AIG Life of Bermuda, Ltd.

Financial Statements

As of and for the years ended December 31, 2021 and 2020

AIG LIFE OF BERMUDA, LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

To the Board of Directors and Shareholder of AIG Life of Bermuda, Ltd.

We have audited the accompanying consolidated financial statements of AIG Life of Bermuda, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and December 31, 2020, and the related consolidated statements of income and comprehensive income (loss), of equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AIG Life of Bermuda, Ltd. and its subsidiaries as of December 31, 2021 and December 31, 2020, and the 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.

PricewaterhouseCoopers LLP

Houston, Texas
April 29, 2022

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AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED BALANCE SHEETS

(in millions, except for share data)	December 31, 2021	December 31, 2020
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2021 – $475; 2020 – $377)	**$ 496**	$ 413
Policy loans	**41**	41
Short-term investments (portion measured at fair value: 2021 – $28; 2020 – $35)	**42**	56
Total investments	**579**	510
Accrued investment income	**3**	3
Amounts due from related parties	**231**	220
Reinsurance assets	**4**	4
Other assets (portion measured at fair value: 2021 – $2; 2020 – $4)	**22**	26
Tax indemnification receivable from parent	**-**	350
Separate account assets, at fair value	**1,330**	1,219
Total assets	**$ 2,169**	$ 2,332
Liabilities:		
Policyholder contract deposits	**$ 41**	$ 41
Income taxes payable to parent	**89**	368
Deferred income taxes	**81**	96
Other liabilities	**12**	2
Separate account liabilities	**1,330**	1,219
Total liabilities	**1,553**	1,726
Contingencies (see Note 7)		
Shareholder's equity:		
Common stock, $1 par value; 250,000 shares authorized, 250,000 issued and outstanding	**-**	-
Additional paid-in capital	**711**	707
Accumulated deficit	**(113)**	(131)
Accumulated other comprehensive income (loss)	**18**	30
Total shareholder's equity	**616**	606
Total liabilities and equity	**$ 2,169**	$ 2,332

See accompanying Notes to Consolidated Financial Statements.

AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
(in millions)	**2021**	2020
Revenues:		
Premiums	**$ (15)**	$ (21)
Policy fees	**15**	18
Net investment income	**14**	16
Net realized gains (losses)	**1**	(1)
Other income	**22**	26
Total revenues	**37**	38
Benefits and expenses:		
Interest credited to policyholders	**2**	3
General operating and other expenses	**7**	8
Total benefits and expenses	**9**	11
Income before income tax expense	**28**	27
Income tax expense (benefit):		
Current	**17**	(68)
Deferred	**(7)**	73
Income tax expense	**10**	5
Net income	**$ 18**	$ 22

See accompanying Notes to Consolidated Financial Statements.

AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31,	
(in millions)	**2021**	2020
Net income	**$ 18**	$ 22
Other comprehensive income (loss), net of tax		
Change in unrealized appreciation (depreciation) of fixed maturity investments	**(12)**	13
Other comprehensive income (loss)	**(12)**	13
Comprehensive income attributable to AIG Life of Bermuda, Ltd.	**$ 6**	$ 35

See accompanying Notes to Consolidated Financial Statements.

AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF EQUITY

(in millions)	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholder's Equity
Balance, January 1, 2020	$ -	$ -	$ 154	$ (153)	$ 17	$ 18
Net income	-	-	-	22	-	22
Other comprehensive income	-	-	-	-	13	13
Capital contribution from AGC Life	-	-	553	-	-	553
Balance, December 31, 2020	$ -	$ -	$ 707	$ (131)	$ 30	$ 606
Net income	**-**	**-**	**-**	**18**	**-**	**18**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(12)**	**(12)**
Capital contribution from AGC Life	**-**	**-**	**4**	**-**	**-**	**4**
Balance, December 31, 2021	**$ -**	**$ -**	**$ 711**	**$ (113)**	**$ 18**	**$ 616**

See accompanying Notes to Consolidated Financial Statements.

AIG LIFE OF BERMUDA, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
(in millions)	**2021**	2020
Cash flows from operating activities:		
Net income	**$ 18**	$ 22
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest credited to policyholders	**2**	3
Net realized capital losses (gains)	**(1)**	1
Amortization of net premium on investments	**2**	1
Provision for deferred income taxes	**(7)**	73
Capitalized interest income	**(2)**	(4)
Changes in operating assets and liabilities:		
Accrued investment income	**-**	1
Amounts due to/from related parties	**(11)**	(25)
Current income tax receivable/(payable)	**76**	(618)
Other, net	**4**	(6)
Total adjustments	**63**	(574)
Net cash provided by (used in) operating activities	**81**	(552)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sale of available for sale investments	**6**	13
Redemption and maturities of fixed maturity securities available for sale	**69**	64
Principal payments received on maturities of policy loans	**2**	62
Purchases of:		
Available for sale investments	**(174)**	(43)
Policy loans	**-**	(79)
Net change in short-term investments	**14**	(37)
Other, net	**4**	2
Net cash used in investing activities	**(79)**	(18)
Cash flows from financing activities:		
Net exchanges to/from separate accounts	**(2)**	17
Capital Paid from/(to) Parent Company	**-**	553
Net cash provided by (used in) financing activities	**(2)**	570
Net decrease in cash	**-**	-
Cash at end of year	**$ -**	$ -

