further information on funds held under reinsurance treaties see Note 6 to the Consolidated Financial Statements.

### 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, 2020					
<i>(in millions)</i>	Level 1	Level 2	Level 3	Counterparty Netting and Cash Collateral <sup>(a)</sup>	Total
<b>Assets:</b>					
<b>Bonds available for sale:</b>					
Obligations of states, municipalities, and political subdivisions	\$ -	\$ 62	\$ -	\$ -	\$ 62
Non-US governments	-	543	-	-	543
Corporate debt	-	1,976	-	-	1,976
RMBS	-	77	106	-	183
CMBS	-	168	11	-	179
CDO/ABS	-	106	20	-	126
<b>Total bonds available for sale</b>	<b>\$ -</b>	<b>\$ 2,932</b>	<b>\$ 137</b>	<b>\$ -</b>	<b>\$ 3,069</b>
<b>Other bond securities:</b>					
CMBS	-	6	-	-	6
<b>Total other bonds securities</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>
<b>Equity securities:</b>					
Mutual funds	13	-	-	-	13
<b>Total equity securities</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>
<b>Short-term investments</b>	<b>272</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>272</b>
<b>Derivative assets</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>(2)</b>	<b>-</b>
<b>Total</b>	<b>\$ 285</b>	<b>\$ 2,940</b>	<b>\$ 137</b>	<b>\$ (2)</b>	<b>\$ 3,360</b>
<b>Liabilities:</b>					
<b>Funds held under reinsurance treaty-embedded derivative</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (59)</b>	<b>\$ -</b>	<b>\$ (59)</b>
<b>Total derivative liabilities</b>	<b>\$ -</b>	<b>\$ (8)</b>	<b>\$ -</b>	<b>\$ (8)</b>	<b>-</b>
<b>Total</b>	<b>\$ -</b>	<b>\$ (8)</b>	<b>\$ (59)</b>	<b>\$ (8)</b>	<b>\$ (59)</b>

(a) Counterparty netting represents netting of derivative exposures covered by a qualifying master netting agreement. See Note 12 for additional information.

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December 31, 2019

<i>(in millions)</i>	Level 1	Level 2	Level 3	Counterparty Netting and Cash Collateral <sup>(a)</sup>	Total
<b>Assets:</b>					
<b>Bonds available for sale:</b>					
Obligations of states, municipalities, and political subdivisions	\$ -	\$ 3	\$ -	\$ -	3
Non-US governments	-	208	-	-	208
Corporate debt	-	1,537	-	-	1,537
RMBS	-	41	140	-	181
CMBS	-	87	19	-	106
CDO/ABS	-	118	30	-	148
<b>Total bonds available for sale</b>	-	1,994	189	-	2,183
<b>Other bond securities:</b>					
CMBS	-	13	2	-	15
<b>Total other bonds securities</b>	-	13	2	-	15
<b>Equity securities:</b>					
Mutual funds	14	-	-	-	14
<b>Total equity securities</b>	14	-	-	-	14
<b>Short term investments</b>	296	-	-	-	296
<b>Other invested assets</b>	-	-	-	-	-
<b>Derivative assets</b>	-	660	-	(643)	17
<b>Total</b>	\$ 310	\$ 2,667	\$ 191	\$ (643)	\$ 2,525
<b>Liabilities:</b>					
<b>Funds held under reinsurance treaty-embedded derivative</b>	\$ -	\$ -	\$ (113)	\$ -	\$ (113)
<b>Total derivative liabilities</b>	\$ -	\$ (188)	\$ -	\$ (188)	\$ -
<b>Total</b>	\$ -	\$ (188)	\$ (113)	\$ (188)	\$ (113)

(a) Counterparty netting represents netting of derivative exposures covered by a qualifying master netting agreement. See Note 12 for additional information.

# American International Reinsurance Company, Ltd. and Subsidiary

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### CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS

The following tables present changes during the years ended December 31, 2020 and 2019 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, 2020 and 2019:

December 31, 2020									
(in millions)	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	
<b>Assets:</b>									
<b>Bonds available for sale:</b>									
RMBS	\$ 140	\$ 7	\$ (2)	\$ (10)	\$ -	\$ (29)	\$ 106	\$ (2)	
CMBS	19	-	2	3	-	(13)	11	1	
CDO/ABS	30	-	-	(14)	8	(4)	20	-	
<b>Total bonds available for sale</b>	<b>189</b>	<b>7</b>	<b>-</b>	<b>(21)</b>	<b>8</b>	<b>(46)</b>	<b>137</b>	<b>(1)</b>	
<b>Other bond securities:</b>									
CMBS	2	-	-	(2)	-	-	-	-	
<b>Total other bond securities</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Total assets</b>	<b>\$ 191</b>	<b>\$ 7</b>	<b>\$ -</b>	<b>\$ (23)</b>	<b>\$ 8</b>	<b>\$ (46)</b>	<b>\$ 137</b>	<b>\$ (1)</b>	
<b>Liabilities:</b>									
Funds held under reinsurance treaties – embedded derivative	\$ (113)	\$ 54	\$ -	\$ -	\$ -	\$ -	\$ (59)	\$ -	
<b>Total liabilities</b>	<b>\$ (113)</b>	<b>\$ 54</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (59)</b>	<b>\$ -</b>	
<b>December 31, 2019</b>									
(in millions)	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	
<b>Assets:</b>									
<b>Bonds available for sale:</b>									
RMBS	\$ 150	\$ 3	\$ 3	\$ (9)	\$ 3	\$ (10)	\$ 140	\$ -	
CMBS	44	1	-	-	-	(26)	19	-	
CDO/ABS	24	-	1	5	-	-	30	-	
<b>Total bonds available for sale</b>	<b>218</b>	<b>4</b>	<b>4</b>	<b>(4)</b>	<b>3</b>	<b>(36)</b>	<b>189</b>	<b>-</b>	
<b>Other bond securities:</b>									
RMBS	2	-	-	(2)	-	-	-	-	
CMBS	5	-	-	(3)	-	-	2	-	
<b>Total other bond securities</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>-</b>	
<b>Total assets</b>	<b>\$ 225</b>	<b>\$ 4</b>	<b>\$ 4</b>	<b>\$ (9)</b>	<b>\$ 3</b>	<b>\$ (36)</b>	<b>\$ 191</b>	<b>\$ -</b>	
<b>Liabilities:</b>									
Funds held under reinsurance treaties – embedded derivative	\$ (54)	\$ (59)	\$ -	\$ -	\$ -	\$ -	\$ (113)	\$ -	
<b>Total liabilities</b>	<b>\$ (54)</b>	<b>\$ (59)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (113)</b>	<b>\$ -</b>	

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### 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 us, 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 us, balances shown below may not equal total amounts reported for such Level 3 assets:

(in millions)		Fair Value at December 31, 2020	Valuation Technique	Unobservable Input <sup>(b)</sup>	Range (Weighted Average)
<b>Assets</b>					
RMBS <sup>(a)</sup>	\$	83	Discounted cash flow	Constant prepayment rate	4.10% - 14.78% (9.44%)
				Constant default rate	0.00% - 5.15% (2.50%)
				Severity	21.39% - 85.09% (53.24%)
				Yield	1.88% - 3.52 % (2.70%)
CDO/ABS <sup>(a)</sup>	\$	14	Discounted cash flow	Yield	1.51% - 5.90 % (3.70%)

(in millions)		Fair Value at December 31, 2019	Valuation Technique	Unobservable Input <sup>(b)</sup>	Range (Weighted Average)
<b>Assets</b>					
RMBS <sup>(a)</sup>	\$	77	Discounted cash flow	Constant prepayment rate	3.97% - 13.09% (8.53%)
				Constant default rate	0.61% - 5.00% (2.81%)
				Severity	48.65% - 89.86% (69.26%)
				Yield	2.40% - 3.86 % (3.13%)
CDO/ABS <sup>(a)</sup>	\$	29	Discounted cash flow	Yield	2.76% - 3.88 % (3.32%)

(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 us. The ranges of these inputs do not directly correlate to changes in the fair values of the tranches purchased by us, 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.

The Funds held under reinsurance treaties has been excluded from the above table. As discussed in Note 6, the funds held under reinsurance treaties is created through funds withheld reinsurance arrangements where the investments supporting the reinsurance agreements are withheld by and continue to reside on our balance sheet. This embedded derivative is valued as a total return swap with reference to the fair value of the invested assets held by us. Accordingly, the unobservable inputs utilized in the valuation of the embedded derivative are a component of the invested assets supporting the reinsurance agreement that is held on our balance sheet.

The ranges of reported inputs for RMBS and CDO/ABS valued using a discounted cash flow technique consist of one standard deviation in either direction from the value-weighted average. The preceding table does not give effect to our risk management practices that might offset risks inherent in these Level 3 assets.

### INTERRELATIONSHIPS BETWEEN UNOBSERVABLE INPUTS

We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following paragraphs provide a general description of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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### Fixed Maturity Securities

The significant unobservable input used in the fair value measurement of fixed maturity securities is yield. The yield is affected by the market movements in credit spreads and US Treasury yields. The yield may be affected by other factors including constant prepayment rates, loss severity, and constant default rates. In general, increases in the yield would decrease the fair value of investments, and conversely, decreases in the yield would increase the fair value of investments.

### Embedded derivatives within reinsurance contracts

The fair value of embedded derivatives associated with funds withheld reinsurance contracts is determined based upon a total return swap technique with reference to the fair value of the investments held by us related to Funds held under reinsurance treaties. The fair value of the underlying assets is generally based on market observable inputs using industry standard valuation techniques. The valuation also requires certain significant inputs, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy.

## FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

We have no assets measured at fair value on a non-recurring basis during the years ended December 31, 2020 and 2019.

## FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The funds held payable contains an embedded derivative and the changes in its fair value are recognized in earnings each period. The difference between the total funds held payable and the embedded derivative represents the host contract. The carrying value of \$1,695 million and \$844 million as of December 31, 2020 and 2019, respectively, of the host component for the funds held under reinsurance treaties approximates fair value.

## 4. Investments

### FIXED MATURITY SECURITIES

#### Subsequent to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

Bonds held to maturity are carried at amortized cost when we have the ability and positive intent to hold these securities until maturity. When we do 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 our election. None of our fixed maturity securities met the criteria for held to maturity classification at December 31, 2020 or 2019.

Unrealized gains and losses from available for sale investments in fixed maturity securities carried at fair value were reported as a separate component of accumulated other comprehensive income ("AOCI") and deferred income taxes, in shareholder's equity. Realized and unrealized gains and losses from fixed maturity securities measured at fair value at our election are reflected in Net investment income. Investments in fixed maturity securities are recorded on a trade-date basis.

