# American International Reinsurance Company, Ltd. and Subsidiary

## GAAP Consolidated Financial Statements

As of and for the Years Ended December 31, 2022 and 2021

# Table of Contents

pwc

## Report of Independent Auditors

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

### *Opinion*

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, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), shareholder's equity and cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management 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, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

### *Auditors' Responsibility for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***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.

***Required Supplemental Information***

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. The required supplemental information is the responsibility of management. We have applied certain limited procedures to the required supplemental information in accordance with US GAAS, 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 28, 2023

# American International Reinsurance Company, Ltd. and Subsidiary
# Consolidated Balance Sheets

| *(in millions, except for share data)* | | December 31, 2022 | | December 31, 2021 |
|---|---|---|---|---|
| **Assets:** | | | | |
| Investments: | | | | |
| Fixed maturity securities: | | | | |
| Bonds available for sale, at fair value, net of allowance for credit losses of $0 in 2022 and 2021 (amortized cost: 2022 - $2,453; 2021 - $2,773) | $ | 1,803 | $ | 2,770 |
| Other bond securities at fair value (See Note 4) | | 87 | | 57 |
| Equity securities at fair value (See Note 4) | | - | | 14 |
| Other invested assets | | 27 | | 30 |
| Short-term investments | | 377 | | 358 |
| **Total investments** | | 2,294 | | 3,229 |
| Cash | | 12 | | 13 |
| Accrued investment income | | 23 | | 25 |
| Premiums and insurance balances receivable, net of allowance for credit losses and disputes | | 49 | | 121 |
| Reinsurance assets, net of allowance for credit losses and disputes | | 1,800 | | 2,057 |
| Deferred income taxes | | - | | 10 |
| Deferred policy acquisition costs | | 90 | | 100 |
| Funds held by companies under reinsurance contracts | | 364 | | 397 |
| Other assets, including restricted cash of $10 in 2022 and $10 in 2021 | | 147 | | 144 |
| **Total assets** | $ | 4,779 | $ | 6,096 |
| **Liabilities:** | | | | |
| Liability for unpaid losses and loss adjustment expenses, including allowance for credit losses | $ | 1,102 | $ | 1,292 |
| Unearned premiums | | 383 | | 415 |
| Future policy benefits for life and accident and health insurance contracts | | 1,377 | | 1,523 |
| Funds held under reinsurance treaties | | 848 | | 1,571 |
| Premiums and insurance balances payable | | 61 | | 161 |
| Deferred income tax liabilities | | 94 | | - |
| Other liabilities | | 347 | | 313 |
| **Total liabilities** | $ | 4,212 | $ | 5,275 |
| **Shareholder's equity:** | | | | |
| Common stock, ($1 par value, 10,000,000 shares authorized, issued and fully paid) | $ | 10 | $ | 10 |
| Additional paid-in capital | | 527 | | 527 |
| Retained earnings | | 621 | | 230 |
| Accumulated other comprehensive (loss) income | | (591) | | 54 |
| **Total shareholder's equity** | $ | 567 | $ | 821 |
| **Total liabilities and shareholder's equity** | $ | 4,779 | $ | 6,096 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| (in millions) | Years Ended December 31, 2022 | 2021 |
|---|---|---|
| **Revenues:** | | |
| Premiums | $ 533 | $ 573 |
| Net investment income | 25 | 73 |
| Net realized gains | 478 | 107 |
| Other income | 18 | 15 |
| **Total revenues** | 1,054 | 768 |
| **Benefits, losses and expenses:** | | |
| Policyholder benefits and losses incurred | 440 | 447 |
| Policy acquisition costs and other operating expenses | 87 | 86 |
| **Total benefits, losses and expenses** | 527 | 533 |
| **Income from continuing operations before income taxes** | 527 | 235 |
| **Income tax expense** | 111 | 50 |
| **Net income** | $ 416 | $ 185 |

*See accompanying Notes to Consolidated Financial Statements.*

# American International Reinsurance Company, Ltd. and Subsidiary
# Consolidated Statements of Comprehensive Income (Loss)

| | Years Ended December 31, | |
|---|---|---|
| *(in millions)* | **2022** | 2021 |
| **Net income** | **$ 416** | $ 185 |
| **Other comprehensive income (loss), net of tax** | | |
| Change in unrealized appreciation (depreciation) of investments | **(647)** | (149) |
| Change in foreign currency translation adjustments | **(8)** | (6) |
| Change in retirement plan liability adjustments | **10** | 25 |
| **Other comprehensive income (loss), net of tax** | **(645)** | (130) |
| **Comprehensive income (loss), net of tax** | **$ (229)** | $ 55 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| (in millions) | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (loss) | Total Shareholder's Equity |
|---|---|---|---|---|---|
| **Balance, January 1, 2021** | $ 10 | $ 523 | $ 65 | $ 184 | $ 782 |
| Dividend to shareholder | - | - | (20) | - | (20) |
| Net income | - | - | 185 | - | 185 |
| Capital contribution | - | 4 | - | - | 4 |
| Other comprehensive income (loss) | - | - | - | (130) | (130) |
| **Balance, December 31, 2021** | $ 10 | $ 527 | $ 230 | $ 54 | $ 821 |
| Dividend to shareholder | - | - | (25) | - | (25) |
| Net income | - | - | 416 | - | 416 |
| Other comprehensive income (loss) | - | - | - | (645) | (645) |
| **Balance, December 31, 2022** | **$ 10** | **$ 527** | **$ 621** | **$ (591)** | **$ 567** |

*See accompanying Notes to Consolidated Financial Statements*

# American International Reinsurance Company, Ltd. and Subsidiary
# Consolidated Statements of Cash Flows

| | Years Ended December 31, | |
|---|---|---|
| *(in millions)* | **2022** | 2021 |
| **Cash flows from operating activities:** | | |
| Net income | **$ 416** | $ 185 |
| **Adjustments to reconcile net income to net cash provided by (used in) operating activities:** | | |
| **Non-cash revenues, expenses, gains and losses included in income:** | | |
| Net losses (gains) on sales of securities available for sale and other invested assets | **38** | (5) |
| Net unrealized (gains) losses on derivatives and other investments | **63** | 17 |
| Amortization of deferred policy acquisition costs | **54** | 61 |
| Depreciation and other amortization | **20** | 16 |
| **Changes in operating assets and liabilities:** | | |
| Insurance reserves | **(367)** | (101) |
| Premiums and insurance balances receivable and payable – net | **(29)** | 7 |
| Reinsurance assets and funds held under reinsurance treaties | **(239)** | (108) |
| Capitalization of deferred policy acquisition costs | **(44)** | (50) |
| Accrued investment income | **2** | 2 |
| Current and deferred income taxes, net | **98** | 12 |
| Other, net | **48** | 92 |
| Total adjustments | **(356)** | (57) |
| **Net cash (used in) provided by operating activities** | **$ 60** | $ 128 |
| **Cash flows from investing activities:** | | |
| Proceeds from (payments for): | | |
| Sales of fixed maturity securities available for sale | **$ 110** | $ 405 |
| Maturities of fixed maturity securities available for sale | **196** | 269 |
| Purchases of fixed maturity securities available for sale | **(223)** | (643) |
| Purchases of other securities | **(84)** | (48) |
| Sales of other securities | **3** | - |
| Maturities of other securities | **4** | - |
| Sales of equity securities | **10** | - |
| Net change in short-term investments | **(19)** | (87) |
| Net change in derivative assets and liabilities | **(33)** | (19) |
| **Net cash provided by (used in) investing activities** | **$ (36)** | $ (123) |
| **Cash flows from financing activities:** | | |
| Cash dividend paid to shareholder | **$ (25)** | $ - |
| **Net cash (used in) financing activities** | **$ (25)** | $ - |
| Net (decrease) increase in cash and restricted cash | **$ (1)** | $ 5 |
| Cash and restricted cash at beginning of year | **23** | 18 |
| **Cash and restricted cash at end of year** | **$ 22** | $ 23 |
| **Supplementary disclosure of cash flow information:** | | |
| Cash | **$ 12** | $ 13 |
| Restricted cash included in other assets | **10** | 10 |
| **Total cash and restricted cash shown in Consolidated Statement of Cash Flows** | **$ 22** | $ 23 |
| **Non-cash financing/investing activities:** | | |
| Fixed maturity securities transferred in connection with reinsurance transactions | **$ (18)** | $ (30) |
| Dividend paid to shareholder of bonds available for sale | **$ -** | $ (20) |
| Deemed capital contribution on tax settlements made by parent | **$ -** | $ 4 |

*See accompanying Notes to Consolidated Financial Statements*

# 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. AIRCO is a wholly owned subsidiary of AIG Property Casualty International, LLC (“AIGPCIL” or “Parent”). AIGPCIL’s ultimate holding company is American International Group, Inc. ("AIG") which is an SEC-registered company incorporated in the state of Delaware, USA. 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.