Supplementary Disclosure of Consolidated Cash Flow Information

	Years Ended December 31,	
	2021	2020
Cash paid during the period for:		
Taxes*	**$ 301**	$ 206
Non-cash operating activities:		
Current income tax receivable/(payable)	**$ (4)**	-
Non-cash financing activities:		
Non-cash deemed capital contribution for settlement of taxes from AGC Life	**$ 4**	-

* A portion of the cash was paid by AIG Parent see Footnote 10

See accompanying Notes to Consolidated Financial Statements.

1. BASIS OF PRESENTATION

AIG Life of Bermuda, Ltd. (AIG Bermuda), including its wholly owned subsidiaries (AIG Credit Corp of Canada (AI Credit Canada) and Alabaster Capital LLC (Alabaster Capital)) is a wholly owned subsidiary of AGC Life Insurance Company (AGC Life), an indirect, wholly owned subsidiary of American International Group, Inc. (AIG Parent). Unless the context indicates otherwise, the terms “the Company,” “we,” “us” or “our” mean AIG Life of Bermuda, Ltd. and its consolidated subsidiaries, and the term “AIG Parent” means American International Group, Inc. and not any of AIG Parent’s consolidated subsidiaries.

Our principal activities are the insurance of flexible premium variable universal life insurance, reinsurance of term life and annuity, and certain investment operations through our affiliates.

Our operations are influenced by many factors, including general economic conditions, financial condition of AIG Parent, monetary and fiscal policies of the government of Bermuda and policies of the Bermuda Monetary Authority (BMA). The level of sales of our insurance and financial products is influenced by many factors, including general market rates of interest, the strength, weakness and volatility of equity markets and terms and conditions of competing products. We are exposed to the risks normally associated with a portfolio of fixed income securities, which include interest rate, option, liquidity and credit risks. We control our exposure to these risks by, among other things, closely monitoring and managing the duration and cash flows of our assets and liabilities, engaging in a disciplined process of underwriting, and reviewing and monitoring credit risk. We are also exposed to market risk and mortality/longevity risk. Market volatility may result in increased risks related to death benefits, as well as reduced fee income on variable product assets held in segregated accounts.

The Company’s core business is to service private placement variable universal life insurance issued to high net worth individuals. We generally retain $5 thousand per insured and cede the remaining net amount at risk to our U.S. affiliate, American General Life Insurance Company (AGL). As of 2014, no new policies are being written, although additional premium may be accepted on the existing contracts.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). All significant intercompany accounts and transactions have been eliminated.

The consolidated financial statements include the accounts of the Company, our controlled subsidiaries (generally through a greater than 50 percent ownership of voting rights of a voting interest entity).

In March 2020, the outbreak of COVID-19 caused by a novel strain of the coronavirus was recognized as a pandemic by the World Health Organization. The Coronavirus outbreak has resulted in increased economic uncertainty and volatility in both the debt and equity markets.

For information regarding the impact of COVID-19 on AIG and its businesses, please refer to AIG’s Form 10-K for the year ended December 31, 2021 and 2020.

Further, AIG Parent continues to execute initiatives focused on organizational simplification, operational efficiency, and business rationalization in keeping with AIG’s broad and ongoing efforts to transform for long-term competitiveness.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires the application of accounting policies that often involve a significant degree of judgment. Accounting policies that we believe are most dependent on the application of estimates and assumptions are considered our critical accounting estimates and are related to the determination of:

- income tax assets and liabilities, including recoverability of our deferred tax assets and the predictability of future tax operating profitability of the character necessary to realize the deferred tax assets and provisional estimates associated with the enactment of the Tax Cuts and Jobs Act of 2017 (Tax Act); and
- fair value measurements of certain financial assets and liabilities.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following table 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 securities
- Short-term investments
- Net investment income
- Net realized gains (losses)

Note 5. Reinsurance
- Reinsurance assets, net of allowance

Note 6. Insurance Liabilities
- Policyholder contract deposits

Note 10. Income Taxes

Other significant accounting policies

Premiums received for variable universal life products are reported as deposits to policyholder contract deposits and/or separate account liabilities. Reinsurance premiums ceded are recognized as a reduction in revenues over the period the reinsurance coverage is provided in proportion to the risks to which the premiums relate.

Policy fees represent revenues recognized from variable universal life products consisting of policy charges for cost of insurance and policy administration charges. Policy fees are recognized as revenues in the period in which they are assessed against policyholders, unless the fees are designed to compensate us for services to be provided in the future.