Interest income is recognized using the effective yield method and reflects amortization of premium and accretion of discount. Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. For investments in certain 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, the structured securities yields are based on expected cash flows which take into account both expected credit losses and prepayments.

An allowance for credit losses is not established upon initial recognition of the asset (unless the security is determined to be a PCD asset which is discussed in more detail below). Subsequently, differences between actual and expected cash flows and changes in expected cash flows are recognized as adjustments to the allowance for credit losses. Changes that cannot be reflected as adjustments to the allowance for credit losses are accounted for as prospective adjustments to yield.

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### Prior to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

Premiums and discounts arising from the purchase of bonds classified as available for sale are treated as yield adjustments over their estimated holding periods, until maturity, or call date, if applicable. For investments in certain RMBS, CMBS and CDO/ABS, (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.

### SECURITIES AVAILABLE FOR SALE

The following tables present the amortized cost or cost and fair value of our available for sale securities:

December 31, 2020						
(in millions)	Cost/ Amortized Cost	Allowance for Credit Losses <sup>(a)</sup>	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
<b>Bonds available for sale:</b>						
Obligations of states, municipalities, and political subdivisions	\$ 60	\$ -	\$ 2	\$ -	\$ 62	
Non-US governments	538	-	19	(14)	543	
Corporate debt	1,812	-	165	(1)	1,976	
RMBS	178	-	6	(1)	183	
CMBS	173	-	7	(1)	179	
CDO/ABS	126	-	1	(1)	126	
<b>Total bonds available for sale</b>	<b>\$ 2,887</b>	<b>\$ -</b>	<b>\$ 200</b>	<b>\$ (18)</b>	<b>\$ 3,069</b>	
<b>Total</b>	<b>\$ 2,887</b>	<b>\$ -</b>	<b>\$ 200</b>	<b>\$ (18)</b>	<b>\$ 3,069</b>	

December 31, 2019						
(in millions)	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than- Temporary Impairments in AOCI <sup>(b)</sup>	
<b>Bonds available for sale:</b>						
Obligations of states, municipalities, and political subdivisions	\$ 3	\$ -	\$ -	\$ 3	\$ -	
Non-US governments	185	23	-	208	-	
Corporate debt	1,374	170	(7)	1,537	-	
RMBS	174	8	(1)	181	2	
CMBS	105	1	-	106	-	
CDO/ABS	148	1	(1)	148	-	
<b>Total bonds available for sale</b>	<b>\$ 1,989</b>	<b>\$ 203</b>	<b>\$ (9)</b>	<b>\$ 2,183</b>	<b>\$ 2</b>	
<b>Total</b>	<b>\$ 1,989</b>	<b>\$ 203</b>	<b>\$ (9)</b>	<b>\$ 2,183</b>	<b>\$ 2</b>	

(a) Represents the allowance for credit losses that has been recognized. Changes in the allowance for credit losses are recorded through Net Realized Capital Gains and Losses and are not recognized in other comprehensive income. The allowance for credit losses on securities was insignificant at December 31, 2020.

(b) Represents the amount of other-than-temporary impairments recognized in AOCI. Amount includes unrealized gains and losses on impaired securities relating to changes in the fair value of such securities subsequent to the impairment measurement date.

Certain assets are subject to a security agreement between us and a third party which supports our obligations in relation to a closed block of deferred annuities assumed by us from that third party. Under the terms of the agreement, the subject assets are assigned as security for payment and discharge of all obligations from us to the third party. The total assets subject to this agreement were \$1,755

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million and \$957 million as of December 31, 2020 and 2019, respectively. See Note 6 for additional information.

### Securities Available for Sale in a Loss Position for Which No Allowance for Credit Loss Has Been Recorded

The following table summarizes the fair value and gross unrealized losses on our available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position for which no allowance for credit loss has been recorded:

<i>(in millions)</i>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2020</b>						
<b>Bonds available for sale:</b>						
Obligations of states, municipalities, and political subdivisions	\$ 9	\$ -	\$ -	\$ -	\$ 9	\$ -
Non-US governments	304	(14)	-	-	304	(14)
Corporate debt	75	(1)	-	-	75	(1)
RMBS	54	(1)	-	-	54	(1)
CMBS	43	(1)	-	-	43	(1)
CDO/ABS	12	-	51	(1)	63	(1)
<b>Total bonds available for sale</b>	<b>497</b>	<b>(17)</b>	<b>51</b>	<b>(1)</b>	<b>548</b>	<b>(18)</b>
<b>Total</b>	<b>\$ 497</b>	<b>\$ (17)</b>	<b>\$ 51</b>	<b>\$ (1)</b>	<b>\$ 548</b>	<b>\$ (18)</b>

### Securities Available for Sale in a Loss Position

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

<i>(in millions)</i>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2019</b>						
<b>Bonds available for sale:</b>						
Obligations of states, municipalities, and political subdivisions	\$ 3	\$ -	\$ -	\$ -	\$ 3	\$ -
Non-US governments	31	-	-	-	31	-
Corporate debt	152	(7)	11	-	163	(7)
RMBS	39	(1)	10	-	49	(1)
CMBS	21	-	-	-	21	-
CDO/ABS	32	-	33	(1)	65	(1)
<b>Total bonds available for sale</b>	<b>278</b>	<b>(8)</b>	<b>54</b>	<b>(1)</b>	<b>332</b>	<b>(9)</b>
<b>Total</b>	<b>\$ 278</b>	<b>\$ (8)</b>	<b>\$ 54</b>	<b>\$ (1)</b>	<b>\$ 332</b>	<b>\$ (9)</b>

At December 31, 2020, we held 79 individual bonds available for sale that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including 17 individual bonds available for sale that were in a continuous unrealized loss position for 12 months or more). At December 31, 2019, we held 109 individual bonds available for sale that were in an unrealized loss position, of which 8 individual bonds available for sale were in an unrealized loss position for a continuous period of 12 months or longer. We did not recognize the unrealized losses in earnings on these bonds available for sale at December 31, 2020 because it was determined that such losses were due to non-credit factors. Additionally, we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell the securities before recovery of their amortized cost basis. 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.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### 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, 2020 <i>(in millions)</i>	Total Bonds Available for Sale Securities	
	Amortized Cost	Fair Value
Due in one year or less	\$ 82	\$ 82
Due after one year through five years	380	393
Due after five years through ten years	211	227
Due after ten years	1,738	1,879
Mortgage-backed, asset-backed and collateralized	476	488
<b>Total available for sale</b>	<b>\$ 2,887</b>	<b>\$ 3,069</b>

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.

The following table presents the gross realized gains and gross realized losses from sales or maturities of our available for sale securities:

<i>(in millions)</i>	Years Ended December 31,			
	2020		2019	
	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturity securities	\$ 125	\$ (16)	\$ 9	\$ (3)
<b>Total</b>	<b>\$ 125</b>	<b>\$ (16)</b>	<b>\$ 9</b>	<b>\$ (3)</b>

For the years ended December 31, 2020 and 2019 the aggregate fair value of available for sale securities sold was \$1,280 million and \$430 million, which resulted in net realized capital gains of \$109 million and \$6 million, respectively.



# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### OTHER SECURITIES MEASURED AT FAIR VALUE

The following table presents the fair value of fixed maturity securities measured at fair value based on our election of the fair value option, which are reported in the other bond securities caption in the financial statements, and equity securities measured at fair value:

December 31, (in millions)	2020		2019	
	Fair Value	Percent of Total	Fair Value	Percent of Total
<b>Assets:</b>				
<b>Other bond securities:</b>				
CMBS	6	32%	15	52%
<b>Total mortgage-backed, asset-backed and collateralized</b>	<b>\$ 6</b>	<b>32%</b>	<b>\$ 15</b>	<b>52%</b>
<b>Total other bond securities</b>	<b>6</b>	<b>32%</b>	<b>15</b>	<b>52%</b>
<b>Equity securities</b>	<b>13</b>	<b>68%</b>	<b>14</b>	<b>48%</b>
<b>Total</b>	<b>\$ 19</b>	<b>100%</b>	<b>\$ 29</b>	<b>100%</b>

### OTHER INVESTED ASSETS

The following table summarizes the carrying amounts of other invested assets:

December 31, (in millions)	2020	2019
Investment real estate <sup>(a)</sup>	33	36
<b>Total</b>	<b>\$ 33</b>	<b>\$ 36</b>

a) Net of accumulated depreciation of \$62 million and \$59 million in 2020 and 2019, respectively.

### NET INVESTMENT INCOME

Net investment income represents income primarily 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 from equity securities.
- Realized and unrealized gains and losses from investments in other securities and investments for which we elected the fair value option.
- Earnings from alternative investments.
- Rental income of \$3 million and \$3 million related to office space leased to an affiliate for the years ended December 31, 2020 and 2019, respectively.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

The following table presents the components of net investment income:

Years Ended December 31, <i>(in millions)</i>	2020		2019	
Bonds available for sale, including short-term investments	\$	68	\$	86
Other investments		2		5
<b>Total investment income</b>		<b>70</b>		<b>91</b>
<b>Investment expenses</b>		<b>(5)</b>		<b>(2)</b>
<b>Net investment income</b>	\$	<b>65</b>	\$	<b>89</b>

### NET REALIZED CAPITAL GAINS AND LOSSES

Net realized capital gains and losses are determined by specific identification. The net realized capital gains and losses are generated primarily from the following sources:

- Sales of available for sale fixed maturity securities, real estate and other alternative investments.
- Reductions to the amortized cost basis of available for sale fixed maturity securities that have been written down due to our intent to sell them or it being more likely than not that we will be required to sell them.
- Changes in the allowance for credit losses on bonds available for sale.
- Changes in fair value of derivatives except for those instruments that are designated as hedging instruments when the change in the fair value of the hedged item is not reported in Net realized capital gains (losses).
- Foreign exchange gains and losses resulting from foreign currency transactions.
- Changes in fair value of the embedded derivative related to the Funds held reinsurance treaty.