On October 25, 2020, AIG announced its intention to separate its Life and Retirement business from AIG. On September 19, 2022, AIG closed on the initial public offering ("IPO") of Corebridge Financial, Inc. (“Corebridge”), which is a holding company for AIG's Life and Retirement business. Following the IPO, AIG owns 77.7% of the outstanding common stock of Corebridge. We assume various blocks of Life and Retirement business from Corebridge (premiums and policyholder benefits of approximately $41 million and $31 million, and $42 million and $35 million, for the years ended December 31, 2022 and December 31, 2021, respectively). In connection with the IPO of Corebridge, this business may be recaptured by Corebridge in 2023. At this time, the impact of such a recapture is not known.

## 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. 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:

- loss reserves;
- future policy benefit reserves and accident and health insurance contracts;
- valuation of embedded derivative liabilities;
- reinsurance assets, including the allowance for credit losses and disputes;
- allowances for credit losses on certain investments, primarily on loans and available for sale fixed maturity securities;
- legal contingencies;
- fair value measurements of certain financial assets and financial liabilities; and
- income taxes, in particular the recoverability of our net deferred tax asset and establishment of provisions for uncertain tax provisions.

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 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 gains (losses)
- Allowance for credit losses

**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 on insurance contracts are earned primarily 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 of coverage. Reinsurance premiums are typically earned over the same period as the underlying policies or risks covered by the contract.

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 for assumed business are estimated based on information received from brokers and ceding companies. Any subsequent differences that arise regarding such estimates are recorded in the periods in which they are determined.

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 $16 million in 2022 and $16 million in 2021 for fees earned for arranging and administering reinsurance programs, which are recognized as service is rendered. Agency income fees included $8 million and $7 million from affiliated companies for the years ended December 31, 2022 and 2021, 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** include premium balances receivables due from agents, brokers and policyholders. The allowance for credit losses and disputes on premiums and other receivables was insignificant at December 31, 2022 and 2021, 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.

Deposit assets of $25 million and $33 million at December 31, 2022 and 2021, respectively, are included in Other assets. Deposit liabilities of $31 million and $35 million at December 31, 2022 and 2021, respectively, are included in Other liabilities. Included in deposit liabilities is $6 million and $2 million from affiliated companies for the years ended December 31, 2022 and 2021, respectively.

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, 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), 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 $35 million and $46 million in 2022 and 2021, 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 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 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.

## ACCOUNTING STANDARDS ADOPTED

### 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 was set to expire on December 31, 2022 but was extended to December 31, 2024, after which application of the guidance will no longer be permitted. During this period, this standard may be elected and applied prospectively as reference reforms occur.

Where permitted by the guidance, we have accounted for contract modification 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, risk and suitability for our investments and insurance processes. The adoption of the standard has not, and is not expected to have, a material impact on our reported consolidated financial condition, results of operations, cash flows and required disclosures.

## 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.

This standard is effective January 1, 2025 for non-public companies, however, we are considering early adoption. We continue to evaluate and expect the adoption of this standard will impact our financial condition, results of operations, statement of cash flows and disclosures, as well as systems, processes and controls.

At the transition date, the Company will estimate an adjustment to AOCI due to the fact that the market upper-medium grade (low credit risk) interest rates as of the transition date differ from reserve interest accretion rates. Lower (higher) interest rates result in a higher (lower) liability for future policy benefits.

The standard:

- Requires the discount rate assumption for the liability for future policy benefits 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

- 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 above) in the income statement.

- 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. Accordingly, we expect less variability in our DAC amortization as the DAC related to universal life insurance and investment-type products, for example variable, fixed, and fixed index annuities, will no longer be required to be amortized in relation to the incidence of estimated gross profits to be realized over the expected lives of the contract. As DAC will be amortized on a constant level basis.

- Increased disclosures of disaggregated roll-forwards of several balances, including liabilities for future policy benefits, deferred acquisition costs, 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.

# 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

- **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 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.

### 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 gains (losses). This embedded derivative is considered a total return swap with contractual returns that are attributable to various assets and liabilities associated with this reinsurance agreement. 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, 2022<br>*(in millions)* | Level 1 | Level 2 | Level 3 | Counterparty Netting and Cash Collateral [(a)] | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| **Bonds available for sale:** | | | | | |
| U.S. government and U.S. government sponsored entities | $ 1 | $ 130 | $ - | $ - | $ 131 |
| Obligations of states, municipalities, and political subdivisions | - | 74 | - | - | 74 |
| Non-U.S. governments | 17 | 242 | - | - | 259 |
| Corporate debt | - | 1,029 | - | - | 1,029 |
| RMBS | - | 75 | 43 | - | 118 |
| CMBS | - | 131 | 3 | - | 134 |
| CDO/ABS | - | 55 | 3 | - | 58 |
| **Total bonds available for sale** | $ 18 | $ 1,736 | $ 49 | $ - | $ 1,803 |
| **Other bond securities:** | | | | | |
| Corporate Debt | - | 59 | - | - | 59 |
| RMBS | - | - | 13 | - | 13 |
| Non-U.S. governments | - | 15 | - | - | 15 |
| **Total other bonds securities** | - | 74 | 13 | - | 87 |
| **Short term investments** | 377 | - | - | - | 377 |
| **Derivative assets** | - | 22 | - | (22) | - |
| **Total** | $ 395 | $ 1,832 | $ 62 | $ (22) | $ 2,267 |
| **Liabilities:** | | | | | |
| **Funds held under reinsurance treaty-embedded derivative** | $ - | $ - | $ (534) | $ - | $ (534) |
| **Total derivative liabilities** | $ - | $ 33 | $ - | $ (33) | $ - |
| **Total** | $ - | $ 33 | $ (534) | $ (33) | $ (534) |

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

| December 31, 2021 (in millions) | Level 1 | Level 2 | Level 3 | Counterparty Netting and Cash Collateral [(a)] | Total |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| **Bonds available for sale:** | | | | | |
| U.S. government and U.S. government sponsored entities | $ - | $ 32 | $ - | $ - | $ 32 |
| Obligations of states, municipalities, and political subdivisions | - | 52 | - | - | 52 |
| Non-U.S. governments | - | 512 | - | - | 512 |
| Corporate debt | - | 1,746 | - | - | 1,746 |
| RMBS | - | 109 | 74 | - | 183 |
| CMBS | - | 151 | 10 | - | 161 |
| CDO/ABS | - | 62 | 22 | - | 84 |
| **Total bonds available for sale** | - | 2,664 | 106 | - | 2,770 |
| **Other bond securities:** | | | | | |
| Corporate Debt | - | 12 | - | - | 12 |
| CMBS | - | 5 | - | - | 5 |
| RMBS | - | - | 21 | - | 21 |
| Non-U.S. governments | - | 19 | - | - | 19 |
| **Total other bonds securities** | - | 36 | 21 | - | 57 |
| **Equity securities:** | | | | | |
| Mutual funds | 14 | - | - | - | 14 |
| **Total equity securities** | 14 | - | - | - | 14 |
| **Short term investments** | 358 | - | - | - | 358 |
| **Derivative assets** | - | 3 | - | (3) | - |
| **Total** | $ 372 | $ 2,703 | $ 127 | $ (3) | $ 3,199 |
| **Liabilities:** | | | | | |
| **Funds held under reinsurance treaty-embedded derivative** | $ - | $ - | $ (85) | $ - | $ (85) |
| **Total derivative liabilities** | $ - | $ 16 | $ - | $ (16) | $ - |
| **Total** | $ - | $ 16 | $ (85) | $ (16) | $ (85) |