Other income primarily includes ceded commissions, risk charges and interests associated with the reinsurance agreements.

Cash represents cash on hand and non-interest bearing demand deposits.

Short-term investments consist of interest-bearing cash equivalents and investments, such as commercial paper, with original maturities within one year from the date of purchase.

Policy loans are carried at unpaid principal balances. There is no allowance for policy loans because these loans serve to reduce the death benefit paid when the death claim is made and the balances are effectively collateralized by the cash surrender value of the policy.

Separate accounts represent funds for which investment income and investment gains and losses accrue directly to the contract holders who bear the investment risk. Each account has specific investment objectives and the assets are carried at fair value. The assets of each account are legally segregated and are not subject to claims that arise from any of our other businesses. The liabilities for these accounts are equal to the account assets.

Foreign currency: Financial statement accounts expressed in foreign currencies are translated into U.S. dollars. Functional currency assets and liabilities are translated into U.S. dollars generally using rates of exchange prevailing at the balance sheet date and the related translation adjustments are recorded as a separate component of other comprehensive income, net of any related taxes. Income statement accounts expressed in functional currencies are translated using average exchange rates during the period. Functional currencies are generally the currencies of the local operating environment.

Accounting Standards Adopted During 2021

Income Tax

On December 18, 2019, the FASB issued an accounting standard that simplifies the accounting for income taxes by eliminating certain exceptions to the approach for intra period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The amendments also simplified other areas including the accounting for franchise taxes and enacted tax laws or rates and clarified the accounting for transactions that result in the step-up in the tax basis of goodwill. We adopted the standard on its effective date of January 1, 2021. The impact of adoption was not material to our consolidated financial condition, results of operations and cash flows.

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 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 rollforwards 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. We plan to adopt the standard with a January 1, 2023 effective date. We continue to evaluate the impact of the standard on our reported consolidated financial condition, results of operations, cash flows and required disclosures.

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 standard may be elected and applied prospectively over time from March 12, 2020 through December 31, 2022 as reference rate reform activities occur.

Where permitted by the guidance, we have accounted for contract modifications stemming from the discontinuation of LIBOR or another reference rate as a continuation of the existing contract. As part of our implementation efforts, we have and will continue to assess our operational readiness and current and alternative reference rates' merits, limitations, risks and suitability for our investment and insurance processes. The adoption of the standard has not had, and is not expected to have, a material impact on our reported 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.

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

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 credit default swaps (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 London Interbank Offered Rate (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 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 commercial mortgage backed securities (CMBS) and fixed maturity securities issued by corporate entities.

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 assets

Other assets are composed of investments in certain annuity interests.

Separate Account Assets

Separate account assets are composed primarily of registered and unregistered open-end mutual funds. We generally obtain the fair value of separate account assets from net asset value information provided by mutual funds. In addition, certain mutual funds are traded daily. We measure fair value for such mutual funds by obtaining quoted prices in active markets for identical assets at the balance sheet date. Market price data is generally obtained from exchange or dealer markets.

Assets Measured at Fair Value on a Recurring Basis

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

(in millions)	Level 1	Level 2	Level 3	Total
December 31, 2021				
Assets:				
Bonds available for sale:				
Non-U.S. governments	**$ -**	**$ 16**	**$ -**	**$ 16**
Corporate debt	**-**	**373**	**-**	**373**
RMBS	**-**	**42**	**-**	**42**
CMBS	**-**	**43**	**-**	**43**
CDO/ABS	**-**	**22**	**-**	**22**
Total bonds available for sale	**-**	**496**	**-**	**496**
Short-term investments	**-**	**28**	**-**	**28**
Other assets	**-**	**-**	**2**	**2**
Separate account assets	**514**	**816**	**-**	**1,330**
Total	**$ 514**	**$ 1,340**	**$ 2**	**$ 1,856**
December 31, 2020				
Assets:				
Bonds available for sale:				
Non-U.S. governments	$ -	$ 17	$ -	$ 17
Corporate debt	-	272	-	272
RMBS	-	62	-	62
CMBS	-	45	-	45
CDO/ABS	-	17	-	17
Total bonds available for sale	-	413	-	413
Short-term investments	-	35	-	35
Other assets	-	-	4	4
Separate account assets	343	876	-	1,219
Total	$ 343	$ 1,324	$ 4	$ 1,671

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the years ended December 31, 2021 and 2020 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Consolidated Balance Sheets at December 31, 2021 and 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
December 31, 2021								
Assets:								
Other assets	**$ 4**	**$ (1)**	**$ -**	**$ (1)**	**$ -**	**$ -**	**$ 2**	**$ -**
Total	**$ 4**	**$ (1)**	**$ -**	**$ (1)**	**$ -**	**$ -**	**$ 2**	**$ -**
December 31, 2020								
Assets:								
Other assets	$ 7	$ (1)	$ -	$ (2)	$ -	$ -	$ 4	$ -
Total	$ 7	$ (1)	$ -	$ (2)	$ -	$ -	$ 4	$ -