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

Years Ended December 31, <i>(in millions)</i>	2020		2019	
Sales of bonds available for sale	\$	109	\$	6
Other-than-temporary impairments		-		(1)
Foreign exchange transactions		(12)		16
Derivative instruments		136		(11)
Net realized capital gains (losses) on funds held reinsurance treaty embedded derivative		(188)		(89)
Other invested assets		-		2
<b>Net realized capital gains (losses)</b>	\$	<b>45</b>		<b>(77)</b>

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### CHANGE IN UNREALIZED APPRECIATION (DEPRECIATION) OF INVESTMENTS

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

Years Ended December 31, (in millions)	2020	2019
<b>Increase in unrealized appreciation (depreciation) of investments:</b>		
Bonds available for sale	\$ (11)	\$ 113
<b>Increase in unrealized appreciation (depreciation) of investments</b>	<b>\$ (11)</b>	<b>\$ 113</b>

### EVALUATING INVESTMENTS FOR AN ALLOWANCE FOR CREDIT LOSSES/OTHER-THAN-TEMPORARY IMPAIRMENTS

#### Fixed Maturity Securities

##### Subsequent to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

If we intend to sell a fixed maturity security or it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to realized capital losses. No allowance is established in these situations and any previously recorded allowance is reversed. The new cost basis is not adjusted for subsequent increases in estimated fair value. When assessing our intent to sell a fixed maturity security, or whether it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition our 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 decline in the fair value below the amortized cost is due to credit related factors, an allowance is established for the difference between the estimated recoverable value and amortized cost with a corresponding charge to realized capital losses. The allowance for credit losses is limited to the difference between amortized cost and fair value. 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 associated with credit related factors is presented in unrealized appreciation (depreciation) of fixed maturity securities on which an allowance for credit losses was previously recognized (a separate component of accumulated other comprehensive income). Accrued interest is excluded from the measurement of the allowance for credit losses.

When estimating future cash flows for structured fixed maturity securities (e.g., RMBS, CMBS, CDO, ABS) management considers the historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and the 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:

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

When estimating future cash flows for corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers:

- Expected default rates and the timing of such defaults;
- Loss severity and the timing of any recovery; and
- Scenarios specific to the issuer and the security, which may also include 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.

We consider severe price declines in our assessment of potential credit impairments. We may also modify our model inputs when we determine that price movements in certain sectors are indicative of factors not captured by the cash flow models.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

Credit losses are reassessed each period. The allowance for credit losses and the corresponding charge to realized capital losses can be reversed if conditions change, however, the allowance for credit losses will never be reduced below zero. When we determine that all or a portion of a fixed maturity security is uncollectable, the uncollectable amortized cost amount is written off with a corresponding reduction to the allowance for credit losses. If we collect cash flows that were previously written off the recovery is recognized by decreasing realized capital losses. During 2020, the allowance for credit losses on securities were insignificant.

### Prior to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

If we intend to sell a fixed maturity security or it is more likely than not that we will be required to sell a fixed maturity security 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 our intent to sell a fixed maturity security, or whether it is more likely than not that we will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition our 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).

We consider severe price declines in our assessment of potential credit impairments. We may also modify our model inputs when we determine that price movements in certain sectors are indicative of factors not captured by the cash flow models.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign exchange related, we prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recoverable value over the remaining expected holding period of the security.

### Purchased Credit Deteriorated/Impaired Securities

#### Subsequent to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

We purchase certain RMBS securities that have experienced more-than-insignificant deterioration in credit quality since origination. Subsequent to the adoption of the Financial Instruments Credit Losses Standard these are referred to as PCD assets. At the time of purchase an allowance is recognized for these PCD assets by adding it to the purchase price to arrive at the initial amortized cost. There is no credit loss expense recognized upon acquisition of a PCD asset. When determining the initial allowance for credit losses, management considers the historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and the 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:

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

Subsequent to the acquisition date, the PCD assets follow the same accounting as other structured securities that are not high credit quality. There were no PCD securities in 2020.

#### Prior to the adoption of the Financial Instruments Credit Losses Standard on January 1, 2020

We purchase certain RMBS securities that have experienced deterioration in credit quality since their issuance. We determine whether it is probable at acquisition that we will not collect all contractually required payments for these PCI securities, including both principal and interest. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security is determined based on our best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is accreted into Net investment income over their remaining lives on an effective yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. The accretable yield and the non-accretable difference will

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

change over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, which are discussed further below.

On a quarterly basis, the undiscounted expected future cash flows associated with PCI securities are re-evaluated based on updates to key assumptions. Declines in undiscounted expected future cash flows due to further credit deterioration as well as changes in the expected timing of the cash flows can result in the recognition of an other-than-temporary impairment charge, as PCI securities are subject to our policy for evaluating investments for other-than-temporary impairment. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Significant increases in undiscounted expected future cash flows for reasons other than interest rate changes are recognized prospectively as adjustments to the accretable yield.

The following tables present information on our PCI securities, which are included in bonds available for sale as of December 31, 2019:

<i>(in millions)</i>	<b>At Date of Acquisition</b>	
Contractually required payments (principal and interest)	\$	<b>99</b>
Cash flows expected to be collected*		<b>90</b>
Recorded investment in acquired securities		<b>67</b>

\* Represents undiscounted expected cash flows, including both principal and interest.

<i>(in millions)</i>	<b>December 31, 2019</b>	
Outstanding principal balance	\$	69
Amortized cost		48
Fair value		54

The following table presents activity for the accretable yield on PCI securities:

<b>Years Ended December 31,</b> <i>(in millions)</i>	<b>2019</b>	
<b>Balance, beginning of year</b>	\$	21
Newly purchased PCI securities		1
Accretion		(2)
Effect of changes in interest rate indices		(3)
Net reclassification from (to) non-accretable difference, including effects of prepayments		(1)
<b>Balance, end of year</b>	\$	16

## PLEGGED INVESTMENTS

### Insurance-Statutory and Other Deposits

The total carrying value of cash and securities under requirements of regulatory authorities or other insurance-related arrangements and certain reinsurance treaties, was \$2,330 million and \$1,241 million at December 31, 2020 and 2019, respectively.

### Securities lending arrangement

Securities borrowed under the security lending arrangement may be sold or re-pledged. The collateral that we post 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. We treat this arrangement as secured borrowings, whereby the receivable related to the funds exchanged is included in other assets. We enter 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, we 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 British Pound Sterling ("GBP") fixed income securities for standard market fees.

The fair value of securities pledged from counterparties under securities lending agreements were zero and \$429 million as of December 31, 2020 and 2019, respectively.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### 5. Deferred Policy Acquisition Costs

Deferred policy acquisition costs (“DAC”) represent those costs that are incremental and directly related to the successful acquisition of new or renewal of existing insurance contracts. We defer incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Such deferred policy acquisition costs generally include agent or broker commissions and bonuses, premium taxes, and medical and inspection fees that would not have been incurred if the insurance contract had not been acquired or renewed. Each cost is analyzed to assess whether it is fully deferrable. We partially defer costs, including certain commissions, when we do not believe that the entire cost is directly related to the acquisition or renewal of insurance contracts.

**Short-duration insurance contracts:** Policy acquisition costs are deferred and amortized over the period in which the related premiums written are earned, generally 12 months. 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 anticipated in assessing the recoverability of DAC. We assess the recoverability of DAC on an annual basis or more frequently if circumstances indicate an impairment may have occurred. This assessment is performed by comparing recorded net unearned premiums and anticipated investment income on in-force business to the sum of expected losses and loss adjustment expenses incurred, unamortized DAC and maintenance costs. If the sum of these costs exceeds the amount of recorded net unearned premiums and anticipated investment income, the excess is recognized as an offset against the asset established for DAC. This offset is referred to as a premium deficiency charge. Increases in expected losses and loss adjustment expenses incurred can have a significant impact on the likelihood and amount of a premium deficiency charge.

**Long-duration insurance contracts:** Policy acquisition costs for traditional life and accident and health insurance products are generally deferred and amortized, with interest, over the premium paying period. The assumptions used to calculate the benefit liabilities and DAC for these traditional products are set when a policy is issued and do not change with changes in actual experience, unless a loss recognition event occurs. These “locked-in” assumptions include mortality, morbidity, persistency, maintenance expenses and investment returns, and include margins for adverse deviation to reflect uncertainty given that actual experience might deviate from these assumptions. A loss recognition event occurs when there is a shortfall between the carrying amount of future policy benefit liabilities, net of DAC, and what the future policy benefit liabilities, net of DAC, would be when applying updated current assumptions. When we determine a loss recognition event has occurred, we first reduce any DAC related to that block of business through amortization of acquisition expense, and after DAC is depleted, we record additional liabilities through a charge to Policyholder benefits and losses incurred. Groupings for loss recognition testing are consistent with our manner of acquiring, servicing and measuring the profitability of the business and applied by product groupings. We perform separate loss recognition tests for payout annuities and long-term care products. Once loss recognition has been recorded for a block of business, the old assumption set is replaced and the assumption set used for the loss recognition would then be subject to the lock-in principle.

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

Years Ended December 31, (in millions)		2020		2019
Balance at beginning of year	\$	109	\$	246
Increase due to acquisition costs deferred		67		73
Decrease due to amortization expense		(65)		(210)
Balance at end of year	\$	111	\$	109

There were no impairments as a result of our assessment of the recoverability of deferred policy acquisition costs for the year ended December 31, 2020 or 2019.

### 6. Reinsurance

In the ordinary course of business, we may use both treaty and facultative reinsurance to minimize our net loss exposure to any single catastrophic loss event or to an accumulation of losses from a number of smaller events or to provide greater diversification of our businesses. In addition, we assume reinsurance from other insurance companies. We determine the portion of the incurred but not reported (“IBNR”) loss that will be recoverable under our reinsurance contracts by reference to the terms of the reinsurance protection purchased. This determination is necessarily based on the estimate of IBNR and accordingly, is subject to the same uncertainties as the estimate of IBNR. Reinsurance assets include the balances due from reinsurance and insurance companies under the terms of our reinsurance agreements for paid and unpaid losses and loss adjustment expenses incurred, ceded unearned premiums and ceded future policy benefits for life and accident and health insurance contracts and benefits paid and unpaid. We remain liable to the extent that our reinsurers do not meet their obligation under the reinsurance contracts, and as such, we regularly evaluate the financial condition of our reinsurers and monitor concentration of our credit risk. The estimation of the allowance for credit losses and disputes requires judgment

## American International Reinsurance Company, Ltd. and Subsidiary

### Notes to Consolidated Financial Statements

for which key inputs typically include historical trends regarding uncollectible balances, disputes and credit events as well as specific reviews of balances in dispute or subject to credit impairment. The allowance for credit losses and disputes on reinsurance assets was \$2 million and \$3 million at December 31, 2020 and 2019, respectively. Changes in the allowance for credit losses and disputes on reinsurance assets are reflected in Policyholder benefits and losses incurred within the Consolidated Statements of Income.