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

## CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS

**The following tables present changes during the years ended December 31, 2022 and 2021 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, 2022 and 2021:**

| December 31, 2022<br>(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 | Change in Unrealized Gains (Losses) Included in income on Instruments Held at End of Year | Change in Unrealized Gains (Losses) Included In Other Comprehensive Income for Recurring Level 3 Instruments held at End of Year |
|---|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | | |
| Bonds available for sale: | | | | | | | | | |
| RMBS | $ 74 | $ 2 | $ (6) | $ (21) | $ - | $ (6) | $ 43 | $ - | $ (1) |
| CMBS | 10 | - | (1) | 3 | - | (9) | 3 | - | (1) |
| CDO/ABS | 22 | 1 | (1) | (12) | 7 | (14) | 3 | - | (1) |
| Total bonds available for sale | 106 | 3 | (8) | (30) | 7 | (29) | 49 | - | (3) |
| Other bond securities: | | | | | | | | | |
| RMBS | 21 | (7) | - | (1) | - | - | 13 | (5) | - |
| Total other bond securities | 21 | (7) | - | (1) | - | - | 13 | (5) | - |
| Total assets | $ 127 | $ (4) | $ (8) | $ (31) | $ 7 | $ (29) | $ 62 | $ (5) | $ (3) |
| Liabilities: | | | | | | | | | |
| Funds held under reinsurance treaties – embedded derivative | $ (85) | $ (449) | $ - | $ - | $ - | - | $ (534) | $ - | $ - |
| Total liabilities | $ (85) | $ (449) | $ - | $ - | $ - | $ - | $ (534) | $ - | $ - |

| December 31, 2021<br>(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 | Change in Unrealized Gains (Losses) Included in income on Instruments Held at End of Year | Change in Unrealized Gains (Losses) Included In Other Comprehensive Income for Recurring Level 3 Instruments held at End of Year |
|---|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | | |
| Bonds available for sale: | | | | | | | | | |
| RMBS | $ 106 | $ 1 | $ - | $ (13) | $ - | $ (20) | $ 74 | $ - | $ 4 |
| CMBS | 11 | - | (1) | 5 | - | (5) | 10 | - | - |
| CDO/ABS | 20 | - | - | 1 | 12 | (11) | 22 | - | - |
| Total bonds available for sale | 137 | 1 | (1) | (7) | 12 | (36) | 106 | - | 4 |
| Other bond securities: | | | | | | | | | |
| RMBS | - | - | - | 21 | - | - | 21 | - | - |
| Total other bond securities | - | - | - | 21 | - | - | 21 | - | - |
| Total assets | $ 137 | $ 1 | $ (1) | $ 14 | $ 12 | $ (36) | $ 127 | $ - | $ 4 |
| Liabilities: | | | | | | | | | |
| Funds held under reinsurance treaties – embedded derivative | $ 59 | $ (144) | $ - | $ - | $ - | $ - | $ (85) | $ - | $ - |
| Total liabilities | $ 59 | $ (144) | $ - | $ - | $ - | $ - | $ (85) | $ - | $ - |

## 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, 2022 | Valuation Technique | Unobservable Input[b] | Range (Weighted Average) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| RMBS[a] | $ | 38 | Discounted cash flow | Constant prepayment rate | 1.05% - 9.03% (5.04%) |
| | | | | Constant default rate | 0.0% - 2.67% (1.27%) |
| | | | | Loss Severity | 10.26% - 71.30% (40.78%) |
| | | | | Yield | 6.29% - 7.95% (7.12%) |
| CMBS[a] | $ | 4 | Discounted cash flow | Yield | 17.76% - 17.76% (17.76%) |

| (in millions) | | Fair Value at December 31, 2021 | Valuation Technique | Unobservable Input[b] | Range (Weighted Average) |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| RMBS[a] | $ | 50 | Discounted cash flow | Constant prepayment rate | 4.09% - 23.35% (13.72%) |
| | | | | Constant default rate | 0.06% - 5.06% (2.56%) |
| | | | | Loss Severity | 16.77% - 70.73% (43.75%) |
| | | | | Yield | 1.85% - 3.22% (2.53%) |
| CDO/ABS[a] | $ | 13 | Discounted cash flow | Yield | 1.71% - 4.77% (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 a funds withheld reinsurance arrangement where the investments supporting the reinsurance agreement are withheld 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.

### 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 U.S. 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 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 embedded derivative represent the host contract. The carrying value of $1,382 million and $1,656 million as of December 31, 2022 and 2021, respectively, of the host component for the funds held under reinsurance treaties approximates fair value.

# 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, 2022 or 2021.

Unrealized gains and losses from available for sale investments in fixed maturity securities carried at fair value are reported as a separate component of accumulated other comprehensive income, net of deferred income taxes, in shareholder's equity. Realized and unrealized gains and losses from fixed maturity 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 purchased credit deteriorated ("PCD") asset. 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 tables present the amortized cost or cost and fair value of our available for sale securities:**

| **December 31, 2022** *(in millions)* | Cost/ Amortized Cost | Allowance for Credit Losses[(a)] | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| **Bonds available for sale:** | | | | | |
| U.S. government and government sponsored entities | $ 133 | $ - | $ - | $ (2) | $ 131 |
| Obligations of states, municipalities, and political subdivisions | 77 | - | - | (3) | 74 |
| Non-U.S. governments | 458 | - | - | (199) | 259 |
| Corporate debt | 1,449 | - | 1 | (421) | 1,029 |
| RMBS | 128 | - | 1 | (11) | 118 |
| CMBS | 146 | - | - | (12) | 134 |
| CDO/ABS | 62 | - | - | (4) | 58 |
| **Total bonds available for sale** | $ 2,453 | $ - | $ 2 | $ (652) | $ 1,803 |
| **Total** | $ 2,453 | $ - | $ 2 | $ (652) | $ 1,803 |

| December 31, 2021 *(in millions)* | Cost/ Amortized Cost | Allowance for Credit Losses[(a)] | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|---|
| **Bonds available for sale:** | | | | | |
| U.S. government and government sponsored entities | $ 32 | $ - | $ - | $ - | $ 32 |
| Obligations of states, municipalities, and political subdivisions | 51 | - | 1 | - | 52 |
| Non-U.S. governments | 543 | - | 9 | (40) | 512 |
| Corporate debt | 1,728 | - | 59 | (41) | 1,746 |
| RMBS | 178 | - | 6 | (1) | 183 |
| CMBS | 158 | - | 4 | (1) | 161 |
| CDO/ABS | 83 | - | 1 | - | 84 |
| **Total bonds available for sale** | $ 2,773 | $ - | $ 80 | $ (83) | $ 2,770 |
| **Total** | $ 2,773 | $ - | $ 80 | $ (83) | $ 2,770 |

*(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. The allowance for credit losses on securities was insignificant at December 31, 2022 and 2021.*

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 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 $848 million and $1,571 million as of December 31, 2022 and 2021, 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:**

| | 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 Loses |
| **December 31, 2022** | | | | | | |
| **Bonds available for sale:** | | | | | | |
| U.S. government and government sponsored entities | **$ 129** | **$ 2** | **$ -** | **$ -** | **$ 129** | **$ 2** |
| Obligations of states, municipalities, and political subdivisions | **74** | **3** | **-** | **-** | **74** | **3** |
| Non-U.S. governments | **89** | **40** | **170** | **159** | **259** | **199** |
| Corporate debt | **555** | **130** | **456** | **292** | **1,011** | **422** |
| RMBS | **95** | **11** | **-** | **-** | **95** | **11** |
| CMBS | **127** | **12** | **6** | **-** | **133** | **12** |
| CDO/ABS | **55** | **3** | **-** | **-** | **55** | **3** |
| **Total bonds available for sale** | **1,124** | **201** | **632** | **451** | **1,756** | **652** |
| **Total** | **$ 1,124** | **$ 201** | **$ 632** | **$ 451** | **$ 1,756** | **$ 652** |

| | 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 Loses |
| December 31, 2021 | | | | | | |
| **Bonds available for sale:** | | | | | | |
| U.S. government and government sponsored entities | $ 32 | $ - | $ - | $ - | $ 32 | $ - |
| Obligations of states, municipalities, and political subdivisions | 13 | - | 1 | - | 14 | - |
| Non-US governments | 67 | 2 | 292 | 38 | 359 | 40 |
| Corporate debt | 635 | 21 | 294 | 20 | 929 | 41 |
| RMBS | 70 | 1 | 2 | - | 72 | 1 |
| CMBS | 27 | 1 | 14 | - | 41 | 1 |
| CDO/ABS | 25 | - | 5 | - | 30 | - |
| **Total bonds available for sale** | 869 | 25 | 608 | 58 | 1,477 | 83 |
| **Total** | $ 869 | $ 25 | $ 608 | $ 58 | $ 1,477 | $ 83 |

At December 31, 2022, we held 708 individual bonds available for sale that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including 133 individual bonds available for sale that were in a continuous unrealized loss position for 12 months or more). At December 31, 2021, we held 383 individual bonds available for sale that were in an unrealized loss position and for which no allowance for credit losses has been recorded (including, 87 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 bonds available for sale at December 31, 2022 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 bonds available for sale with significant declines, we performed fundamental credit analysis 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 Bonds Available for Sale

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

| December 31, 2022 | Total Bonds Available for Sale Securities | |
|---|---|---|
| *(in millions)* | Amortized Cost | Fair Value |
| Due in one year or less | $ 115 | $ 114 |
| Due after one year through five years | 372 | 351 |
| Due after five years through ten years | 178 | 150 |
| Due after ten years | 1,452 | 878 |
| Mortgage-backed, asset-backed and collateralized | 336 | 310 |
| **Total available for sale** | $ 2,453 | $ 1,803 |

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:**

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| | **2022** | | 2021 | |
| *(in millions)* | Gross Realized Gains | Gross Realized Losses | Gross Realized Gains | Gross Realized Losses |
| Fixed maturity securities | $ 1 | $ (39) | $ 20 | $ (15) |
| **Total** | $ 1 | $ (39) | $ 20 | $ (15) |

For the years ended December 31, 2022 and 2021 the aggregate fair value of available for sale securities sold was $111 million and $391 million, which resulted in net realized losses of $38 million and net realized gains of $5 million, respectively.