Net realized and unrealized gains and losses included in income related to Level 3 assets and liabilities shown above were reported in the Consolidated Statements of Income as follows:

(in millions)	Net Investment Income	Net Realized Capital Gains (Losses)	Total
December 31, 2021			
Other assets	**$ (1)**	**$ -**	**$ (1)**
December 31, 2020			
Other assets	$ (1)	$ -	$ (1)

The following table presents the gross components of purchases, sales, issues and settlements, net, shown above:

(in millions)	Purchases	Sales	Settlements	Purchases, Sales, Issuances and Settlements, Net
December 31, 2021				
Assets:				
Other assets	**$ -**	**$ -**	**$ (1)**	**$ (1)**
Total assets	**$ -**	**$ -**	**$ (1)**	**$ (1)**
December 31, 2020				
Assets:				
Other assets	$ -	$ -	$ (2)	$ (2)
Total assets	$ -	$ -	$ (2)	$ (2)

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at December 31, 2021 and 2020 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets

We record transfers of assets into Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. There was no net realized and unrealized gains (losses) recognized or other comprehensive income (loss) related to assets transferred into Level 3 in 2021 and 2020. There were no transfers of Level 3 assets during the years ended December 31, 2021 and 2020.

Quantitative Information about Level 3 Fair Value Measurements

Significant unobservable inputs are used for recurring fair value measurements for certain Level 3 instruments, and include 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.

Fair value estimates for the investments in annuity interests are calculated using discounted cash flows based on medical underwriting ratings of the policies from a third-party underwriter, applied to an industry mortality table. Our mortality assumptions are based on an industry table as supplemented with proprietary data.

Fair Value Information About Financial Instruments Not Measured At Fair Value

Information regarding the estimation of fair value for financial instruments not carried at fair value (excluding insurance contracts) is discussed below.

- **Policy loans:** The fair value of policy loans is estimated based on unpaid principal amount. No consideration is given to credit risk because policy loans are effectively collateralized by the cash surrender value of the policies.
- **Short-term investments:** 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.

The following table presents the carrying values and estimated fair values of our financial instruments not measured at fair value and indicates the level in the fair value hierarchy of the estimated fair value measurement based on the observability of the inputs used:

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
December 31, 2021					
Assets:					
Policy loans	**$ -**	**$ -**	**$ 41**	**$ 41**	**$ 41**
Short-term investments	**-**	**14**	**-**	**14**	**14**
Other assets	**-**	**-**	**20**	**20**	**20**
December 31, 2020					
Assets:					
Policy loans	$ -	$ -	$ 41	$ 41	$ 41
Short-term investments	-	21	-	21	21
Other assets	-	-	20	20	20

4. INVESTMENTS

Fixed Maturity Securities

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, 2021 or 2020.

Unrealized gains and losses from available for sale investments in fixed maturity securities carried at fair value were reported as a separate component of AOCI, net of policy related amounts and deferred income taxes, in shareholders' 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.

Securities Available for Sale

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

(in millions)	Amortized Cost or Cost	Allowance for Credit Losses[a]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021					
Bonds available for sale:					
Non-U.S. Governments	**$ 15**	**$ -**	**$ 1**	**$ -**	**$ 16**
Corporate debt	**356**	**-**	**17**	**-**	**373**
RMBS	**41**	**-**	**1**	**-**	**42**
CMBS	**41**	**-**	**2**	**-**	**43**
CDO/ABS	**22**	**-**	**-**	**-**	**22**
Total bonds available for sale[b]	**$ 475**	**$ -**	**$ 21**	**$ -**	**$ 496**
December 31, 2020					
Bonds available for sale:					
Non-U.S. Governments	$ 15	$ -	$ 2	$ -	$ 17
Corporate debt	244	-	29	(1)	272
RMBS	60	-	2	-	62
CMBS	41	-	4	-	45
CDO/ABS	17	-	-	-	17
Total bonds available for sale[b]	$ 377	$ -	$ 37	$ (1)	$ 413

(a) Represents the allowance for credit losses that has been recognized. Changes in the allowance for credit losses are recorded through Net realized gains (losses) and are not recognized in Other comprehensive income (loss).

(b) At December 31, 2021 and 2020, bonds available for sale held by us that were below investment grade or not rated totaled $5 million and $8 million, respectively.