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

<b>December 31, 2020</b> <i>(in millions)</i>		As Reported	Net of Reinsurance
Liability for unpaid losses and loss adjustment expenses	\$	1,377	\$ 743
Unearned premiums		441	372
Future policy benefits for life and accident and health insurance contracts		1,513	162
Reinsurance assets		2,108	-

  

<b>December 31, 2019</b> <i>(in millions)</i>		As Reported	Net of Reinsurance
Liability for unpaid losses and loss adjustment expenses	\$	1,652	\$ 614
Unearned premiums		410	349
Future policy benefits for life and accident and health insurance contracts		1,364	123
Reinsurance assets		2,377	-

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### SHORT-DURATION REINSURANCE

Short-duration reinsurance is affected under reinsurance treaties and by negotiation on individual risks. Certain of these reinsurance arrangements consist of excess of loss contracts that protect us against losses above stipulated amounts. Ceded premiums are considered prepaid reinsurance premiums and are recognized as a reduction of premiums earned over the contract period the reinsurance coverage is provided. Amounts recoverable from reinsurers on short-duration contracts are estimated in a manner consistent with the claims liabilities associated with the reinsurance and presented as a component of Reinsurance assets. Reinsurance premiums for assumed business are estimated based on information received from brokers, ceding companies and reinsurers. Any subsequent differences arising on such estimates are recorded in the periods in which they are determined. Assumed reinsurance premiums are earned primarily on a pro-rata basis over the terms of the reinsurance contracts and the portion of premiums relating to the unexpired terms of coverage is included in the reserve for unearned premiums. For both ceded and assumed reinsurance, risk transfer requirements must be met for 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 or expense. To meet risk transfer requirements, a reinsurance contract must include both insurance risk, consisting of both underwriting and timing risk, and a reasonable possibility of a significant loss for the assuming entity. Similar risk transfer criteria are used to determine whether directly written insurance contracts should be accounted for as insurance or as a deposit.

### Short-Duration Reinsurance

Short-duration insurance premiums written and earned among related and unrelated parties were comprised of the following:

<b>Year Ended December 31, 2020</b>					
<i>(in millions)</i>		Related Parties		Unrelated Parties	
				Total	
<b>Premiums Written:</b>					
Direct	\$	-	\$	115	\$ 115
Assumed		75		396	471
Ceded		(43)		(94)	(137)
<b>Net</b>	<b>\$</b>	<b>32</b>	<b>\$</b>	<b>417</b>	<b>\$ 449</b>
<b>Premiums Earned:</b>					
Direct	\$	-	\$	110	\$ 110
Assumed		37		407	444
Ceded		(66)		(63)	(129)
<b>Net</b>	<b>\$</b>	<b>(29)</b>	<b>\$</b>	<b>454</b>	<b>\$ 425</b>
<b>Year Ended December 31, 2019</b>					
<i>(in millions)</i>		Related Parties		Unrelated Parties	
				Total	
<b>Premiums Written:</b>					
Direct	\$	-	\$	110	\$ 110
Assumed		41		356	397
Ceded		(81)		(37)	(118)
<b>Net</b>	<b>\$</b>	<b>(40)</b>	<b>\$</b>	<b>429</b>	<b>\$ 389</b>
<b>Premiums Earned:</b>					
Direct	\$	-	\$	108	\$ 108
Assumed		49		787	836
Ceded		(62)		(58)	(120)
<b>Net</b>	<b>\$</b>	<b>(13)</b>	<b>\$</b>	<b>837</b>	<b>\$ 824</b>

Ceded premium to unrelated parties includes \$8 million and \$7 million of cessions to a captive reinsurer for the years ended December 31, 2020 and 2019, respectively.



# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### LONG-DURATION REINSURANCE

Long-duration reinsurance is affected principally under yearly renewable term treaties. The premiums with respect to these treaties are earned over the contract period in proportion to the protection provided. Amounts recoverable from reinsurers on long-duration contracts are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented as a component of Reinsurance assets.

The following table presents premiums earned for our long-duration life insurance and annuity operations:

Year Ended December 31, 2020					
<i>(in millions)</i>	Related Parties		Unrelated Parties		Total
<b>Premiums:</b>					
Direct	\$	-	\$	-	\$ -
Assumed		33		-	33
Ceded		-		-	-
<b>Net</b>	<b>\$</b>	<b>33</b>	<b>\$</b>	<b>-</b>	<b>\$ 33</b>

  

Year Ended December 31, 2019					
<i>(in millions)</i>	Related Parties		Unrelated Parties		Total
<b>Premiums:</b>					
Direct	\$	-	\$	-	\$ -
Assumed		14		-	14
Ceded		-		-	-
<b>Net</b>	<b>\$</b>	<b>14</b>	<b>\$</b>	<b>-</b>	<b>\$ 14</b>

### Cessions to Affiliated Entities

Effective December 31, 2020, we assumed from affiliated companies' obligations with regards to mortgage insurance policies. As of December 31, 2020, we held \$62 million of unearned premium reserves.

We have an 85% quota share treaty placement (net of all other reinsurance) ceded to an affiliated company for certain excess casualty, financial lines, and punitive damages risks.

On June 30, 2020, the affiliated company commuted back losses for accident years 2016, 2017, 2018 and 2019. We received proceeds of \$397 million for the loss reserves with a book value of \$393 million. As of December 31, 2020 and 2019, there are ceded loss reserves of \$345 million and \$309 million, respectively.

Effective July 1, 2020, we entered into an adverse development coverage with an affiliated company. The agreement covers the above losses commuted back for accident years 2016, 2017, 2018 and 2019 in excess of \$493 million.

In addition, we have a quota share treaty placement ceded to an affiliated company for excess casualty risks. As of December 31, 2020 and 2019, there are ceded reserves of \$5 million and \$6 million respectively.

We have an excess of loss reinsurance agreement ceded to an affiliated company covering all property business and relating to losses arising from a catastrophe. As of December 31, 2020 and 2019, there are ceded loss reserves of \$31 million and \$40 million, respectively.

### Reinsurance of Deferred Annuities and Retrocession

We assumed a closed block of deferred annuities through a reinsurance agreement with a third party. As security for the reinsurance obligations, we are 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 ours to the third party.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

As of December 31, 2020 and 2019, we had assigned assets of \$1,755 million and \$957 million, respectively. See Note 4 for additional information. As of December 31, 2020 and 2019, future policy benefits associated with this business were \$1,351 million and \$1,241 million, respectively.

We made an accounting policy election to designate GBP as the functional currency related to the closed block of deferred annuities. We translate the financial balances from the functional currency designated for these operations, generally the currency of the primary economic environment in which that operation does its business (i.e., in British Pound Sterling) into US dollars. Assets and liabilities are translated into US dollars at period-end exchange rates, while income and expenses are translated using average rates for the period. Translation adjustments are recorded as a separate component of accumulated other comprehensive income, net of tax, to the extent applicable. Total assets and total liabilities exposed to the foreign currency translation risk are GBP 1,268 million and GBP 989 million respectively, as of December 31, 2020.

Effective in 2010, we entered into a retrocession agreement to retrocede 100% of the obligation associated with this business to an affiliated company. On June 2, 2020, AIG sold its majority interest in the affiliated company. As part of the sale of the affiliated company, we entered into a revised retrocession agreement with the former affiliated company. Under the terms of the agreement, we continue to retain 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. As we maintain ownership of these investments, we will maintain the existing accounting for these assets (e.g., the changes in fair value of available for sale securities will be recognized within other comprehensive income). The funds withheld payable contains an embedded derivative and changes in fair value of the embedded derivative related to the funds withheld payable are recognized in earnings through realized capital gains (losses). This embedded derivative is considered a total return swap with contractual returns that are attributable to various assets and liabilities associated with these reinsurance agreements. As of December 31, 2020 and 2019, the balance of funds held under insurance treaties was \$1,755 million and \$957 million, respectively. The fair value of the embedded derivative liability was \$59 million and \$113 million as of December 31, 2020 and 2019, respectively.

**There is a pool of assets supporting the funds held under reinsurance treaties. The following summarizes the composition of the pool of assets as of December 31, 2020:**

### Year Ended December 31, 2020

<i>(in millions)</i>	Carrying Value	Fair Value	Corresponding Accounting Policy
Fixed maturities securities – available for sale	\$ 1,711	\$ 1,711	Fair value through other comprehensive income
Short-term Investments	16	16	Fair value through net investment income
Other <sup>(b)</sup>	28	28	Amortized cost
<b>Total</b>	<b>\$ 1,755</b>	<b>\$ 1,755</b>	

### Year Ended December 31, 2019

<i>(in millions)</i>	Carrying Value	Fair Value	Corresponding Accounting Policy
Fixed maturities securities – available for sale	\$ 937	\$ 937	Fair value through other comprehensive income
Short-term Investments	4	4	Fair value through net investment income
Other <sup>(b)</sup>	16	16	Amortized cost
<b>Net</b>	<b>\$ 957</b>	<b>\$ 957</b>	

(a) Primarily comprised of cash, accrued investment income, and collateral.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### REINSURANCE SECURITY

Our reinsurance arrangements do not relieve us from our direct obligation to our insureds. 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. We evaluate the financial condition of our reinsurers and establish limits per reinsurer. Although we have significant exposure to a few reinsurers, we are not exposed to significant risks.

### REINSURANCE – CREDIT LOSSES

The estimation of reinsurance recoverables involves a significant amount of judgment, particularly for latent exposures, such as asbestos, due to their longtail nature. Reinsurance assets include reinsurance recoverables on unpaid losses and loss adjustment expenses that are estimated as part of our loss reserving process and, consequently, are subject to similar judgments and uncertainties as the estimation of gross loss reserves. Similarly, Other assets include reinsurance recoverables for contracts which are accounted for as deposits.

We assess the collectability of reinsurance recoverable balances in each reporting period, through either historical trends of disputes and credit events or financial analysis of the credit quality of the reinsurer. We record adjustments to reflect the results of these assessments through an allowance for credit losses and disputes on uncollectable reinsurance that reduces the carrying amount of reinsurance and other assets on the consolidated balance sheets (collectively, the reinsurance recoverable balances). This estimate requires significant judgment for which key considerations include:

- paid and unpaid amounts recoverable;
- whether the balance is in dispute or subject to legal collection;
- the relative financial health of the reinsurer as determined by the Obligor Risk Ratings (“ORRs”) we assign to each reinsurer based upon our financial reviews; insurers that are financially troubled (i.e., in run-off, have voluntarily or involuntarily been placed in receivership, are insolvent, are in the process of liquidation or otherwise subject to formal or informal regulatory restriction) are assigned ORRs that will generate a significant allowance; and
- whether collateral and collateral arrangements exist.

An estimate of the reinsurance recoverable’s lifetime expected credit losses is established utilizing a probability of default and loss given default method, which reflects the reinsurer’s ORR rating. The allowance for credit losses excludes disputed amounts. An allowance for disputes is established for a reinsurance recoverable using the losses incurred model for contingencies.