## 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, | 2022 | | 2021 | |
|---|---|---|---|---|
| *(in millions)* | Fair | Percent of | Fair Value | Percent of |
| **Fixed Maturity Securities:** | | | | |
| Non-U.S. governments | $ 15 | 17% | 19 | 26% |
| Corporate Debt | 58 | 67% | 12 | 17% |
| **Mortgage-backed, asset-backed and collateralized:** | | | | |
| RMBS | 14 | 16% | 21 | 30% |
| CMBS | - | - | 5 | 7% |
| **Total mortgage-backed, asset-backed and collateralized** | $ 14 | 16% | 26 | 37% |
| **Total fixed maturity securities** | 87 | 100% | 57 | 80% |
| **Equity securities** | - | - | 14 | 20% |
| **Total** | $ 87 | 100% | 71 | 100% |

## OTHER INVESTED ASSETS

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

| December 31, *(in millions)* | | 2022 | | 2021 |
|---|---|---|---|---|
| Investment real estate[a] | $ | 27 | $ | 30 |
| **Total** | $ | 27 | $ | 30 |

*(a) Net of accumulated depreciation of $68 million and $65 million in 2022 and 2021, 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 bonds securities for which we elected the fair value option.
- Short–term investments.
- Earnings from real estate investments.
- Rental income of $3 million and $3 million related to office space leased to an affiliate for the years ended December 31, 2022 and 2021, respectively.
- Accretion on deposit contracts

**The following table presents the components of net investment income:**

| Years Ended December 31, *(in millions)* | | 2022 | | 2021 |
|---|---|---|---|---|
| Bonds available for sale, including short-term investments | $ | 56 | $ | 71 |
| Other bond securities | | (39) | | - |
| Other investments | | 11 | | 6 |
| **Total investment income** | | 28 | | 77 |
| **Investment expenses** | | (3) | | (4) |
| **Net investment income** | $ | 25 | $ | 73 |

## 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 of available for sale fixed maturity securities and real estate.
- 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 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 gains (losses):**

| Years Ended December 31, (in millions) | | 2022 | | 2021 |
|---|---|---|---|---|
| Sales of bonds available for sale | $ | (38) | $ | 5 |
| Foreign exchange transactions | | 39 | | 7 |
| Derivative instruments | | (32) | | (24) |
| Net realized gains (losses) on funds held reinsurance treaty embedded derivative | | 509 | | 119 |
| **Net realized gains (losses)** | $ | 478 | $ | 107 |

## 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) | | 2022 | | 2021 |
|---|---|---|---|---|
| **Decrease in unrealized appreciation (depreciation) of investments:** | | | | |
| Bonds available for sale | $ | (646) | $ | (187) |
| **Decrease in unrealized appreciation (depreciation) of investments** | $ | (646) | $ | (187) |

## EVALUATING INVESTMENTS FOR AN ALLOWANCE FOR CREDIT LOSSES

### Fixed Maturity Securities

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 Net realized gains (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 Net realized gains (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 AOCI). 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.

Under the current expected credit loss ("CECL") model, credit losses are reassessed each period. The allowance for credit losses and the corresponding charge to Net realized gains (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 recording a gain in Net realized gains (losses).

### PLEDGED 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 $1,579 million and $2,148 million at December 31, 2022 and 2021, respectively.

## 5. 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. After DAC is depleted, we record additional liabilities through Policyholder benefits and losses incurred.

**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 traditional life, payout annuities. Our policy is to perform loss recognition testing net of reinsurance. 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)* | | **2022** | | 2021 |
|---|---|---|---|---|
| **Balance at beginning of year** | **$** | **100** | $ | 111 |
| Increase due to acquisition costs deferred | | **44** | | 50 |
| Decrease due to amortization expense | | **(54)** | | (61) |
| **Balance at end of year** | **$** | **90** | $ | 100 |

There were no impairments as a result of our assessment of the recoverability of deferred policy acquisition costs for the years ended December 31, 2022 or 2021.

# 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 business. 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 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 zero and $1 million at December 31, 2022 and 2021, 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:**

| **December 31, 2022** *(in millions)* | | As Reported | | Net of Reinsurance |
|---|---|---|---|---|
| Liability for unpaid losses and loss adjustment expenses | **$** | **1,102** | **$** | **611** |
| Unearned premiums | | **383** | | **306** |
| Future policy benefits for life and accident and health insurance contracts | | **1,377** | | **196** |
| Reinsurance assets | | **1,800** | | **-** |

| December 31, 2021 *(in millions)* | | As Reported | | Net of Reinsurance |
|---|---|---|---|---|
| Liability for unpaid losses and loss adjustment expenses | $ | 1,292 | $ | 711 |
| Unearned premiums | | 415 | | 337 |
| Future policy benefits for life and accident and health insurance contracts | | 1,523 | | 190 |
| Reinsurance assets | | 2,057 | | - |

## 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 in proportion to the protection received. 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:**

| **Year Ended December 31, 2022** *(in millions)* | Related Parties | Unrelated Parties | Total |
|---|---|---|---|
| **Premiums Written:** | | | |
| Direct | $ - | $ 132 | $ 132 |
| Assumed | 22 | 434 | 456 |
| Ceded | (85) | (42) | (127) |
| **Net** | $ (63) | $ 524 | $ 461 |
| **Premiums Earned:** | | | |
| Direct | $ - | $ 125 | $ 125 |
| Assumed | 53 | 443 | 496 |
| Ceded | (72) | (56) | (128) |
| **Net** | $ (19) | $ 512 | $ 493 |

| Year Ended December 31, 2021 *(in millions)* | Related Parties | Unrelated Parties | Total |
|---|---|---|---|
| **Premiums Written:** | | | |
| Direct | $ - | $ 120 | $ 120 |
| Assumed | 38 | 449 | 487 |
| Ceded | (85) | (27) | (112) |
| **Net** | $ (47) | $ 542 | $ 495 |
| **Premiums Earned:** | | | |
| Direct | $ - | $ 112 | $ 112 |
| Assumed | 85 | 435 | 520 |
| Ceded | (52) | (50) | (102) |
| **Net** | $ 33 | $ 497 | $ 530 |

## 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, 2022** *(in millions)* | Related Parties | Unrelated Parties | Total |
|---|---|---|---|
| **Premiums:** | | | |
| Direct | $ - | $ - | $ - |
| Assumed | 41 | - | 41 |
| Ceded | - | - | - |
| **Net** | $ 41 | $ - | $ 41 |

| Year Ended December 31, 2021 *(in millions)* | Related Parties | Unrelated Parties | Total |
|---|---|---|---|
| **Premiums:** | | | |
| Direct | $ - | $ - | $ - |
| Assumed | 43 | - | 43 |
| Ceded | - | - | - |
| **Net** | $ 43 | $ - | $ 43 |

### Assumptions & Cessions to Affiliated Entities

Effective December 31, 2021, we assumed from affiliated companies' obligations with regards to mortgage insurance policies. As of December 31, 2022 and 2021, we held $29 million and $19 million, respectively, of loss reserve.

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. As of December 31, 2022 and 2021, loss reserves ceded under this contract were $277 million and $318 million, respectively. 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.

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. There were no losses ceded under this contract as of December 31, 2022 and 2021.

In addition, we have a quota share treaty placement ceded to an affiliated company for excess casualty risks. There were $2 million of loss reserves ceded under this contract as of December 31, 2022 and 2021.

We have an excess of loss reinsurance agreement ceded to an affiliated company covering all property business written and relating to losses arising from a catastrophe for accident years 2017 and 2018. Loss reserves ceded under this contract as of December 31, 2022 and 2021 were $14 million and $17 million, respectively.

### Reinsurance of Annuities and Retrocession

We assumed a closed block of 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 for payment and discharge of all obligations to the third party.

As of December 31, 2022 and 2021, we had assigned assets of $848 million and $1,571 million, respectively. See Note 4 for additional information. As of December 31, 2022 and 2021, future policy benefits associated with this business were $1,182 million and $1,333 million, respectively.
We made an accounting policy election to designate the British pound sterling ("GBP") as the functional currency related to the closed block of annuities. We translate the financial balances from the functional currency (the currency of the primary economic environment in which that operation does its business) designated for these operations, generally GBP 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 703 million and GBP 979 million respectively, as of December 31, 2022 and as of December 31, 2021.