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:

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021						
Bonds available for sale:						
Corporate debt	**$ 114**	**$ -**	**$ -**	**$ -**	**$ 114**	**$ -**
RMBS	**14**	**-**	**-**	**-**	**14**	**-**
CDO/ABS	**20**	**-**	**-**	**-**	**20**	**-**
Total bonds available for sale	**$ 148**	**$ -**	**$ -**	**$ -**	**$ 148**	**$ -**
December 31, 2020						
Bonds available for sale:						
Corporate debt	$ 6	1	$ -	$ -	$ 6	$ 1
RMBS	-	-	-	-	-	-
CDO/ABS	-	-	15	-	15	-
Total bonds available for sale	$ 6	$ 1	$ 15	$ -	$ 21	$ 1

At December 31, 2021, we held 16 individual bonds available for sale that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including zero individual bonds available for sale that were in a continuous unrealized loss position for 12 months or more). At December 31, 2020, we held 6 individual bonds available for sale that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including 2 individual bonds available for sale that were in a continuous unrealized loss position for 12 months or longer). We did not recognize the unrealized losses in earnings on these fixed maturity securities at December 31, 2021, 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 these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, liquidity position, expected defaults, industry and sector analysis, forecasts and available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

	Total Fixed Maturity Securities Available for Sale	
(in millions)	Amortized Cost, net of allowance	Fair Value
December 31, 2021		
Due in one year or less	$ -	$ -
Due after one year through five years	218	226
Due after five years through ten years	147	155
Due after ten years	6	8
Mortgage-backed, asset-backed and collateralized	104	107
Total	$ 475	$ 496

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.

In 2021 and 2020, the aggregate fair value of available for sale securities sold was $6 million and $13 million, respectively. In 2021 and 2020, the gross realized gains and gross realized losses from sales or maturities of our available for sale securities were insignificant.

Net Investment Income

Net investment income represents income from the following sources:

- Interest income and related expenses, including amortization of premiums and accretion of discounts on bonds with changes in the timing and the amount of expected principal and interest cash flows reflected in yield, as applicable.
- Interest income on policy loans.
- Earnings from investments in other assets.

The following table presents the components of net investment income:

	Years Ended December 31,	
(in millions)	**2021**	2020
Fixed maturity securities, including short-term investments	**$ 12**	$ 14
Policy loans	**2**	3
Other assets	**-**	(1)
Net investment income	**$ 14**	$ 16

Net Realized Gains and Losses

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

- Sales or full redemption of available for sale fixed maturity securities.

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

	Years Ended December 31,	
(in millions)	**2021**	2020
Sales of available for sale fixed maturity securities	**$ 1**	$ (1)
Net realized gains (losses)	**$ 1**	$ (1)

Evaluating Investments for an Allowance for Credit Losses

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.

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.

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 Securities

We purchase certain RMBS securities that have experienced more-than-insignificant deterioration in credit quality since origination. 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.

We did not purchase securities with more than insignificant credit deterioration since their origination during 2021. During the twelvemonth period ended December 31, 2020, we purchased certain securities which had more than insignificant credit deterioration since their origination. These PCD securities are held in the portfolio of bonds available for sale in their natural classes at December 31, 2020.

5. REINSURANCE

In the ordinary course of business, we utilize affiliated reinsurance relationships to facilitate capital management strategies. We generally limit our exposure to loss on any single insured to $5,000 by ceding additional risks through reinsurance contracts with a U.S. AIG affiliate, AGL.

Amounts recoverable from reinsurers 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 premiums with respect to these treaties are earned over the contract period in proportion to the protection provided.

The following table provides supplemental information for loss and benefit reserves, gross and net of ceded reinsurance:

December 31,	2021		2020	
(in millions)	As Reported	Net of Reinsurance	As Reported	Net of Reinsurance
Policyholder contract deposits	**$ 41**	**$ 37**	$ 41	$ 37

Long-Duration Reinsurance

Long-duration reinsurance is effected 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 and policy fees for our long-duration life insurance and annuity operations:

	Years Ended December 31,	
(in millions)	**2021**	2020
Premiums:		
Ceded	**$ (15)**	$ (21)
Net	**$ (15)**	$ (21)
Policy Fees:		
Direct	**$ 15**	$ 18
Net	**$ 15**	$ 18

The following table presents long-duration insurance in-force ceded to other insurance companies:

December 31, *(in millions)*	**2021**	2020
Long-duration insurance in force ceded	**$ 1,132**	$ 1,567

Long-duration insurance in-force assumed as a percentage of gross long-duration insurance in-force was 88.0 percent at both December 31, 2021 and 2020.

We have various reinsurance agreements with affiliated companies whereby we reinsure term life and annuity products. In March 2002, we began assuming certain term life and universal life products of a U.S. AIG affiliate under a combination coinsurance and modified coinsurance agreement (co-modco). The affiliated ceding company’s life reserves subject to this agreement were $387 million and $389 million at December 31, 2021 and 2020, respectively. In 2003, we also began assuming certain annuity products of a U.S. AIG affiliate under a co-modco agreement. The affiliated ceding company’s annuity reserves subject to this agreement were $5.7 billion and $6.2 billion at December 31, 2021 and 2020, respectively. These agreements do not meet the criteria for reinsurance accounting under GAAP; therefore, deposit accounting is applied.