## 7. Insurance Liabilities

### LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (LOSS RESERVES)

Loss reserves represent the accumulation of estimates of unpaid claims, including estimates for claims incurred but not reported and loss adjustment expenses (“IBNR”). We regularly review and update 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. Given the uncertainties around the impact from the COVID-19 crisis, including the significant global economic slowdown and general market decline, the full impact of COVID-19 and how it may ultimately impact the results of our insurance operations remains uncertain. In addition, in response to the crisis, new governmental, legislative and regulatory initiatives have been put in place and continue to be developed that could result in additional restrictions and requirements relating to our policies that may have a negative impact on our business operations. However, we have recorded our estimate of the ultimate liability for claims that have occurred as of the balance sheet date associated with COVID-19 which reflects our expectations given the current facts and circumstances. We will continue to monitor and review the impact. 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.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

The following table presents the roll-forward of activity in Loss Reserves:

Years Ended December 31, (in millions)	2020	2019
Liability for unpaid losses and loss adjustment expenses, beginning of year	\$ 1,652	\$ 1,899
Reinsurance recoverable	(1,038)	(1,050)
<b>Net Liability for unpaid losses and loss adjustment expenses, beginning of year</b>	<b>614</b>	<b>849</b>
Foreign exchange effect	25	(7)
<b>Losses and loss adjustment expenses incurred:</b>	<b>-</b>	
Current year	395	589
Prior years	(19)	(15)
<b>Total losses and loss adjustment expenses incurred</b>	<b>376</b>	<b>574</b>
<b>Losses and loss adjustment expenses paid:</b>		
Current year	(230)	(391)
Prior years	(42)	(411)
<b>Total losses and loss adjustment expenses paid</b>	<b>(272)</b>	<b>(802)</b>
<b>Liability for unpaid losses and loss adjustment expenses, end of year:</b>	<b>-</b>	<b>-</b>
Net liability for unpaid losses and loss adjustment expenses	743	614
Reinsurance recoverable	634	1,038
<b>Total</b>	<b>\$ 1,377</b>	<b>\$ 1,652</b>

Although we regularly review the adequacy of the established reserves for unpaid losses and loss adjustment expenses, there can be no assurance that our ultimate liability for unpaid losses and loss adjustment expenses will not develop adversely and materially exceed our 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 particularly 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, historical loss development patterns 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 patterns 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 patterns that were relied upon in setting the reserves. These changes in loss cost trends or loss development patterns could be caused by 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, 2020, we recognized \$19 million of net favorable prior year development in total. This result was driven primarily by favorable development of \$18 million on both US and Canada Excess Casualty and Ireland Healthcare, respectively, due to lower than expected loss emergence, which was partially offset by unfavorable prior year development on US and Canada Financial Lines (\$18 million unfavorable). Other smaller unfavorable prior year development was seen on Worldwide Property (\$7 million adverse) which was mostly offset by favorable prior year development on China Accident and Health (\$5M million favorable) and Other Product Lines (\$3 million favorable).

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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, 2020:

<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	\$	202	\$	448	\$ 650
US and Canada Financial Lines		180		127	307
Japan Excess Casualty		2		7	9
Japan Primary Casualty		9		-	9
Worldwide Property via Managing General Agent ("MGA")		24		36	60
Japan Personal Lines Auto		16		-	16
Japan Personal Accident and Health		8		-	8
China Accident and Health		73		-	73
Ireland Healthcare		174		-	174
<b>Total</b>	<b>\$</b>	<b>688</b>	<b>\$</b>	<b>618</b>	<b>\$ 1,306</b>
<b>Reconciling Items</b>					
Other Product Lines					64
Unallocated loss adjustment expenses					7
<b>Total Loss Reserves</b>				<b>\$</b>	<b>1,377</b>

### Loss Development Information

The following is information about incurred and paid loss developments as of December 31, 2020, 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

We use 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 a special case of the Bornhuetter-Ferguson method in which Expected Loss Ratio

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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.

- **Average Loss method:** The Average Loss method multiplies a projected number of ultimate claims by an estimated ultimate severity average loss for each accident year to produce ultimate loss estimates. Since projections of the ultimate number of claims are often less variable than projections of ultimate loss, this method can provide more reliable results for reserve categories where loss development patterns are inconsistent or too variable to be relied on exclusively.

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

In determining the actual carried loss reserves, we 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;
- Changes in claims handling philosophy, operating model, processes and related ongoing 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 us;
- Input from underwriters on pricing, terms, and conditions and market trends; and
- Changes in our 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:** We believe our groupings have homogenous risk characteristics with similar development patterns and would generally be subject to similar trends.
- **Reinsurance:** Our reinsurance program varies by exposure type and may change from year to year. This may affect the comparability of the data presented in our tables.
- **Incurred but not reported liabilities (“IBNR”):** We include development on 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, 2020. 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:** We consider a reported claim 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. Reported claims for losses from third party assumed reinsurance contracts are not disclosed when the claim count provided is incomplete.
- 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

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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, 2020 and the related historical claims payout percentage disclosure is unaudited and is presented as supplementary information. 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.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance													
Years Ended December 31, (amount in millions)											December 31, 2020		
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	
Unaudited													
2011	\$ 14	\$ 21	\$ 17	\$ 16	\$ 13	\$ 10	\$ 10	\$ 9	\$ 8	\$ 8	\$ 2	42	
2012		13	12	15	20	19	18	22	20	10	2	62	
2013			11	10	9	6	6	3	2	4	2	89	
2014				10	10	8	7	6	3	3	3	38	
2015					9	20	22	32	30	32	7	68	
2016						58	61	57	44	65	31	671	
2017							58	160	209	192	40	31	
2018								54	98	82	47	31	
2019									20	19	12	25	
2020										(11)	(11)	62	
<b>Total</b>										<b>404</b>			
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>										<b>\$ (216)</b>			
<b>Liabilities for losses and loss adjustment expenses and prior year development before 2011, net of reinsurance</b>										<b>14</b>			
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>										<b>\$ 202</b>			

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance											
Years Ended December 31, (amount in millions)											
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Unaudited											
2011	\$ -	\$ -	\$ -	\$ -	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6
2012		-	-	7	7	7	14	17	17	17	9
2013			-	-	-	-	-	-	-	-	-
2014				-	-	-	-	-	-	-	-
2015					-	-	2	14	14	15	15
2016						-	-	1	2	2	2
2017							-	-	-	-	152
2018								-	32	32	32
2019									-	-	-
2020										-	-
<b>Total</b>										<b>\$ 216</b>	

### Reserving Process and Methodology

The business is excess casualty coverage for Fortune 500 sized companies. The typical minimum attachment point for a policy is \$100 million and can be higher for certain classes of business, which causes the loss development pattern to lag significantly. Many of the

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

claims notified to the excess layers are closed without payment because the claims never reach our layer as a result of high deductibles and other underlying coverages, the claims that reach our 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 our access to relevant information to help inform its judgments as the loss events evolve and mature.

We generally use 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 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 decrease in overall incurred losses are driven primarily by decreases seen in accident years 2012, 2017 through 2018, and partially offset by an increase seen in accident year 2016.

### 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													December 31, 2020	
Accident Year	Years Ended December 31, (amount in millions)										Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims		
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020				
Unaudited														
2011	\$ 10	\$ 11	\$ 12	\$ 7	\$ 5	\$ 3	\$ 3	\$ 3	\$ 2	\$ 2	\$ 2	\$ -	60	
2012		10	10	10	9	7	7	8	10	10		1	68	
2013			10	9	9	7	3	2	2	2		1	62	
2014				9	10	12	9	9	9	8		1	54	
2015					8	9	9	7	3	3		3	91	
2016						53	49	45	39	39		26	50	
2017							41	40	37	28		14	101	
2018								36	36	64		46	234	
2019									29	29		29	244	
2020										11		11	251	
<b>Total</b>											<b>\$ 196</b>			
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>											<b>(23)</b>			
<b>Liabilities for losses and loss adjustment expenses and prior year development before 2011, net of reinsurance</b>											<b>7</b>			
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>											<b>\$ 180</b>			

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance												
Accident Year	Years Ended December 31, (amount in millions)											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
Unaudited												
2011	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 1	\$ 1	\$ 1	\$ 2	\$ 2	\$ 2	\$ 2
2012		-	-	2	2	2	2	2	8	8		8
2013			-	-	-	-	-	-	-	-		-
2014				-	2	4	4	4	4	4		3
2015					-	-	2	-	-	-		-
2016						-	-	-	-	-		-
2017							-	-	-	-		2
2018								-	5	8		8
2019									-	-		-
2020												-
<b>Total</b>											<b>\$ 23</b>	



# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### 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.

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

The increase in overall incurred losses are driven primarily by an increase seen in accident year 2018, and partially offset by a decrease seen in accident year 2017.

### Japan Excess Casualty

Japan Excess Casualty consists of business assumed from affiliated companies in Japan under a quota share agreement. The quota share contract was terminated as of January 1, 2018.

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

Accident Year	Years Ended December 31, (amount in millions)										December 31, 2020	
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Losses
	Unaudited											
2011	\$ -	\$ -	\$ -	\$ 1	\$ 10	\$ 8	\$ 8	\$ 8	\$ 8	\$ 9	\$ -	5
2012		-	-	-	8	8	8	8	8	8	-	1
2013			-	1	8	8	8	8	8	8	-	7
2014				1	10	15	15	15	8	8	-	22
2015					1	1	1	-	-	-	-	38
2016						1	-	-	-	-	-	2
2017							1	1	-	1	-	-
2018								-	-	-	-	-
2019									-	-	-	-
2020										-	-	-
<b>Total</b>										<b>\$ 34</b>		
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>											<b>(32)</b>	
<b>Liabilities for losses and loss adjustment expenses and prior year development before 2011, net of reinsurance</b>												<b>-</b>
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>										<b>\$ 2</b>		

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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

Years Ended December 31, (amount in millions)

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited									
2011	\$ -	\$ -	\$ -	\$ 1	\$ 1	\$ 1	\$ 6	\$ 8	\$ 8	\$ 8
2012		-	-	-	-	-	7	8	8	8
2013			-	-	-	-	1	7	8	8
2014				-	-	6	7	8	8	8
2015					-	-	-	-	-	-
2016						-	-	-	-	-
2017							-	-	-	-
2018								-	-	-
2019									-	-
2020										-
<b>Total</b>										<b>\$ 32</b>

### Reserving Process and Methodology

Japan excess casualty policies attach above underlying policies, which causes the loss development pattern to lag 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 our layer. Claims that reach our 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 our access to relevant information in a timely manner to help inform our judgments as the loss events evolve and mature.

We generally use 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 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.