All of the obligation associated with this business have been retroceded to a third party. 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 Net realized gains (losses). This embedded derivative is considered a total return swap with contractual returns that are attributable to various assets and liabilities associated with this reinsurance agreement. As of December 31, 2022 and 2021, the balance of funds held under insurance treaties was $848 million and $1,571 million, respectively. The fair value of the embedded derivative liability was $534 million and $85 million as of December 31, 2022 and 2021, 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, 2022:**

| **Year Ended December 31, 2022** *(in millions)* | | Carrying Value | | Fair Value | Corresponding Accounting Policy |
|---|---|---|---|---|---|
| Fixed maturities securities – available for sale | **$** | **728** | **$** | **728** | **Fair value through other comprehensive income (loss)** |
| Other bond securities | | **87** | | **87** | **Fair value through net investment income** |
| Short-term Investments | | **16** | | **16** | **Fair value through net investment income** |
| Other[(a)] | | **17** | | **17** | **Amortized cost** |
| **Total** | **$** | **848** | **$** | **848** | |

| Year Ended December 31, 2021 *(in millions)* | | Carrying Value | | Fair Value | Corresponding Accounting Policy |
|---|---|---|---|---|---|
| Fixed maturities securities – available for sale | $ | 1,479 | $ | 1,479 | Fair value through other comprehensive income |
| Other bond securities | | 52 | | 52 | Fair value through net investment income |
| Short-term Investments | | 18 | | 18 | Fair value through net investment income |
| Other[(a)] | | 22 | | 22 | Amortized cost |
| **Total** | $ | 1,571 | $ | 1,571 | |

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

## 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 hold substantial collateral as security under related reinsurance agreements in the form of funds and securities. 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 long tail 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 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. 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 trends to be recognized and confirmed. Reserves 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 or reserve releases.

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

| Years Ended December 31, (in millions) | 2022 | 2021 |
|---|---|---|
| Liability for unpaid losses and loss adjustment expenses, beginning of year | $ 1,292 | $ 1,377 |
| Reinsurance recoverable | (581) | (634) |
| **Net Liability for unpaid losses and loss adjustment expenses, beginning of year** | 711 | 743 |
| Foreign exchange effect | (22) | (16) |
| **Losses and loss adjustment expenses incurred:** | | |
| Current year | 458 | 478 |
| Prior years | (48) | (65) |
| **Total losses and loss adjustment expenses incurred** | 410 | 413 |
| **Losses and loss adjustment expenses paid:** | | |
| Current year | (261) | (240) |
| Prior years | (227) | (189) |
| **Total losses and loss adjustment expenses paid** | (488) | (429) |
| **Liability for unpaid losses and loss adjustment expenses, end of year:** | | |
| Net liability for unpaid losses and loss adjustment expenses | 611 | 711 |
| Reinsurance recoverable | 491 | 581 |
| **Total** | $ 1,102 | $ 1,292 |

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 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, 2022, we recognized $48 million of net favorable prior year development in total. This result was driven primarily by favorable development of $105 million on Ireland Healthcare and $26 million on U.S. and Canada Excess Casualty, due to lower-than-expected loss emergence, which was offset by unfavorable prior year development on U.S. and Canada Financial Lines ($86 million unfavorable). The unfavorable development in US and Canada Financial Lines is due to adverse prior year development from the excess directors and officers liability ("D&O") business. In addition, there was other favorable prior year development on Worldwide Property of $3 Million.

**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, 2022:**

| *(in millions)* | 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 |
|---|---|---|---|
| U.S. and Canada Excess Casualty | $ 155 | $ 337 | $ 492 |
| U.S. and Canada Financial Lines | 161 | 126 | 287 |
| Worldwide Property via Managing General Agent ("MGA") | 8 | 14 | 22 |
| China Personal Accident and Health | 22 | - | 22 |
| Ireland Healthcare | 168 | - | 168 |
| U.S. Mortgage Insurance | 29 | - | 29 |
| **Total** | **$ 543** | **$ 477** | **$ 1,020** |
| **Reconciling Items** | | | |
| Other Product Lines | | | 81 |
| Unallocated loss adjustment expenses | | | 1 |
| **Total Loss Reserves** | | | **$ 1,102** |

## Loss Development Information

The following is information about incurred and paid loss developments as of December 31, 2022, 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 mechanically similar to the Bornhuetter-Ferguson method with the difference being that the Expected Loss Ratio estimates are determined based on a weighting of the loss estimates that come from the Paid/Incurred Development Methods. This method may be more responsive to recent loss trend than Bornhuetter-Ferguson method.

- **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. Historically we have leveraged facultative and treaty reinsurance. Our reinsurance program may change from year to year, which 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 U.S. is presented for all accident years using the current exchange rate at December 31, 2022. 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 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, 2022 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:

## U.S. and Canada Excess Casualty

U.S. 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, 2022 | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
| | Unaudited | | | | | | | | | | | |
| 2013 | $ 11 | $ 11 | $ 9 | $ 6 | $ 6 | $ 3 | $ 2 | $ 4 | $ 3 | $ 3 | $ 2 | 92 |
| 2014 | | 11 | 10 | 8 | 7 | 6 | 3 | 3 | 3 | 2 | 2 | 40 |
| 2015 | | | 9 | 20 | 22 | 32 | 30 | 32 | 31 | 28 | 3 | 80 |
| 2016 | | | | 58 | 61 | 57 | 44 | 65 | 66 | 56 | 21 | 680 |
| 2017 | | | | | 58 | 160 | 209 | 192 | 189 | 180 | 28 | 41 |
| 2018 | | | | | | 54 | 98 | 82 | 75 | 72 | 36 | 37 |
| 2019 | | | | | | | 20 | 19 | 15 | 15 | 14 | 32 |
| 2020 | | | | | | | | (11) | 1 | 1 | (1) | 95 |
| 2021 | | | | | | | | | (1) | - | (2) | 32 |
| 2022 | | | | | | | | | | - | - | 13 |
| **Total** | | | | | | | | | | **$ 357** | | |
| **Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below** | | | | | | | | | | **$ (216)** | | |
| **Liabilities for losses and loss adjustment expenses and prior year development before 2013, net of reinsurance** | | | | | | | | | | **14** | | |
| **Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance** | | | | | | | | | | **$ 155** | | |

| Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Years Ended December 31, (amount in millions) | | | | | | | | | | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | Unaudited | | | | | | | | | |
| 2013 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 2014 | | - | - | - | - | - | - | - | - | - |
| 2015 | | | - | - | 2 | 14 | 14 | 14 | 15 | 26 |
| 2016 | | | | - | - | 1 | 2 | 2 | 3 | 3 |
| 2017 | | | | | - | - | - | 152 | 152 | 152 |
| 2018 | | | | | | - | 32 | 32 | 35 | 35 |
| 2019 | | | | | | | - | - | - | - |
| 2020 | | | | | | | | - | - | - |
| 2021 | | | | | | | | | - | - |
| 2022 | | | | | | | | | | - |
| **Total** | | | | | | | | | | $ **216** |

### 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 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 is driven primarily by activity seen in accident years 2017 through 2019, offset by an increase in accident year 2021.

### U.S. and Canada Financial Lines

U.S. and Canada Excess Financial Lines 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, 2022 | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
| | Unaudited | | | | | | | | | | | |
| 2013 | $ 10 | $ 9 | $ 9 | $ 7 | $ 3 | $ 2 | $ 2 | $ 2 | $ 2 | $ 3 | $ 1 | 64 |
| 2014 | | 9 | 10 | 12 | 9 | 9 | 9 | 8 | 7 | 7 | - | 54 |
| 2015 | | | 8 | 9 | 9 | 7 | 3 | 3 | 2 | 5 | - | 94 |
| 2016 | | | | 53 | 49 | 45 | 39 | 39 | 50 | 64 | 7 | 53 |
| 2017 | | | | | 41 | 40 | 37 | 28 | 33 | 33 | 19 | 105 |
| 2018 | | | | | | 36 | 36 | 64 | 67 | 115 | 39 | 246 |
| 2019 | | | | | | | 29 | 29 | 36 | 55 | 40 | 263 |
| 2020 | | | | | | | | 11 | 4 | 6 | 4 | 270 |
| 2021 | | | | | | | | | 7 | 5 | 5 | 193 |
| 2022 | | | | | | | | | | 4 | 4 | 191 |
| **Total** | | | | | | | | | | **$ 297** | | |
| **Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below** | | | | | | | | | | **(139)** | | |
| **Liabilities for losses and loss adjustment expenses and prior year development before 2013, net of reinsurance** | | | | | | | | | | **3** | | |
| **Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance** | | | | | | | | | | **$ 161** | | |

| Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Years Ended December 31, (amount in millions) | | | | | | | | | | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | Unaudited | | | | | | | | | |
| 2013 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 2 | **$ 2** |
| 2014 | | - | 2 | 4 | 4 | 4 | 4 | 4 | 4 | **4** |
| 2015 | | | - | - | 2 | - | - | - | - | **5** |
| 2016 | | | | - | - | - | - | - | 30 | **57** |
| 2017 | | | | | - | - | - | 2 | 2 | **5** |
| 2018 | | | | | | - | 5 | 8 | 15 | **51** |
| 2019 | | | | | | | - | - | - | **13** |
| 2020 | | | | | | | | - | - | **2** |
| 2021 | | | | | | | | | - | **-** |
| 2022 | | | | | | | | | | **-** |
| **Total** | | | | | | | | | | **$ 139** |

### Reserving Process and Methodology

The business consists of excess directors and officers liability, 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 is driven primarily by activity seen in accident years 2016-2019, due to the Excess D&O claims.