Certain agreements with our U.S. AIG affiliates provide for an experience refund of all profits, less a reinsurance risk charge. The most significant impact of the agreements on our consolidated results of operations in 2021 and 2020 was pre-tax income of approximately $14 million and $15 million, respectively, representing the risk charge and interest associated with the reinsurance agreements. Amounts due from related parties at December 31, 2021 and 2020 included $231 million and $220 million, respectively, related to these reinsurance agreements.

We provide one bilateral letter of credit (LOCs) to secure the reserve credits taken for these reserves by the AIG affiliated ceding company on their respective statutory balance sheets. The LOC is subject to reimbursement by AIG Parent in the event of a drawdown. Total outstanding LOC was $250 million in both 2021 and 2020, which was issued on February 7, 2014 and expire on February 8, 2025. The cost of the LOC was $2 million and $3 million in 2021 and 2020, respectively.

Reinsurance Security

Our reinsurance arrangements do not relieve us from our direct obligations to our beneficiaries. 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 believe that no exposure to a single reinsurer represents an inappropriate concentration of credit risk to us.

6. INSURANCE LIABILITIES

Policyholder Contract Deposits

The liability for policyholder contract deposits is primarily recorded at accumulated value (deposits received and net transfers from separate accounts, plus accrued interest credited, less withdrawals and assessed fees). The policyholder contract deposits at December 31, 2021 and 2020 primarily include transfers from separate accounts for policy loans.

Policy Claims and Benefits Payable

Policy claims and benefits payable include amounts representing: (i) the actual in-force amounts for reported variable universal life claims; and (ii) valid proof of loss claims (as defined in the reinsurance agreement) for all contracts eligible to receive benefits at the balance sheet date. There is no discounting for possible non-receipt of the appropriate proofs of loss due to unreported deaths. The methods of making estimates and establishing the resulting reserves are continually reviewed and updated and any adjustments are reflected in current period income.

7. CONTINGENCIES

Legal and Regulatory Matters

We are party to various lawsuits and proceedings arising in the ordinary course of business. We believe it is unlikely that contingent liabilities arising from such lawsuits will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Various regulatory and governmental agencies may from time to time review, examine or inquire into our operations, practices and procedures, such as through financial examinations, market conduct exams or regulatory inquiries. Based on the current status of pending regulatory examinations and inquiries involving us, we believe it is not likely that these regulatory examinations or inquiries will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

8. EQUITY

Accumulated Other Comprehensive Income

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

(in millions)	December 31, 2021	December 31, 2020
Unrealized appreciation of fixed maturity securities, available for sale	**$ 21**	$ 37
Foreign currency translation adjustments	**1**	1
Deferred income tax	**(4)**	(8)
Accumulated other comprehensive income	**$ 18**	$ 30

The following table presents the other comprehensive income (loss) reclassification adjustments:

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments	Foreign Currency Translation Adjustments	Total
Year ended December 31, 2020			
Unrealized change arising during period	$ 16	$ (1)	$ 15
Less: Reclassification adjustments included in net income	(1)	(1)	(2)
Total other comprehensive income, before income tax expense	17	-	17
Less: Income tax expense	4	-	4
Total other comprehensive income, net of income tax expense	$ 13	$ -	$ 13
Year ended December 31, 2021			
Unrealized change arising during period	**$ (15)**	**$ -**	**$ (15)**
Less: Reclassification adjustments included in net income	**1**	**-**	**1**
Total other comprehensive income (loss), before income tax expense (benefit)	**(16)**	**-**	**(16)**
Less: Income tax expense (benefit)	**(4)**	**-**	**(4)**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ (12)**	**$ -**	**$ (12)**

The following table presents the effect of the reclassification of significant items out of accumulated other comprehensive income on the respective line items in the Consolidated Statements of Income:

(in millions)	Amount Reclassified from Accumulated Other Comprehensive Income December 31, 2021	2020	Affected Line Item in the Consolidated Statements of Income
Unrealized appreciation (depreciation) of fixed maturity securities on which allowance for credit losses was taken:			
Investments	**-**	**-**	Other realized capital gains
Unrealized appreciation (depreciation) of all other investments:			
Investments	**1**	**(1)**	Other realized capital gains
Foreign currency translation adjustments	**-**	**(1)**	Net realized capital gains (losses)
Total reclassifications for the period	**$ 1**	$ **(2)**	

9. STATUTORY FINANCIAL DATA AND RESTRICTIONS

The following table presents our statutory net income and capital and surplus:

(in millions)		**2021**
Year Ended December 31,		
Statutory net income	**$**	**18**
At December 31,		
Statutory capital and surplus		**616**
Aggregate minimum required statutory capital and surplus		**15**

We file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by the BMA. The principal differences between statutory financial statements and financial statements prepared in accordance with GAAP relate to the presentation of both consolidated and unconsolidated data within the statutory financial statements. In addition, we received approval from the BMA to recognize AIG Parent's contingent tax liability as an asset in our statutory financial statements in the 2020 financials. The contingent tax liability was secured by LOCs for $250 million, issued for our benefit. As of December 31, 2021, the tax liability has been settled and the LOC contracts have been terminated.