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

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### 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. The quota share contract was partially terminated as of January 1, 2018.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance												December 31, 2020	
Years Ended December 31, (amount in millions)											December 31, 2020		
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Losses	
	Unaudited												
2011	\$ 34	\$ 35	\$ 34	\$ 35	\$ 34	\$ 34	\$ 34	\$ 34	\$ 34	\$ 34	\$ 34	\$ -	35,802
2012		31	32	33	33	32	32	32	31	31	31	-	34,587
2013			34	35	34	33	32	32	32	32	32	-	34,305
2014				37	36	35	35	35	35	36	36	-	34,412
2015					37	31	32	33	33	34	34	-	33,316
2016						32	31	32	31	31	31	-	32,281
2017							36	34	33	33	33	1	31,879
2018								20	20	19	19	1	17,042
2019									-	-	-	-	73
2020										-	-	-	-
<b>Total</b>										<b>\$ 250</b>			
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>										<b>(241)</b>			
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>										<b>\$ 9</b>			

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance												
Years Ended December 31, (amount in millions)												
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
	Unaudited											
2011	\$ 18	\$ 29	\$ 31	\$ 32	\$ 33	\$ 33	\$ 31	\$ 34	\$ 34	\$ 34	\$ 34	\$ 34
2012		18	27	29	30	31	31	31	31	31	31	32
2013			18	28	29	31	31	32	32	32	32	32
2014				18	28	30	31	33	34	35	35	35
2015					17	27	28	30	32	32	32	32
2016						17	26	28	29	30	30	30
2017							17	27	29	30	30	30
2018								11	15	16	16	16
2019									-	-	-	-
2020										-	-	-
<b>Total</b>											<b>\$ 241</b>	

### Reserving Process and Methodology

Japan general liability and workers' compensation are guaranteed cost contracts. Loss emergence patterns for these classes in Japan tend to be 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 general liability and workers' compensation.

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

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### Worldwide Property via MGA

Worldwide Property consists of property catastrophe reinsurance written on an occurrence basis. The below table only represents six years of activity as the MGA agreement was effective January 1, 2015. The agreement was terminated on December 31, 2018.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance									
Accident Year	Years Ended December 31, (amount in millions)						December 31, 2020		
	2015	2016	2017	2018	2019	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims	
	Unaudited								
2015	\$ 9	\$ 3	\$ 5	\$ 5	\$ 5	\$ 5	\$ -	35	
2016		28	21	24	15	12	-	58	
2017			122	122	126	127	-	146	
2018				87	90	99	-	84	
2019					1	1	-	-	
2020						-	-	-	
<b>Total</b>						<b>\$ 244</b>			
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>						<b>(220)</b>			
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>						<b>\$ 24</b>			

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance							
Accident Year	Years Ended December 31, (amount in millions)						
	2015	2016	2017	2018	2019	2020	
	Unaudited						
2015	\$ -	\$ 1	\$ 2	\$ 2	\$ 3	\$ 4	\$ 4
2016		1	5	8	11	12	12
2017			18	99	121	126	126
2018				18	51	78	78
2019					-	-	-
2020							-
<b>Total</b>							<b>\$ 220</b>

### Reserving Process and Methodology

Property classes cover exposures to natural catastrophes for medium to high layers on a global 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.

The increase in overall incurred losses are driven primarily by an increase seen in accident year 2018.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### Japan Personal Lines Auto

Japan Personal Line Auto consists of business assumed from affiliated companies in Japan under a quota share agreement. The quota share contract was partially terminated as of January 1, 2018.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance														
Years Ended December 31, (amount in millions)												December 31, 2020		
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims		
Unaudited														
2011	\$ 112	\$ 114	\$ 115	\$ 115	\$ 115	\$ 115	\$ 115	\$ 115	\$ 115	\$ 115	\$ 115	\$ -	186,322	
2012		114	115	115	114	114	114	114	114	114	114	-	174,875	
2013			103	104	104	104	104	104	104	104	104	-	159,819	
2014				97	98	98	98	97	97	97	97	-	153,230	
2015					94	96	97	97	97	97	98	-	148,157	
2016						89	93	93	92	93	93	-	136,276	
2017							80	80	80	80	80	-	119,321	
2018								42	43	42	42	-	57,833	
2019									-	1	1	-	331	
2020										-	-	-	13	
<b>Total</b>										<b>\$ 744</b>				
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>											<b>(729)</b>			
<b>Liabilities for losses and loss adjustment expenses and prior year development before 2011, net of reinsurance</b>											<b>1</b>			
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>											<b>\$ 16</b>			

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance												
Years Ended December 31, (amount in millions)												
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020		
Unaudited												
2011	\$ 78	\$ 100	\$ 106	\$ 109	\$ 112	\$ 113	\$ 114	\$ 114	\$ 115	\$ 115	\$ 115	\$ 115
2012		77	99	106	110	112	113	114	114	114	114	114
2013			70	89	95	99	101	102	103	103	103	103
2014				64	83	89	93	95	96	96	96	96
2015					62	81	88	91	93	93	93	93
2016						59	77	84	88	88	88	88
2017							53	69	74	74	74	74
2018								30	36	36	36	36
2019									-	-	-	-
2020												
<b>Total</b>												<b>\$ 729</b>

### 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.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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 business has been stable, with only modest changes in the initial selected loss ratios.

### Japan Personal Accident and Health

Japan Personal Accident and Health consists of business assumed from affiliated companies in Japan under a quota share agreement. The quota share contract was partially terminated as of January 1, 2018.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance												
Years Ended December 31, (amount in millions)											December 31, 2020	
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims
Unaudited												
2011	\$ 144	\$ 144	\$ 143	\$ 143	\$ 143	\$ 143	\$ 143	\$ 143	\$ 143	\$ 143	\$ -	515,921
2012		116	111	112	111	111	111	111	111	111	-	523,645
2013			105	106	106	106	106	106	106	106	-	511,146
2014				104	101	100	100	100	101	101	-	526,012
2015					95	93	93	93	93	93	-	520,563
2016						91	90	90	90	90	-	533,721
2017							92	91	91	92	-	519,988
2018								44	43	44	-	201,820
2019									2	2	-	15,055
2020										-	-	2,222
<b>Total</b>										<b>\$ 781</b>		
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>										<b>(773)</b>		
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>										<b>\$ 8</b>		

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance											
Years Ended December 31, (amount in millions)											
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Unaudited											
2011	\$ 77	\$ 132	\$ 139	\$ 141	\$ 142	\$ 142	\$ 142	\$ 143	\$ 143	\$ 143	\$ 143
2012		59	100	107	109	110	111	111	111	111	111
2013			55	95	102	104	104	105	105	105	105
2014				50	90	96	98	99	100	100	100
2015					48	84	89	92	92	92	93
2016						46	80	85	87	87	88
2017							47	82	88	88	89
2018								28	40	40	42
2019									2	2	2
2020											-
<b>Total</b>											<b>\$ 773</b>

### Reserving Process and Methodology

Japan personal accident and health 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.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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 and health insurance has been stable, with only modest changes in the initial selected loss ratios.

### China Personal Accident and Health

China Personal Accident and Health consists of business assumed under a 40% quota share agreement. Prior to 2018, the China Personal Accident and Health business was retroceded 100% to an affiliated company. In 2018, the reinsurance obligation between us and the affiliated company was terminated via a commutation. This contract was not renewed as of January 1, 2019.

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance												December 31, 2020	
Years Ended December 31, (amount in millions)												Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims <sup>(a)</sup>
Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
Unaudited													
2011	\$ 73	\$ 92	\$ 92	\$ 92	\$ 90	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89	\$ -	-
2012		113	116	118	117	114	114	114	114	114	114	-	-
2013			160	167	171	171	169	169	169	169	169	-	-
2014				189	197	198	197	197	197	197	197	-	-
2015					218	223	227	229	229	229	229	-	-
2016						246	255	267	268	268	269	-	-
2017							309	322	324	324	325	-	-
2018								448	438	438	431	12	-
2019									248	248	248	17	-
2020										15	15	3	-
<b>Total</b>										<b>\$ 2,086</b>			
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>											<b>(2,013)</b>		
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>											<b>\$ 73</b>		

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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

Years Ended December 31, (amount in millions)

Accident Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Unaudited									
2011	\$ 46	\$ 80	\$ 86	\$ 89	\$ 90	\$ 89	\$ 89	\$ 89	\$ 89	\$ 89
2012		59	98	109	115	113	113	114	114	114
2013			98	146	163	167	168	168	169	169
2014				102	170	187	193	195	196	196
2015					113	196	217	225	227	228
2016						137	226	255	263	266
2017							170	276	308	318
2018								208	363	405
2019									162	219
2020										9
<b>Total</b>										<b>\$ 2,013</b>

(a) The cumulative number of reported claims has not been disclosed in the table above. This is an assumed reinsurance portfolio and the full complement of historical claim counts were not provided to AIRCO. Disclosing incomplete claim count data would produce a distorted view of average severities.

### Reserving Process and Methodology

China personal accident and health insurance includes group and individual personal accident and supplemental health products for individuals, employees, associations and other organizations. This business is generally short-tail in nature.

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

The decrease in overall incurred losses are driven primarily by a decrease seen in accident year 2018, with partial offsets seen in accident years 2016 and 2017.



# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### Ireland Healthcare

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

Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted and Net of Reinsurance									
Years Ended December 31, (amount in millions)						December 31, 2020			
Accident Year	2016	2017	2018	2019	2020	Total of IBNR Liabilities Plus Expected Development on Reported Losses	Cumulative Number of Reported Claims <sup>(a)</sup>		
	Unaudited								
2016	\$ 111	\$ 109	\$ 111	\$ 109	\$ 109	\$ 2	-		
2017		262	235	231	231	4	-		
2018			337	307	306	6	-		
2019				351	334	13	-		
2020					346	149	-		
<b>Total</b>					\$ 1,326				
<b>Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below</b>					<b>(1,152)</b>				
<b>Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance</b>					<b>\$ 174</b>				

Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance							
Years Ended December 31, (amount in millions)							
Accident Year	2016	2017	2018	2019	2020		
	Unaudited						
2016	\$ 54	\$ 103	\$ 107	\$ 107	\$ 108		
2017		148	221	225	227		
2018			-	210	300		
2019				-	320		
2020					197		
<b>Total</b>					\$ 1,152		

(a) The cumulative number of reported claims has not been disclosed in the table above. Inpatient claim were the only claim counts provided to AIRCO. Disclosing incomplete claim count data would produce a distorted view of average severities.