## Worldwide Property via MGA

Worldwide Property consists of property catastrophe reinsurance written on an occurrence basis. The below table only represents eight 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 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Years Ended December 31, (amount in millions) | | | | | | | | | December 31, 2022 | |
| Accident Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
| | Unaudited | | | | | | | | | |
| 2015 | $ 9 | $ 3 | $ 5 | $ 5 | $ 5 | $ 5 | $ 4 | **$ 5** | **$ -** | **36** |
| 2016 | | 28 | 21 | 24 | 15 | 12 | 14 | **12** | **-** | **63** |
| 2017 | | | 122 | 122 | 126 | 127 | 127 | **127** | **1** | **157** |
| 2018 | | | | 87 | 90 | 99 | 99 | **98** | **-** | **90** |
| 2019 | | | | | 1 | 1 | 1 | **1** | **-** | **-** |
| 2020 | | | | | | - | - | **-** | **-** | **-** |
| 2021 | | | | | | | 1 | **-** | **-** | **-** |
| 2022 | | | | | | | | **-** | **-** | **-** |
| **Total** | | | | | | | | **$ 243** | | |
| **Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance from the table below** | | | | | | | | **(235)** | | |
| **Liabilities for losses and loss adjustment expenses and prior year loss development, net of reinsurance** | | | | | | | | **$ 8** | | |

| Cumulative Paid Losses and Allocated Loss Adjustment Expenses, Net of Reinsurance | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Years Ended December 31, (amount in millions) | | | | | | | | |
| Accident Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | Unaudited | | | | | | | |
| 2015 | $ - | $ 1 | $ 2 | $ 2 | $ 3 | $ 4 | $ 4 | **$ 4** |
| 2016 | | 1 | 5 | 8 | 11 | 12 | 12 | **12** |
| 2017 | | | 18 | 99 | 121 | 126 | 125 | **127** |
| 2018 | | | | 18 | 51 | 78 | 84 | **92** |
| 2019 | | | | | - | - | - | **-** |
| 2020 | | | | | | - | - | **-** |
| 2021 | | | | | | | - | **-** |
| 2022 | | | | | | | | **-** |
| **Total** | | | | | | | | **$ 235** |

### 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 slight decrease in overall incurred losses is driven primarily by accident year 2016.

## 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 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Years Ended December 31, (amount in millions) | | | | | | | | | | December 31, 2022 | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims[(a)] |
| | Unaudited | | | | | | | | | | | |
| 2013 | $ 160 | $ 167 | $ 171 | $ 171 | $ 169 | $ 169 | $ 169 | $ 169 | $ 169 | $ 169 | $ - | - |
| 2014 | | 189 | 197 | 198 | 197 | 197 | 197 | 197 | 197 | 197 | - | - |
| 2015 | | | 218 | 223 | 226 | 228 | 229 | 229 | 229 | 229 | - | - |
| 2016 | | | | 246 | 253 | 266 | 268 | 269 | 270 | 270 | - | - |
| 2017 | | | | | 189 | 319 | 323 | 325 | 327 | 327 | - | - |
| 2018 | | | | | | 433 | 433 | 429 | 426 | 427 | - | - |
| 2019 | | | | | | | 243 | 246 | 244 | 241 | 1 | - |
| 2020 | | | | | | | | 14 | 16 | 19 | 3 | - |
| 2021 | | | | | | | | | 5 | 3 | - | - |
| 2022 | | | | | | | | | | 1 | - | - |
| **Total** | | | | | | | | | | $ 1,883 | | |
| **Cumulative Paid Losses and Allocated Loss Adjustment Expenses, from the table below** | | | | | | | | | | (1,861) | | |
| **Liabilities for losses and loss adjustment expenses and prior year loss development** | | | | | | | | | | $ 22 | | |

| Cumulative Paid Losses and Allocated Loss Adjustment Expenses | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Years Ended December 31, (amount in millions) | | | | | | | | | | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | Unaudited | | | | | | | | | |
| 2013 | $ 98 | $ 146 | $ 163 | $ 167 | $ 168 | $ 168 | $ 169 | $ 169 | $ 169 | $ **169** |
| 2014 | | 102 | 170 | 187 | 193 | 195 | 196 | 196 | 196 | **197** |
| 2015 | | | 113 | 196 | 217 | 225 | 227 | 228 | 228 | **228** |
| 2016 | | | | 137 | 226 | 255 | 263 | 266 | 268 | **268** |
| 2017 | | | | | 170 | 276 | 308 | 318 | 322 | **324** |
| 2018 | | | | | | 208 | 363 | 404 | 417 | **421** |
| 2019 | | | | | | | 162 | 219 | 232 | **236** |
| 2020 | | | | | | | | 9 | 13 | **15** |
| 2021 | | | | | | | | | 3 | **3** |
| 2022 | | | | | | | | | | **0** |
| **Total** | | | | | | | | | | **$ 1,861** |

*(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 is driven primarily by a decrease seen in accident years 2018- 2021, with partial offsets seen in accident year 2020.

## 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 seven years of activity as the agreement was effective January 1, 2016.

| Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Years Ended December 31, (amount in millions) | | | | | | | | December 31, 2022 | |
| Accident Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims[(a)] |
| | Unaudited | | | | | | | | |
| 2016 | $ 126 | $ 125 | 126 | $ 125 | $ 125 | $ 124 | $ **123** | $ **-** | **-** |
| 2017 | | 299 | 268 | 263 | 264 | 262 | **259** | **-** | **-** |
| 2018 | | | 384 | 351 | 349 | 347 | **344** | **1** | **-** |
| 2019 | | | | 400 | 381 | 376 | **372** | **2** | **-** |
| 2020 | | | | | 395 | 322 | **315** | **3** | **-** |
| 2021 | | | | | | 430 | **343** | **10** | **-** |
| 2022 | | | | | | | **410** | **153** | **-** |
| **Total** | | | | | | | **$ 2,166** | | |
| **Cumulative Paid Losses and Allocated Loss Adjustment Expenses from the table below** | | | | | | | **(1,998)** | | |
| **Liabilities for losses and loss adjustment expenses and prior year loss development** | | | | | | | **$ 168** | | |

| Cumulative Paid Losses and Allocated Loss Adjustment Expenses Years Ended December 31, (amount in millions) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Accident Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | Unaudited | | | | | | |
| 2016 | $ 62 | $ 118 | $ 122 | $ 122 | $ 123 | $ 123 | $ 123 |
| 2017 | | 169 | 252 | 257 | 259 | 259 | 259 |
| 2018 | | | 240 | 336 | 342 | 343 | 343 |
| 2019 | | | | 261 | 366 | 369 | 370 |
| 2020 | | | | | 225 | 307 | 313 |
| 2021 | | | | | | 246 | 333 |
| 2022 | | | | | | | 257 |
| **Total** | | | | | | | **$ 1,998** |

*(a) The cumulative number of reported claims has not been disclosed in the table above as in-patient claims 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 is driven primarily by a decrease seen in accident year 2021 due to lower-than-expected loss emergence.

## U.S. Mortgage Insurance

Mortgage Insurance consists of reinsurance obligations for mortgage insurance policies which is assumed from U.S. affiliated companies.