Dividend Restrictions

Under the Bermuda Companies Act 1981, as amended, a Bermuda company may not declare or pay a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that: (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the company's assets would thereby be less than its liabilities.

Under the Insurance Act 1978, a Class E re/insurer is prohibited from declaring or paying any dividends of more than 25% of its total statutory capital and surplus as shown on its previous financial year's statutory balance sheet unless it certifies to the BMA that it will continue to meet its minimum solvency margin and minimum liquidity ratio. As the Company carries on long-term business, it shall not declare or pay a dividend to any person other than a policyholder unless the value of the assets of such insurer, as certified by the Company's approved actuary, exceeds its liabilities by the greater of its margin of solvency or, if applicable, its enhanced capital requirement and the amount of any such dividend shall not exceed that excess. In addition, a Class E reinsurer may not reduce their total statutory capital as set out in their previous financial year's financial statements by 15% or more unless they have received the prior approval from the BMA.

The maximum dividend payout that may be made in 2022 without prior approval of the BMA is $154 million.

10. INCOME TAXES

U.S. Tax Law Changes

On March 27, 2020, the U.S. 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 our U.S. federal tax liabilities.

On November 15, 2021, the U.S. enacted the Infrastructure Investment and Jobs Act to improve infrastructure in the U.S. The tax provisions of the Infrastructure Investment and Jobs Act have not had and are currently not expected to have a material impact on our U.S. federal tax liabilities.

The U.S. statutory income tax rate was 21 percent for 2021 and 2020. Actual income tax (benefit) expense differed from the statutory U.S. federal amount computed by applying the federal income tax rate, due to the following:

Years Ended December 31, *(in millions)*	**2021**	2020
U.S federal income tax expense at statutory rate	**$ 6**	$ 6
Adjustments:		
Other credits, taxes and settlements	**4**	(1)
Total income tax expense	**$ 10**	$ 5

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities, at the enacted tax rates expected to be in effect when the temporary differences reverse. The effect of a tax rate change is recognized in income in the period of enactment.

The following table presents the components of the net deferred tax assets (liabilities):

Years Ended December 31, *(in millions)*	**2021**	2020
Deferred tax assets:		
Basis differential of investments	**$ 35**	$ 34
Total deferred tax assets	**35**	34
Deferred tax liabilities:		
Net unrealized gains on fixed maturity securities available for sale	**(4)**	(8)
Policy reserves	**(112)**	(122)
Total deferred tax liabilities	**(116)**	(130)
Net deferred tax liability	**$ (81)**	$ (96)

At December 31, 2021 and 2020, we had no tax loss carryforwards and no deferred tax valuation allowance.

We are included in the consolidated federal income tax return of our ultimate parent, AIG. Under our Amended and Restated Tax Payment Allocation Agreement dated June 6, 2011 (“AIG Tax Sharing Agreement”) with AIG Parent, taxes are recognized and computed on a separate company basis. To the extent that benefits for net operating losses, foreign tax credits or net capital losses are utilized on a consolidated basis, we will recognize tax benefits based upon the amount of the deduction and credits utilized in the consolidated federal income tax return. Under the AIG Tax Sharing Agreement, AIG Parent has agreed to indemnify us for any tax liability (including interest and penalties) resulting from adjustments made by the Internal Revenue Service (“IRS ”) or other appropriate authorities to taxable income, special deductions or credits related to transactions between our investees and AIGFP. In the fourth quarter of 2020, AIG executed a binding agreement with the IRS that included the settlement of the tax effects of these transactions. In the second quarter of 2020, AIG Parent made a prepayment on the tax liability of $203 million which we have recorded as a capital contribution from the Company’s parent. During the second quarter of 2021, AIG made an additional payment of $354 million to the U.S. Treasury with respect to this matter which we have recorded as a capital contribution from the Company’s parent. The capital contributions associated with these transactions have been recorded in financing activities within the statement of cash flows with a corresponding change in operating activities. While these were non-cash transactions, the Company concluded that there was constructive receipt of a capital contribution and related tax indemnification.

Assessment of Deferred Tax Asset Valuation Allowance

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 us to consider 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; and
- prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of deferred tax assets.