### 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.

The decrease in overall incurred losses are driven primarily by a decrease seen in accident year 2019.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### 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	0.2%	4.5%	5.6%	16.8%	13.1%	8.4%	3.5%	0.1%	0.2%	0.0%
US and Canada Financial Lines	0.1	3.0	16.9	(6.5)	12.2	0.1	-	18.5	11	(8)
Japan Excess Casualty	-	0.4	9.2	3.8	3.7	32.3	19.1	11.4	-	-
Japan Primary Casualty	45.0	25.8	5.6	3.6	2.9	2.0	1.0	0.2	0.3	0.1
Worldwide Property via MGA	6.9	31.5	19.6	11.2	11	21	-	-	-	-
Japan Personal Lines Auto	70.7	16.9	6.3	3.7	2.1	1.3	0.5	0.2	0.2	-
Japan Personal Accident and Health	55.5	35.3	5.8	1.9	0.8	0.4	0.2	0.2	-	-
China Accident and Health	54.5	32.9	9.2	3.4	0.5	-	0.3	-	-	-
Ireland Healthcare	61.5	33.0	2.2	1	0	-	-	-	-	-

The patterns above may be incomplete for Worldwide Property and Ireland Healthcare because we have fewer than ten years of loss experience. For Excess and Financial Lines classes, the low frequency and high severity nature of the losses lead to results that may not be indicative of the expected payout patterns on future claims.

### Future Policy Benefits for Life and Accident and Health Insurance Contracts

Future policy benefits primarily include reserves for traditional life and annuity payout contracts, which represent an estimate of the present value of future benefits less the present value of future net premiums. Included in Future policy benefits are liabilities for annuities issued in structured settlement arrangements whereby a claimant has agreed to settle a general insurance claim in exchange for fixed payments over a fixed determinable period of time with a life contingency feature.

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

As at December 31, (in millions)	2020	2019
<b>Future policy benefits:</b>		
Closed block of deferred annuities <sup>(a)</sup>	\$ 1,351	\$ 1,241
Long duration life insurance contracts	82	58
Accident and health insurance contracts	16	15
Immediate annuities	64	50
<b>Total future policy benefits</b>	<b>\$ 1,513</b>	<b>\$ 1,364</b>

(a) We have entered into a retrocession agreement to retrocede 100% of the obligation associated with this business. See Note 6 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 3.22% and 3.34% as of December 31, 2020 and 2019, respectively.

The liability for future life policy benefits is computed using mortality tables and assumptions for mortality improvement as determined by our appointed actuary. Present values are calculated using an interest rate of 0.24% and 1.87% as of December 31, 2020 and 2019, respectively.

In 2018, we entered into a reinsurance arrangement with an affiliated company to assume death in service pension liability which is an annuity payable to a designated beneficiary. The annuity period is usually lifetime for a spouse and until ages 21-23 for a minor dependent.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

In 2019, we entered into a reinsurance arrangement with an affiliate to assume underwritten whole of life product for all business written on or prior to June 30, 2019 on a 100% coinsurance basis. In 2020, there was extended to include business written until March 31, 2020 and from April 1, 2020 onwards.

### 8. Income Taxes

We 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 we do not pay tax in accordance with the terms of the statement of notice and demand. See Note 15 for additional information.

We file a consolidated US federal income tax return with AIG. We are allocated US federal income taxes based upon a tax payment allocation agreement with AIG, effective January 1, 2019 and approved by our Board of Directors. This agreement provides that we shall accrue taxes that would have been paid by us if we had filed a separate federal income tax return and AIG shall reimburse us for certain tax benefits, with limited exceptions.

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:

- Our 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.
- We have 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 our separate company taxable income.
- Our 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.
- The sections of the Internal Revenue Code relating to the Base Erosion Anti-Abuse Tax ("BEAT") are applied, but only if the AIG consolidated group is subject to BEAT in the Consolidated Tax Liability.

AIG agrees to reimburse us for any tax benefit arising out of the use in the consolidated return of any of our 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 ours 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 we are compensated for such benefit, it cannot use such benefits in the calculation of our tax liability under the separate return basis. Federal income taxes receivable under the payment allocation agreement at December 31, 2019 was \$2 million. At December 31, 2020, federal income taxes payable was \$4 million.

### 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 us.

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 foreign corporations and for Base Erosion and Anti-Abuse Tax ("BEAT"), under which taxes are imposed on certain base eroding payments to affiliated foreign companies. While the US tax authorities issued formal guidance, including recently issued proposed and final regulations for BEAT and other provisions of the Tax Act, there are still certain aspects of the Tax Act that remain unclear and subject to substantial uncertainties. Additional guidance is expected in future periods. Such guidance may result in changes to the interpretations and assumptions we made and actions we may take, which may impact amounts recorded with respect to international provisions of the Tax Act, possibly materially. Consistent with accounting guidance, we treat BEAT as a period tax charge in the period the tax is incurred and have made an accounting policy election to treat GILTI taxes in a similar manner. As of December 31, 2020, we recorded tax expense of \$1.5 million with respect to GILTI.

On March 27, 2020, the US enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act to mitigate the economic impacts of the COVID-19 crisis. The tax provisions of the CARES Act have not had and are currently not expected to have a material impact on the Company's US federal tax liabilities.

### 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. The following table presents a reconciliation of such differences in arriving at total taxes for the years ended December 31, 2020 and 2019:

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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

Years Ended December 31, (in millions)	2020		2019	
	Amount	Tax Effect	Amount	Tax Effect
<b>Net income (loss) before income tax expense (benefit):</b>	\$ 96	\$ 20	\$ 28	\$ 6
Equity to foreign affiliate	(13)	(3)	(15)	(3)
Return to provision	-	2	-	1
GILTI	5	2	-	-
Other	-	-	1	-
<b>Total income tax</b>	<b>\$ 88</b>	<b>\$ 21</b>	<b>\$ 14</b>	<b>\$ 4</b>
<b>Income tax expense attributable to income from continuing operations:</b>				
Current	\$ -		\$ -	(4)
Deferred		21		8
<b>Total income tax</b>	<b>\$ -</b>	<b>21</b>	<b>\$ -</b>	<b>4</b>

### Deferred Taxes

As of December 31, 2020 and 2019, we had gross deferred tax assets of \$85 million and \$109 million and gross deferred tax liabilities of \$67 million and \$75 million, respectively. As of December 31, 2020 and 2019, we had net deferred tax assets of \$18 million and \$34 million, respectively, resulting in a \$16 million change overall. The 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. We had no valuation allowance as of December 31, 2020 and 2019. See the section "Valuation Allowance on Deferred Tax Assets" below for further details.

As of December 31, 2020, we had federal net operating loss carry forwards of \$236 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 our US Tax Filing Group and subject to utilization limitations under the IRS' SRLY rules. The federal net operating loss carry forwards expire by 2029.

As of December 31, 2020, we had no federal capital loss, foreign tax credit, or AMT credit carryforwards.

### Valuation Allowance on Deferred Tax Assets

We evaluate the recoverability of deferred tax assets and establish 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 us 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.

Our 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.

At December 31, 2020, there was no valuation allowance recorded against our deferred tax assets as management believed that it was more likely than not that these assets would be realized.

### Accounting for Uncertainty in Income Taxes

At December 31, 2020, we established a reserve of \$2 million with respect to the uncertainty regarding the GILTI calculation, and we do

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

not believe that there will be a significant change within the next twelve months.

The US is the only major tax jurisdiction of the Company. We are currently under examination for the tax years 2007 through 2013 and open to examination through 2019.

## 9. Related Party Transactions

### Reinsurance

Reinsurance transactions with related parties are shown in Note 6 – Reinsurance.

### Affiliated Services

AIG and its subsidiaries provide various services to us pursuant to written cost sharing arrangements that we are party to, and for which we are charged various fees. Such charges are not necessarily indicative of what we would have incurred if we were a separate, stand-alone entity from AIG. The amount of such affiliated charges included in the Consolidated Income Statements was \$1 million and \$1 million for the years ended December 31, 2020 and 2019, respectively.

Additionally, AIG incurs certain cost on our behalf for which we are charged. During 2020, \$15 million was reimbursed to us and in 2019, \$26 million were recognized as expenses.

### 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)	2020	2019
Non-insurance balances receivable	\$ 97	\$ 531
Premium and insurance balances receivable	39	19
Reinsurance assets	399	1,994
Funds held by companies under reinsurance contracts asset	69	4
Non-insurance balances payable	41	57
Reinsurance balances payable	11	26
Premium and insurance balances payable	7	25
Funds held under reinsurance treaties liability	-	957

### Derivative Agreements

We have derivatives agreements with an affiliated company. See Note 12 for additional information.

### Return of Capital and Dividends

In the ordinary course of business, we issued a dividend of \$50 million to our parent in 2020 and dividends and a return of capital comprised of cash totaling \$158 million and bonds available for sale of \$42 million in 2019.

## 10. 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 that may be a combination of one or more of the following units: performance share units (“PSUs”), restricted stock units (“RSUs”), or stock options.

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 2020, 2019 and 2018 awards, depending on AIG’s performance relative to a specified peer group and/or the outcome of pre-established financial goals, as applicable. RSUs and stock options are earned based on continued service by the participant.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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.

LTI awards accrue dividend equivalent units (“DEUs”) in the form of additional PSUs and/or RSUs whenever a cash dividend is declared on shares of AIG Common Stock; the DEUs are subject to the same vesting terms and conditions as the underlying unit.

We receive an allocation from AIG for these expenses. We recognized compensation expense of \$12 million and \$13 million as of December 31, 2020 and 2019, respectively, based on the value of AIG’s common stock on the date of grant of which all was recharged to related parties.

### Modification of LTI awards

During the third quarter of 2019, we added a modifier to the 2019 performance share units awarded to certain senior executives to cap payout at 100 percent of target if our total shareholder return for the three-year performance period is below peer median. We did not recognize any incremental compensation expense as a result of this modification. During the third quarter of 2020, we reduced the performance goals from three to two metrics for the 2018 LTI and 2019 LTI awards for certain PSU recipients.

## 11. 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. We are not directly liable for obligations under these plans; our obligation results from AIG’s allocation of our 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. Although benefits are frozen, these interest credits continue to accrue on the cash balance accounts of active participants, who also accrue years of service for purposes of early retirement eligibility and subsidies. Employees can take their vested benefits when they leave AIG as a lump sum or an annuity option.

We have participants in each of the following AIG employee retirement plans:

### Postretirement Benefit Plan

The Postretirement Benefit plan provides postretirement medical care and life insurance benefits in the US and in certain non-US countries. Our 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. Our allocated share of net expense for the postretirement plan was \$1 million and \$1 million for the years ended December 31, 2020 and 2019, respectively.