The below table only represents one year of activity as the agreement was effective December 31, 2021.

| Incurred Losses and Allocated Loss Adjustment Expenses, Undiscounted Years Ended December 31, (amount in millions) | | | | | |
|---|---|---|---|---|---|
| | | | | December 31, 2022 | |
| | Accident Year | 2021 | 2022 | Total of IBNR Liabilities Plus Expected Development on Reported Losses | Cumulative Number of Reported Claims |
| | 2021 | $ 19 | $ 18 | $ 11 | - |
| | 2022 | - | 11 | 7 | - |
| **Total** | | | **$ 29** | | |
| **Cumulative Paid Losses and Allocated Loss Adjustment Expenses, from the table below** | | | **-** | | |
| **Liabilities for losses and loss adjustment expenses and prior year loss development** | | | **$ 29** | | |

| Cumulative Paid Losses and Allocated Loss Adjustment Expenses Years Ended December 31, (amount in millions) | |
|---|---|
| Accidental year | 2022 |
| 2022 | $ - |
| **Total** | **$ -** |

### Reserving Process and Methodology

The annual reserve analysis estimates ultimate loss and loss adjustment expenses based on the Paid Bornhuetter-Ferguson method and incurred loss development methods for loss and loss adjustment expenses combined. A loss reserve is established when a loan has become delinquent and carried loss reserves are meant to cover losses incurred but not yet paid from loans currently delinquent or in default. Mortgage Insurance has exposure in every period that the original loan is not fully paid or closed by default. The carried reserves are not meant to cover losses from loans that will potentially become delinquent in the future.

### 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 |
| U.S. and Canada Excess Casualty | 0.00% | 9.10% | 1.10% | 47.10% | 0.20% | 0.30% | 0.60% | 31.20% | 0.40% | 0.10% |
| U.S. and Canada Financial Lines | 0.10 | 2.00 | 3.30 | 7.20 | 15.9 | 30.60 | 34.90 | 32.30 | 16.30 | - |
| Worldwide Property via MGA | 15.50 | 48.80 | 21.90 | 5.80 | 3.70 | 1.60 | 1.00 | 8.60 | - | - |
| China Accident and Health | 53.30 | 32.40 | 9.20 | 2.80 | 1.00 | 0.40 | 0.20 | 0.10 | 0.10 | - |
| Ireland Healthcare | 67.30 | 29.00 | 1.70 | 0.40 | 0.20 | 0.10 | 0.10 | - | - | - |
| U.S. Mortgage Insurance | 0.60 | - | - | - | - | - | - | - | - | - |

The patterns above may be incomplete for Worldwide Property, Ireland Healthcare, and U.S. Mortgage Insurance 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)* | **2022** | 2021 |
| **Future policy benefits:** | | |
| Closed block of annuities[(a)] | $ **1,182** | $ 1,333 |
| Long duration life insurance contracts | **100** | 100 |
| Accident and health insurance contracts | **12** | 15 |
| Immediate annuities | **83** | 75 |
| **Total future policy benefits** | $ **1,377** | $ 1,523 |

*(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 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 contacts”. 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 1.92% and 1.92% as of December 31, 2022 and 2021, 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 5.15% and 2.58% as of December 31, 2022 and 2021, respectively.

We have 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.

We have entered into a reinsurance arrangement with an affiliate to assume underwritten whole of life product for all business written on a 100% coinsurance basis.

# 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 U.S. 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 U.S. 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.
- 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 payable under the payment allocation agreement at December 31, 2021 was $6 million. At December 31, 2022, federal income taxes receivable was $1 million.

### U.S. Tax Reform Overview

On August 16, 2022, the U.S. enacted the Inflation Reduction Act ("IRA") of 2022 (H.R. 5376), which finances climate and energy provisions and an extension of enhanced subsidies under the Affordable Care Act. Key provisions include a 15 percent corporate alternative minimum tax ("CAMT") on adjusted financial statement income for corporations with average profits over $1 billion over a three-year period, a 1 percent stock buyback tax, increased IRS enforcement funding, and Medicare's new ability to negotiate prescription drug prices. CAMT and the stock buyback tax are effective for tax years beginning after December 31, 2022. As of December 31, 2022, it has not yet been determined if the Company will be subject to the CAMT in 2023. However, the controlled group of corporations of which the Company is a member is expected to be considered an applicable corporation. The 2022 financial statements do not include the estimated impact of the CAMT, because a reasonable estimate cannot be made.

## 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 U.S. statutory tax rate. The following table presents a reconciliation of such differences in arriving at total taxes for the years ended December 31, 2022 and 2021:

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

| **Years Ended December 31,** | **2022** | | 2021 | |
|---|---|---|---|---|
| *(in millions)* | **Amount** | Tax Effect | **Amount** | Tax Effect |
| **Net income (loss) before income tax expense (benefit):** | **$ 526** | **$ 111** | $ 235 | $ 49 |
| Equity to foreign affiliate | **(2)** | **-** | (8) | (2) |
| Return to provision | **-** | **1** | - | (1) |
| Transfer pricing/tax exempt | **(1)** | **-** | - | - |
| Global intangible low-taxed income ("GILTI") | **(3)** | **(1)** | - | 4 |
| **Total income tax** | **$ 520** | **$ 111** | $ 227 | $ 50 |
| **Income tax expense attributable to income from continuing operations:** | | | | |
| Current | | **$ 6** | | $ 3 |
| Deferred | | **105** | | 47 |
| **Total income tax** | | **$ 111** | | $ 50 |

## Deferred Taxes

As of December 31, 2022, and 2021, we had gross deferred tax assets of $217 million and $96 million and gross deferred tax liabilities of $178 million and $86 million, respectively. We had a valuation allowance of $133 million as of December 31, 2022. We had no valuation allowance as of December 31, 2021. See the section "Valuation Allowance on Deferred Tax Assets" below for further details. As a result, we reported net deferred tax liabilities of $94 million as of December 31, 2022. By comparison, we had net deferred tax assets of $10 million as of December 31, 2021. The significant components of this balance include deferred tax items relating to temporary differences associated with loss reserves, unearned premiums, deferred acquisition costs, funds withheld for a reinsurance agreement, and unrealized losses on investments.

As of December 31, 2021, we had federal net operating loss carry forwards of $91 million which were generated by the Company, a foreign operation, prior to making the election to be taxed as a U.S. 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 U.S. Tax Filing Group and subject to utilization limitations under the IRS' SRLY rules. These losses were fully utilized in 2022.

As of December 31, 2022, we had no federal capital loss, net operating loss, foreign tax credit, or alternative minimum tax ("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.

Due to market conditions in 2022, we established a valuation allowance ("VA") of $133 million against a portion of our deferred tax assets related to unrealized capital losses.

### Accounting for Uncertainty in Income Taxes

At December 31, 2022, we carry a reserve of $2 million with respect to the uncertainty regarding the GILTI calculation. During 2022, we filed a Form 3115 with the IRS to request permission to change our accounting method with respect to the tax treatment of an embedded derivative. Our discussions with the IRS remain ongoing and may result in a change to our reserve estimate for uncertain tax positions. However, we expect that any such change in estimate would not have a net impact on the Company's shareholder's equity, income tax expense, or net income.

The U.S. is the only major tax jurisdiction of the Company. We are currently under examination for the tax years 2007 through 2019 and open to examination through 2021.

## 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 $3 million and $2 million for the years ended December 31, 2022 and 2021, respectively.

Additionally, AIG incurs certain cost on our behalf for which we are charged. During 2022, $1 million was reimbursed to us and in 2021, $1 million was reimbursed to us.

### 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)* | | 2022 | | 2021 |
|---|---|---|---|---|
| Non-insurance balances receivable | $ | 38 | $ | 69 |
| Premium and insurance balances receivable | | 28 | | 27 |
| Reinsurance assets | | 302 | | 375 |
| Funds held by companies under reinsurance contracts asset | | 49 | | 53 |
| Non-insurance balances payable | | 27 | | 23 |
| Reinsurance balances payable | | 5 | | 8 |
| Premium and insurance balances payable | | 26 | | 37 |

### Derivative Agreements

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

### Dividends

In the ordinary course of business, we issued a dividend to our parent of $25 million in 2022 and $20 million in 2021

## 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 participants (usually senior management) 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 2022, 2021 and 2020 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.

Vesting occurs on January 1 of the year immediately following the end of the three-year performance period. Beginning in 2022, vesting for RSUs and stock options awarded will occur in three equal installments on the first, second and third anniversary of the grant date. 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. However, for involuntarily terminated employees hired after April 1, 2022, unvested RSUs and options are forfeited on the termination date, while PSUs are pro-rated based on the number of completed years in the performance period.

Prior to 2021, 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. Beginning in 2021, PSUs and RSUs granted via the annual 2021 LTI award (as of the date of grant), and those existing from the 2020 LTI awards accrue dividend equivalent rights ("DERs") as AIG's dividends are declared. These DERs will be settled in cash only if the underlying units' vesting conditions are met; previously accrued DEUs were not impacted by this change.

We receive an allocation from AIG for these expenses. We recognized compensation expense of $7 million and $11 million as of December 31, 2022 and 2021, respectively, based on the value of AIG's common stock on the date of grant of which most was recharged to related parties.