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies could change in the near term, perhaps materially, which may require us to consider any potential impact to our assessment of the recoverability of the deferred tax asset. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

Accounting For Uncertainty in Income Taxes

The following table presents a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits, excluding interest and penalties:

	Years Ended December 31,	
(in millions)	**2021**	2020
Gross unrecognized tax benefits at beginning of year	**$ -**	$ 275
Settlements	**-**	(275)
Gross unrecognized tax benefits at end of year	**$ -**	$ -

At December 31, 2021 and 2020, there were no amounts of unrecognized tax benefits that, if recognized, would affect the effective tax rate.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At December 31, 2021 and 2020, we had accrued no liabilities for the payment of interest (net of the federal benefit) and penalties. In 2021 and 2020, we recognized expense of $0 million and $0.3 million, respectively, for interest (net of the federal benefit) and penalties related to unrecognized tax benefits.

We regularly evaluate proposed adjustments by taxing authorities. At December 31, 2021, such proposed adjustments would not have resulted in a material change to our consolidated financial condition for an individual reporting period, although it is possible that the effect could be material to our consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next twelve months, based on the information currently available, we do not expect any change to be material to our consolidated financial condition.

We are currently under Internal Revenue Service (IRS) examination for the taxable years 2011-2013 and engaging in the IRS Appeals process in regard to years 2007-2010. Although the final outcome of possible issues raised in any future examination are uncertain, we believe that the ultimate liability, including interest, will not materially exceed amounts recorded in the financial statements. Taxable years 2007-2020 remain subject to examination by major tax jurisdictions.

11. RELATED PARTY TRANSACTIONS

Events Related to AIG

Separation of Life and Retirement Business and Relationship with Blackstone Inc.

On October 26, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. On November 2, 2021, AIG and Blackstone Inc. (Blackstone) completed the acquisition by Blackstone of a 9.9 percent equity stake in

SAFG Retirement Services, Inc. (SAFG), which is the holding company for AIG's Life and Retirement business, for $2.2 billion in an all cash transaction, subject to adjustment if the final pro forma adjusted book value is greater or lesser than the target pro forma adjusted book value. As part of the separation, most of AIG's investment operations were transferred to SAFG or its subsidiaries as of December 31, 2021, and AIG entered into a long-term asset management relationship with Blackstone to manage an initial $50 billion of Life and Retirement's existing investment portfolio beginning in the fourth quarter of 2021, with that amount increasing by increments of $8.5 billion per year for five years beginning in the fourth quarter of 2022, for an aggregate of $92.5 billion. In addition, Blackstone designated one member of the Board of Directors of SAFG, which consists of 11 directors. Any separation transaction will be subject to the satisfaction of various conditions and approvals, including approval by the AIG Board of Directors, receipt of insurance and other required regulatory approvals, and satisfaction of any applicable requirements of the Securities and Exchange Commission (SEC).

Additional information on AIG Parent is publicly available in AIG Parent's regulatory filings with the U.S. Securities and Exchange Commission (SEC), which can be found at www.sec.gov. Information regarding AIG Parent as described herein is qualified by regulatory filings AIG Parent files from time to time with the SEC.

Operating Agreements

Pursuant to a cost allocation agreement, we purchase administrative, investment management, accounting, marketing and data processing services from AIG Parent or its subsidiaries. The allocation of costs for investment management services is based on the level of assets under management. The allocation of costs for other services is based on estimated level of usage, transactions or time incurred in providing the respective services. We incurred approximately $1 million and $2 million for such services in 2021 and 2020, respectively. Accounts payable for such services at December 31, 2021 and 2020 were not significant.

Agreements with Affiliates

See Note 5 for discussion of affiliated reinsurance.

We have a Cut-through Agreement with AGL pursuant to which policyowners and their beneficiaries were granted a direct right of action against AGL in the event we become insolvent or otherwise cannot or refuse to perform our obligations under certain life insurance policies issued by us. The Cut-through Agreement was approved by the Texas Department of Insurance. We believe the probability of loss under this agreement is remote.

AIG Parent agreed to exclude any income or loss attributable to an intercompany retrocession reinsurance treaty between us and any subsidiary of AIG Parent from the subsidiary's separate return tax liability when that subsidiary has elected under section 953 (d) of the Internal Revenue Code to be treated as a U.S. entity subject to U.S. tax law. We calculate the tax expense (benefit) on the excluded income and record tax liabilities as deemed capital contributions and tax assets as deemed dividends/capital distributions. We did not record a deemed capital distribution or a deemed dividend in 2021 or 2020.

12. SUBSEQUENT EVENTS

Management considers events or transactions that occur after the reporting date, but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosures. The Company has evaluated subsequent events through April 29, 2022, the date the financial statements were issued.

On March 28th, 2022, AIG announced a strategic partnership with BlackRock, Inc. ("BlackRock"), through which BlackRock will manage a significant portion of fixed income and other assets in the AIG and Corebridge Financial, Inc., formerly known as SAFG Retirement Services (Corebridge), investment portfolios. The arrangements contemplate BlackRock managing up to $60 billion of the global AIG investment portfolio and up to $90 billion of Corebridge investment portfolio. Additionally, BlackRock's Aladdin platform will provide investment management technology for both AIG and Corebridge.