### Bermuda Postretirement Benefit Plan

In addition, we provide a postretirement plan in Bermuda for our 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 \$2 million and \$2 million for the years ended December 31, 2020 and 2019, respectively.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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)	2020	2019
<b>Change in projected benefit obligation:</b>		
<b>Benefit obligation at beginning of year</b>	\$ 50	\$ 40
Service cost	1	1
Interest cost	1	2
Actuarial loss (gain)	5	7
<b>Projected benefit obligation at end of year</b>	<b>57</b>	<b>50</b>
<b>Change in plan assets:</b>		
Employer direct benefit payments	1	1
Direct benefit payments	(1)	(1)
<b>Fair value of plan assets at end of year</b>	<b>-</b>	<b>-</b>
<b>Funded status at end of year</b>	<b>57</b>	<b>50</b>
<b>Amounts recognized in the balance sheet:</b>		
Liabilities	57	50
<b>Pre-tax amounts recognized in accumulated other comprehensive income:</b>		
Net gain (loss)	(10)	(4)
<b>Total amounts recognized</b>	<b>\$ (10)</b>	<b>\$ (4)</b>

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)	2020	2019
<b>Components of net periodic benefit cost</b>		
Service cost	\$ 1	\$ 1
Interest cost	2	2
<b>Net periodic benefit cost</b>	<b>3</b>	<b>3</b>
<b>Total recognized in accumulated other comprehensive loss (income)</b>	<b>6</b>	<b>8</b>
<b>Total recognized in net periodic benefit cost and other comprehensive loss</b>	<b>\$ 9</b>	<b>\$ 11</b>

The estimated amortization from accumulated other comprehensive income for net gain (loss) that will be amortized into net periodic benefit cost over the next fiscal year will be zero.

### Assumptions

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

As at December 31,	2020	2019
Discount rate	2.28%	3.16%
Rate of compensation increase	N/A	N/A

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

The following table summarizes assumed health care cost trend rates:

As at December 31,	2020	2019
Immediate trend rate	5.76%	6.04%
Ultimate trend rate	4.50%	4.50%
Year that the rate reaches ultimate trend rate	2038	2038

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

As at December 31,	2020	2019
Discount rate	3.16%	4.22%
Rate of compensation increase <sup>(a)</sup>	N/A	N/A
Expected return on assets	N/A	N/A

(a) Effective February 1, 2009, the Bermuda Postretirement Benefit plan was frozen.

### Defined Contribution Plans

AIG sponsors a 401(k) plan which provides for pre-tax salary reduction contributions by its US employees. AIG made matching contributions of 100 percent of the first 6 percent of eligible compensation contributed by a participant on a pre-tax and/or Roth after-tax basis and also provides a non-elective, non-discretionary employer contribution of 3 percent of eligible compensation up to the Internal Revenue Service ("IRS") maximum employee compensation limit.

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 3 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.

Pre-tax expenses associated with these plans were \$1 million and \$1 million in 2020 and 2019, respectively.

## 12. 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 or other liabilities.

We use derivatives and other instruments as part of our financial risk management programs. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with our 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.

We have engaged in derivative transactions with an affiliated company under an International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement, which also includes Credit Support Annex ("CSA") provisions. Collateral posted by us for derivative transactions was \$11 million and \$77 million at December 31, 2020 and December 31, 2019, respectively. Collateral provided to us for derivative transactions was zero and \$532 million at December 31, 2020 and December 31, 2019, respectively. Collateral can be in the form of cash or US government obligations. We have elected to present all derivative receivables and derivative payables, and the related cash collateral received and paid, on a net basis on our Consolidated Balance Sheets when a legally enforceable ISDA Master Agreement exists.

We are party to derivative contracts with an affiliated company, which are specifically related to the closed block of deferred annuities. We are under this contract party to interest rate swaps and cross currency swaps. We use 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, our counterparty is entitled to gains and losses associated with the aforementioned interest rate swaps and foreign currency derivatives. Prior to June 2, 2020, the counterparty was an affiliated company and as such, an equal and opposite position to the net derivative asset as of December 31, 2019 has been recorded in Other liabilities on the balance sheet.



# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

After June 1, 2020, the counterparty changed to a non-affiliated company and as such, an equal and opposite position to the net derivative asset has been included in Funds held under reinsurance treaties. See Note 7 for additional information.

The Company designates fair value hedge accounting for cross currency swaps hedging the change in fair value of foreign currency denominated available for sale securities attributable to changes in foreign exchange rates.

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

December 31, 2020	Gross Derivative Assets		Gross Derivative Liabilities	
	Notional Amount <sup>(a)</sup>	Fair Value	Notional Amount <sup>(a)</sup>	Fair Value
<i>(in millions)</i>				
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange contracts	\$ -	\$ -	\$ 134	\$ 4
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange contracts	319	1	-	-
Interest rate contracts	87	1	166	4
<b>Total derivatives not designated as hedging instruments</b>	<b>406</b>	<b>2</b>	<b>166</b>	<b>4</b>
<b>Total derivatives, gross</b>	<b>406</b>	<b>2</b>	<b>300</b>	<b>8</b>
Counterparty netting <sup>(b)</sup>	-	(2)	-	(2)
Cash Collateral <sup>(c)</sup>	-	-	-	(6)
<b>Total derivatives, net</b>	<b>\$ 406</b>	<b>\$ -</b>	<b>\$ 300</b>	<b>\$ -</b>
<b>December 31, 2019</b>	<b>Gross Derivative Assets</b>		<b>Gross Derivative Liabilities</b>	
	Notional Amount <sup>(a)</sup>	Fair Value	Notional Amount <sup>(a)</sup>	Fair Value
<i>(in millions)</i>				
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange contracts	\$ 15	\$ 1	\$ 72	\$ 2
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange contracts	372	4	450	49
Interest rate contracts	788	655	616	137
<b>Total derivatives not designated as hedging instruments</b>	<b>1,160</b>	<b>659</b>	<b>1,066</b>	<b>186</b>
<b>Total derivatives, gross</b>	<b>1,175</b>	<b>660</b>	<b>1,138</b>	<b>188</b>
Counterparty netting <sup>(b)</sup>	-	(188)	-	(188)
Cash Collateral <sup>(c)</sup>	-	(455)	-	-
<b>Total derivatives, net</b>	<b>\$ 1,175</b>	<b>\$ 17</b>	<b>\$ 1,138</b>	<b>\$ -</b>

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 Sheets. 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.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

### 13. 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)
<b>Balance at December 31, 2018</b>	\$ 108	\$ 6	\$ 7	\$ 121
Other comprehensive income (loss)	113	(6)	(7)	100
Other comprehensive income (loss) – tax	(23)	1	-	(22)
<b>Other comprehensive income (loss), net of tax</b>	<b>90</b>	<b>(5)</b>	<b>(7)</b>	<b>78</b>
<b>Balance at December 31, 2019</b>	<b>\$ 198</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ 199</b>

<i>(in millions)</i>	Unrealized Investment Gains (Losses)	Foreign Currency Translation Adjustments	Retirement Plan Liability	Total Accumulated Other Comprehensive Income (Loss) <sup>(a)</sup>
<b>Balance at December 31, 2019</b>	\$ 198	\$ 1	\$ -	\$ 199
Other comprehensive income (loss)	(11)	(3)	(6)	(20)
Other comprehensive income (loss) – tax	4	1	-	5
<b>Other comprehensive income (loss), net of tax</b>	<b>(7)</b>	<b>(2)</b>	<b>(6)</b>	<b>(15)</b>
<b>Balance at December 31, 2020</b>	<b>\$ 191</b>	<b>\$ (1)</b>	<b>\$ (6)</b>	<b>\$ 184</b>

(a) The allowance for credit losses on securities was insignificant at December 31, 2020.

### 14. Statutory Financial Data and Restrictions

We prepare 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, 2020 and 2019, our statutory net income was \$75 million and \$24 million and statutory capital and surplus was \$893 million and \$885 million, respectively.

#### As of or for the Years Ended December 31, 2020

<i>(in millions)</i>	AIRCO	AICO	Total
Statutory surplus	\$ 773	\$ 120	\$ 893
Statutory net income	\$ 62	\$ 13	\$ 75

#### As of or for the Years Ended December 31, 2019

<i>(in millions)</i>	AIRCO	AICO	Total
Statutory surplus	\$ 780	\$ 105	\$ 885
Statutory net income	\$ 9	\$ 15	\$ 24

Under Bermuda insurance law, we are 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.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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### 15. Commitments and Contingencies

In the normal course of business, various commitments and contingent liabilities are entered into by us or our subsidiary.

#### 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 ours. In November 2006, we executed a Letter of Agreement (the Agreement) with AIG to contractually bind us for the pension benefit obligation associated with TCNs who had retired in 2005 and prior. In addition we are also contractually obligated to pay certain annuity benefits for third party plans, in total (“the MAF Liability”). As of December 31, 2020 and 2019, the future policy benefits associated with the MAF Liabilities were \$10 million and \$10 million, respectively.

In regard to TCNs who were active or who retire post 2005, the Agreement established that the pension benefit obligation would remain with AIG and that we would only act as a service agent of AIG. In our role as service agent, we collect 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, 2020 and 2019, the DAF balance is \$2 million and \$7 million, respectively, and is reflected by us as a liability to AIG in Other liabilities.

#### Letters of Credit

We have directed a third-party bank to issue a letter of credit in the amount of \$10 million in favor of the IRS. See Note 8 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, we have also directed third-party banks to issue letter of credits totaling \$47 million and \$82 million in favor of third-party insurers at December 31, 2020 and December 31, 2019, 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 us, as beneficiary, to be included as statutory capital. The aggregate amount as of the standby letters of credit as of December 31, 2020 and 2019 is \$125 million.

#### Reinsurance Collateral

As referenced in Note 6, we maintain a custodial account with certain assets related to our assumption of a closed block of deferred annuities. However, we have retroceded to a third party our 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 our equity or net income.

#### Indemnification

Under the terms of a retrocession agreement, we have provided an indemnification to a third-party retrocessionaire in the event, that the cedant of the closed block of deferred annuities recaptures the business and the retrocessionaire incurs an economic loss due to the required collateral being in excess of the statutory value of the technical reserves. We have also entered into a Make Whole Arrangement with AIG that will reimburse us for any payments made to the third party under the indemnification provision. A contingent liability has been recorded in Other liabilities and an offsetting receivable from AIG is recorded in Other assets.

#### Legal Contingencies

We are sometimes involved in litigation and arbitration, both as a defendant and as a plaintiff. The litigation and arbitration ordinarily involve our 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 our consolidated financial condition. However, it is possible that the effect would be material to our results of operations for an individual reporting period.

# American International Reinsurance Company, Ltd. and Subsidiary

## Notes to Consolidated Financial Statements

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### 16. Subsequent Events

We evaluated the need to disclose events that occurred subsequent to the balance sheet date through April 30, 2021, the date these financial statements were available to be issued.

We have concluded that no subsequent events have occurred that would require recognition or disclosure in the consolidated financial statements.