# 11. Defined Benefit Pension Plans

Employees of AIG, its subsidiaries and certain affiliated companies, are generally covered under various pension plans. U.S. 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 U.S. 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 U.S. and in certain non-U.S. countries. Our employees covered in this plan are for the Mobile Overseas Personnel ("MOPS") which are U.S. 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, 2022 and 2021, respectively.

## Bermuda Postretirement Benefit Plan

In addition, we provide an unfunded 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. In November 2021, a group of active employees accepted an offer to exchange their retiree medical benefits for a new benefit plan. This resulted in a benefit obligation reduction of $9 million. As of December 31, 2022 and 2021, total benefit obligation was $22 million and $34 million, based on a discount rate of 5.22% and 2.75% respectively. The postretirement (recovery) expense for the local plan was ($1 million) and $2 million for the years ended December 31, 2022 and 2021, respectively.

**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)* | 2022 | 2021 |
|---|---|---|
| **Change in projected benefit obligation:** | | |
| **Benefit obligation at beginning of year** | $ 34 | $ 57 |
| Service cost | - | 1 |
| Interest cost | 1 | 1 |
| Plan curtailment/amendment | (1) | (9) |
| Actuarial loss (gain) | (12) | (16) |
| **Projected benefit obligation at end of year** | 22 | 34 |
| **Change in plan assets:** | | |
| Employer direct benefit payments | 1 | 1 |
| Direct benefit payments | (1) | (1) |
| **Fair value of plan assets at end of year** | - | - |
| **Funded status at end of year** | 22 | 34 |
| **Amounts recognized in the balance sheet:** | | |
| Liabilities | 22 | 34 |
| **Pre-tax amounts recognized in accumulated other comprehensive income:** | | |
| Net gain (loss) | 25 | 14 |
| **Total amounts recognized** | $ 25 | $ 14 |

**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)* | 2022 | 2021 |
|---|---|---|
| **Components of net periodic benefit cost** | | |
| Service cost | $ - | $ 1 |
| Interest cost | 1 | 1 |
| **Net periodic benefit cost** | 1 | 2 |
| **Total recognized in accumulated other comprehensive loss (income)** | (12) | (25) |
| **Total recognized in net periodic benefit cost and other comprehensive loss** | $ (11) | $ (23) |

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 $3 million.

## Assumptions

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

| As at December 31, | 2022 | 2021 |
|---|---|---|
| Discount rate | 5.22% | 2.75% |
| Rate of compensation increase | N/A | N/A |

**The following table summarizes assumed health care cost trend rates:**

| As at December 31, | 2022 | 2021 |
|---|---|---|
| Immediate trend rate | 5.47% | 5.47% |
| Ultimate trend rate | 4.00% | 4.50% |
| Year that the rate reaches ultimate trend rate | 2047 | 2038 |

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

| As at December 31, | 2022 | 2021 |
|---|---|---|
| Discount rate | 2.75% | 2.28% |
| Rate of compensation increase[a] | 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 U.S. 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 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 2022 and 2021, respectively.

## 12. Derivative Financial Instruments

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-U.S. dollar denominated investments and net capital exposures. Changes in value are reported in realized gains and losses.

Derivatives with the exception of embedded derivatives, are reported at fair value in the Consolidated Balance Sheets in Other assets and Other liabilities. Embedded derivatives are generally presented with the host contract in the Consolidated Balance Sheets. A bifurcated embedded derivative is measured at fair value and accounted for in the same manner as a free-standing derivative contract. The corresponding host contract is accounted to the accounting guidance applicable for that instrument.

We engage 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 $25 million and $18 million at December 31, 2022 and December 31, 2021, respectively. Collateral provided to us for derivative transactions was $10 million and zero million at December 31, 2022 and December 31, 2021, respectively. Collateral can be in the form of cash or U.S. 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 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. An equal and opposite position to the net derivative asset/liability 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, 2022** | **Gross Derivative Assets** | | **Gross Derivative Liabilities** | |
|---|---|---|---|---|
| *(in millions)* | Notional Amount[(a)] | Fair Value | Notional Amount[(a)] | Fair Value |
| **Derivatives designated as hedging instruments:** | | | | |
| Foreign exchange contracts | $ 8 | $ - | $ 37 | $ 1 |
| **Derivatives not designated as hedging instruments:** | | | | |
| Foreign exchange contracts | 133 | 13 | - | - |
| Interest rate contracts | 77 | 9 | 147 | 32 |
| **Total derivatives not designated as hedging instruments** | 210 | 22 | 147 | 32 |
| **Total derivatives, gross** | 218 | 22 | 184 | 33 |
| **Counterparty netting[(b)]** | - | (22) | - | (22) |
| **Cash Collateral[(c)]** | - | - | - | (10) |
| **Total derivatives, net** | $ 218 | $ - | $ 184 | $ 1 |

| December 31, 2021 | Gross Derivative Assets | | Gross Derivative Liabilities | |
|---|---|---|---|---|
| *(in millions)* | Notional Amount[(a)] | Fair Value | Notional Amount[(a)] | Fair Value |
| **Derivatives designated as hedging instruments:** | | | | |
| Foreign exchange contracts | $ 9 | $ - | $ 72 | $ 1 |
| **Derivatives not designated as hedging instruments:** | | | | |
| Foreign exchange contracts | 40 | 1 | 163 | 2 |
| Other contracts | 27 | - | - | - |
| Interest rate contracts | 107 | 2 | 185 | 13 |
| **Total derivatives not designated as hedging instruments** | 174 | 3 | 348 | 15 |
| **Total derivatives, gross** | 183 | 3 | 420 | 16 |
| **Counterparty netting[(b)]** | - | (3) | - | (3) |
| **Cash Collateral[(c)]** | - | - | - | (13) |
| **Total derivatives, net** | $ 183 | $ - | $ 420 | $ - |

*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.*

# 13. Accumulated Other Comprehensive Income (Loss)

**The following table shows a rollforward of Accumulated other comprehensive income (loss):**

| *(in millions)* | Unrealized Investment Gains (Losses) | Foreign Currency Translation Adjustments | Retirement Plan Liability | Total Accumulated Other Comprehensive Income (Loss) [(a)] |
|---|---|---|---|---|
| **Balance at December 31, 2020** | $ 191 | $ (1) | $ (6) | $ 184 |
| Other comprehensive income (loss) | (187) | (7) | 25 | (169) |
| Other comprehensive income (loss) - tax | 38 | 1 | - | 39 |
| **Other comprehensive income (loss), net of tax** | (149) | (6) | 25 | (130) |
| **Balance at December 31, 2021** | $ 42 | $ (7) | $ 19 | $ 54 |

| *(in millions)* | Unrealized Investment Gains (Losses) | Foreign Currency Translation Adjustments | Retirement Plan Liability | Total Accumulated Other Comprehensive Income (Loss) [(a)] |
|---|---|---|---|---|
| **Balance at December 31, 2021** | **$ 42** | **$ (7)** | **$ 19** | **$ 54** |
| Other comprehensive income (loss) | **(646)** | **(9)** | **10** | **(645)** |
| Other comprehensive income (loss) - tax | **(1)** | **1** | **-** | **-** |
| **Other comprehensive income (loss), net of tax** | **(647)** | **(8)** | **10** | **(645)** |
| **Balance at December 31, 2022** | **$ (605)** | **$ (15)** | **$ 29** | **$ (591)** |

*(a) The allowance for credit losses on securities was insignificant at December 31, 2021 and 2022.*

# 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, 2022 and 2021, our statutory net income was $416 million and $185 million and statutory capital and surplus was $629 million and $933 million, respectively.

| **As of or for the Years Ended December 31, 2022** | | | |
|---|---|---|---|
| *(in millions)* | AIRCO | AICO | Total |
| Statutory surplus | **$ 475** | **$ 154** | **$ 629** |
| Statutory net income | **$ 414** | **$ 2** | **$ 416** |

| **As of or for the Years Ended December 31, 2021** | | | |
|---|---|---|---|
| *(in millions)* | AIRCO | AICO | Total |
| Statutory surplus | $ 780 | $ 153 | $ 933 |
| Statutory net income | $ 177 | $ 8 | $ 185 |

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.

# 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 U.S. 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, 2022 and 2021, the future policy benefits associated with the MAF Liabilities were $6 million and $8 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, 2022 and 2021, the DAF balance is zero and $2 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 $29 million and $46 million in favor of third-party insurers at December 31, 2022 and December 31, 2021, respectively.

AIG, as applicant, arranged with third-party banks to issue standby letters of credit 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, 2022, and 2021 is $75 million and $125 million, respectively.

### Reinsurance Collateral

As referenced in Note 6, we maintain a custodial account with certain assets related to our assumption of a closed block of 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 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.

## 16. Subsequent Events

We evaluated the need to disclose events that occurred subsequent to the balance sheet date through April 28, 2023, 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.